**Biostime International Holdings Limited**
**合生元國際控股有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 1112)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

**FINANCIAL HIGHLIGHTS**

| | **2015** | 2014 | % of Change |
|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | |
| Revenue | **4,818,561** | 4,731,563 | 1.8% |
| Gross profit | **2,984,565** | 2,926,931 | 2.0% |
| Earnings before interest, tax, depreciation and amortisation ("EBITDA") | **626,438** | 1,142,556 | (45.2)% |
| Profit for the year | **293,321** | 806,786 | (63.6)% |
| Net cash flows from operating activities | **365,732** | 972,172 | (62.4)% |
| Basic earnings per share | **RMB0.41** | RMB1.34 | (69.4)% |

For the year ended 31 December 2015, the Group recorded the following:

- Revenue amounted to RMB4,818.6 million, representing an increase of RMB87.0 million or 1.8% from RMB4,731.6 million in 2014.
- Gross profit amounted to RMB2,984.6 million, representing an increase of RMB57.7 million or 2.0% from RMB2,926.9 million in 2014.
- EBITDA amounted to RMB626.4 million, representing a decrease of RMB516.2 million, or 45.2% from RMB1,142.6 million in 2014. EBITDA of 2015 included transaction costs of RMB65.0 million in relation to the acquisition of Swisse Wellness Group Pty Ltd ("Swisse") and exchange loss of RMB88.5 million. EBITDA of 2014 included exchange loss of RMB8,181 thousand.
- Profit for the year amounted to RMB293.3 million, representing a decrease of RMB513.5 million or 63.6% from RMB806.8 million in 2014.
- Net cash flows from operating activities amounted to RMB365.7 million, representing a decrease of RMB606.5 million or 62.4% from RMB972.2 million in 2014.
- Basic earnings per share decreased from RMB1.34 in 2014 to RMB0.41, representing a decrease of 69.4%.

The board (the "Board") of directors (the "Directors") of Biostime International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2015, which have been agreed by the auditors of the Company, together with the comparative figures for the corresponding period in 2014 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*Year ended 31 December 2015*

| | *Notes* | **2015** *RMB'000* | 2014 *RMB'000* |
|---|---|---|---|
| REVENUE | *5* | **4,818,561** | 4,731,563 |
| Cost of sales | | **(1,833,996)** | (1,804,632) |
| Gross profit | | **2,984,565** | 2,926,931 |
| Other income and gains | *5* | **143,997** | 128,065 |
| Selling and distribution costs | | **(1,975,832)** | (1,587,764) |
| Administrative expenses | | **(280,144)** | (175,268) |
| Other expenses | | **(214,237)** | (87,548) |
| Finance costs | | **(154,022)** | (86,673) |
| Share of (losses)/profits of an associate | | **(387)** | 592 |
| PROFIT BEFORE TAX | *6* | **503,940** | 1,118,335 |
| Income tax expense | *7* | **(210,619)** | (311,549) |
| PROFIT FOR THE YEAR | | **293,321** | 806,786 |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences on translation of foreign operations | | **45,978** | (5,581) |
| Exchange differences on net investment in a foreign operation | | **70,560** | – |
| | | **116,538** | (5,581) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **409,859** | 801,205 |
| Profit attributable to: | | | |
| Owners of the parent | | **251,461** | 806,786 |
| Non-controlling interests | | **41,860** | – |
| | | **293,321** | 806,786 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | **352,242** | 801,205 |
| Non-controlling interests | | **57,617** | – |
| | | **409,859** | 801,205 |
| | | ***RMB*** | *RMB* |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | *9* | | |
| Basic | | **0.41** | 1.34 |
| Diluted | | **0.40** | 1.31 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*31 December 2015*

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **546,995** | 478,032 |
| Prepaid land lease payments | | **61,765** | 63,243 |
| Goodwill | *10* | **4,956,392** | 76,000 |
| Intangible assets | | **2,864,699** | 104,110 |
| Bonds receivable | | **124,003** | 130,302 |
| Loans receivable | | **54,896** | 53,531 |
| Deposits | | **8,513** | 15,741 |
| Investment in an associate | | **40,205** | 40,592 |
| Loan to an associate | | **–** | 40,000 |
| Held-to-maturity investment | | **17,901** | 18,810 |
| Time deposits | | **70,159** | 1,146,183 |
| Deferred tax assets | | **198,061** | 128,896 |
| Pledged deposits | | **250,000** | – |
| Total non-current assets | | **9,193,589** | 2,295,440 |
| CURRENT ASSETS | | | |
| Inventories | *11* | **856,224** | 797,027 |
| Trade and bills receivables | *12* | **622,842** | 12,043 |
| Prepayments, deposits and other receivables | | **218,980** | 137,467 |
| Loan to an associate | | **40,000** | – |
| Loans receivable | | **21,984** | 39,457 |
| Derivative financial instrument | *15* | **2,728** | 2,570 |
| Pledged deposits | | **1,677,000** | – |
| Cash and cash equivalents | | **1,198,235** | 3,347,157 |
| Total current assets | | **4,637,993** | 4,335,721 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | *13* | **618,711** | 294,542 |
| Other payables and accruals | *14* | **1,125,549** | 737,494 |
| Derivative financial instruments | *15* | **19,005** | – |
| Interest-bearing bank loans | *16* | **4,740,450** | – |
| Tax payable | | **175,609** | 235,588 |
| Total current liabilities | | **6,679,324** | 1,267,624 |
| NET CURRENT (LIABILITIES)/ASSETS | | **(2,041,331)** | 3,068,097 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **7,152,258** | 5,363,537 |
| NON-CURRENT LIABILITIES | | | |
| Convertible bonds | | **2,659,057** | 2,410,526 |
| Other payables and accruals | *14* | **28,696** | – |
| Deferred tax liabilities | | **863,912** | 35,924 |
| Total non-current liabilities | | **3,551,665** | 2,446,450 |
| NET ASSETS | | **3,600,593** | 2,917,087 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | *17* | **5,387** | 5,197 |
| Equity component of convertible bonds | | **66,978** | 66,978 |
| Other reserves | | **3,219,137** | 2,844,912 |
| | | **3,291,502** | 2,917,087 |
| Non-controlling interests | | **309,091** | – |
| Total equity | | **3,600,593** | 2,917,087 |

## NOTES TO FINANCIAL STATEMENTS

*31 December 2015*

### 1. CORPORATE AND GROUP INFORMATION

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

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

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

Pursuant to applicable laws and regulations of the People's Republic of China ("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 Agreements.

## 2. BASIS OF PREPARATION

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

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

As at 31 December 2015, the Group recorded net current liabilities of RMB2,041.3 million, which was mainly resulted from the bridge loan (the "Bridge Loan") of US$443.2 million (being the principal of US$450.0 million, netting off an upfront fee of US$6.8 million, and equivalent to approximately RMB2,900.9 million) obtained for the acquisition of 83% equity interest in Swisse as disclosed in note 18. The Bridge Loan will be due for repayment on 27 September 2016.

The Group is in the process of refinancing the Bridge Loan by a syndicated loan. Up to the date of approval of these financial statements, internal credit approvals have been obtained from certain banks relating to the syndicated loan. The Directors of the Company believe that the Group will be able to secure the refinancing of the syndicated loan in due course. At the same time it will be able to continue to generate positive cash flows from its operations before the Bridge Loan falls due. On this basis, the Directors of the Company consider that the Group is able to meet in full its financial obligations as they fall due in the coming 12 months. Accordingly, the financial statements have been prepared by the Directors of the Company on a going concern basis.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to IAS 19 | *Defined Benefit Plans: Employee Contributions* |
| *Annual Improvements 2010–2012 Cycle* | Amendments to a number of IFRSs |
| *Annual Improvements 2011–2013 Cycle* | Amendments to a number of IFRSs |

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

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and had four segments, named the infant formulas segment, the probiotic supplements segment, the dried baby food and nutrition supplements segment and the baby care products segment in prior years. During the year 2015, a new reportable operating segment, named the adult nutrition and care products segment, was launched after the acquisition of Swisse, as set out in note 18 to the financial statements. Thus, the Group has five 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 adult nutrition and care products segment comprises the production of vitamins, health supplements, skin care and sports nutrition products for adults;

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

(d) 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 and microencapsulated milk calcium chewable tablets for children, pregnant and lactating mothers; and

(e) 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.

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

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

During the years ended 31 December 2015 and 2014, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

**Operating segment information for the year ended 31 December 2015:**

| | Infant formulas *RMB'000* | Adult nutrition and care products *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 | 3,355,849 | 849,903 | 389,384 | 113,715 | 109,710 | – | 4,818,561 |
| **Segment results** | 2,124,119 | 520,916 | 258,568 | 55,971 | 24,991 | – | 2,984,565 |
| *Reconciliations:* | | | | | | | |
| Interest income | | | | | | | 118,697 |
| Other income and unallocated gains | | | | | | | 25,300 |
| Corporate and other unallocated expenses | | | | | | | (2,470,600) |
| Finance costs | | | | | | | (154,022) |
| Profit before tax | | | | | | | 503,940 |
| **Other segment information:** | | | | | | | |
| Depreciation and amortisation | 10,421 | 21,683 | 2,461 | 766 | 148 | 51,694 | 87,173 |
| Impairment of trade receivables | – | 3,936 | – | – | – | – | 3,936 |
| Write-down/(back) of inventories to net realisable value | 1,855 | 6,695 | (10) | (364) | (482) | – | 7,694 |
| Capital expenditure* | 23,068 | 2,632,071 | 67,753 | – | – | 39,551 | 2,762,443 |

Operating segment information for the year ended 31 December 2014:

| | Infant Formulas RMB'000 | Adult nutrition and care products 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 | 3,981,575 | – | 425,094 | 151,420 | 173,474 | – | 4,731,563 |
| **Segment results** | 2,466,913 | – | 303,707 | 74,345 | 81,966 | – | 2,926,931 |
| *Reconciliations:* | | | | | | | |
| Interest income | | | | | | | 113,119 |
| Other income and unallocated gains | | | | | | | 14,946 |
| Corporate and other unallocated expenses | | | | | | | (1,849,988) |
| Finance costs | | | | | | | (86,673) |
| Profit before tax | | | | | | | 1,118,335 |
| **Other segment information:** | | | | | | | |
| Depreciation and amortisation | 2,679 | – | 1,540 | 623 | 85 | 45,740 | 50,667 |
| Impairment of trade receivables | – | – | – | – | – | – | – |
| Write-down/(back) of inventories to net realisable value | 781 | – | 210 | (93) | 86 | – | 984 |
| Capital expenditure* | 44,306 | – | 530 | – | 36 | 152,217 | 197,089 |

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

**Geographical information**

*(a) Revenue from external customers*

| | **2015** *RMB'000* | 2014 *RMB'000* |
|---|---|---|
| Mainland China | **3,973,925** | 4,731,563 |
| Australia | **756,404** | – |
| Other countries | **88,232** | – |
| | **4,818,561** | 4,731,563 |

The revenue information above is based on the locations of the customers.

*(b) Non-current assets*

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Mainland China | **758,464** | 701,718 |
| Australia | **2,763,024** | – |
| Other countries | **689** | – |
| | **3,522,177** | 701,718 |

The non-current assets information above is based on the locations of the assets and excludes financial instruments, deferred tax assets and goodwill.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns, rebates and trade discounts (net of value-added tax) during the year.

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

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| ***Revenue*** | | |
| Sale of goods | **4,818,561** | 4,731,563 |
| ***Other income and gains*** | | |
| Bank interest income | **108,520** | 105,034 |
| Interest income from loans and bonds receivables | **10,177** | 8,085 |
| Service income | **988** | 1,239 |
| Government subsidies | **17,348** | 10,581 |
| Others | **6,964** | 3,126 |
| | **143,997** | 128,065 |

## 6. PROFIT BEFORE TAX

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

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories sold | **1,826,302** | 1,803,648 |
| Depreciation | **58,629** | 41,879 |
| Amortisation of intangible assets | **27,066** | 7,310 |
| Amortisation of land lease payments | **1,478** | 1,478 |
| Auditors' remuneration | **4,006** | 2,900 |
| Research and development costs* | **83,980** | 49,724 |
| Minimum lease payments under operating leases | **52,124** | 55,255 |
| Loss on disposal of items of property, plant and equipment | **4,355** | 97 |
| Employee benefit expenses (including directors' and chief executive's remuneration): | | |
| Wages and salaries | **552,093** | 558,308 |
| Pension scheme contributions (defined contribution schemes) | **112,743** | 109,087 |
| Staff welfare and other expenses | **59,848** | 31,926 |
| Equity-settled share option expense | **(10,619)** | 4,488 |
| Equity-settled share award expense | **(9,963)** | 12,044 |
| | **704,102** | 715,853 |
| Foreign exchange differences, net* | **88,518** | 8,187 |
| Fair value losses on derivative financial instruments* | **18,490** | – |
| Impairment of trade receivables* | **3,936** | – |
| Write-down of inventories to net realisable value# | **7,694** | 984 |

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

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

## 7. INCOME TAX

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current – Charge for the year | | |
| Mainland China | **128,777** | 355,130 |
| Hong Kong | **3,271** | 5,759 |
| Australia | **5,330** | – |
| Elsewhere | **935** | 356 |
| Deferred | **72,306** | (49,696) |
| Total tax charge for the year | **210,619** | 311,549 |

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.

**PRC enterprise income tax ("EIT")**

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

**Hong Kong profits tax**

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

**Australia corporate income tax**

Australia corporate income tax has been provided at the rate of 30% on the estimated assessable profits arising in Australia.

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **503,940** | 1,118,335 |
| Tax at the applicable PRC enterprise income tax rate | **125,985** | 279,584 |
| Overseas tax differential | **29,390** | 2,357 |
| Expenses not deductible for tax | **50,801** | 18,280 |
| Tax losses utilised from previous periods | **(8,322)** | – |
| Income not subject to tax | **(8,514)** | (5,194) |
| Tax losses not recognised | **17,691** | 2,370 |
| Adjustment in respect of current tax of previous periods | **(1,423)** | – |
| Effect of withholding tax at 5% (2014: 5%) on the distributable profits of the Group's subsidiaries in Mainland China | **5,011** | 14,152 |
| Tax charge at the Group's effective rate | **210,619** | 311,549 |

## 8. DIVIDENDS

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interim — Nil (2014: HK$0.26) per ordinary share | **–** | 124,315 |
| Proposed final — Nil (2014: HK$0.41) per ordinary share | **–** | 196,944 |
| | **–** | 321,259 |

No interim or final dividend was proposed during year ended 31 December 2015.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 610,508,776 (2014: 602,326,189) in issue during the year.

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

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

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **251,461** | 806,786 |
| | **Number of Shares** | |
| **Shares** | | |
| Weighted average number of ordinary shares in issue | **613,925,551** | 604,420,682 |
| Weighted average number of shares held for the share award schemes | **(3,416,775)** | (2,094,493) |
| Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation | **610,508,776** | 602,326,189 |
| Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares | **10,983,717** | 11,632,885 |
| Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation | **621,492,493** | 613,959,074 |

## 10. GOODWILL

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Cost:** | | |
| At 1 January | **76,000** | 76,000 |
| Acquisition of subsidiaries *(note 18)* | **4,613,711** | – |
| Exchange alignment | **266,681** | – |
| At 31 December | **4,956,392** | 76,000 |
| **Accumulated impairment:** | | |
| At 1 January | **–** | – |
| Impairment provided during the year | **–** | – |
| At 31 December | **–** | – |
| **Net carrying amount:** | | |
| At 31 December | **4,956,392** | 76,000 |

**Impairment testing of goodwill**

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

| | **2014** | **Addition** | **Exchange alignment** | **2015** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Infant formulas | 76,000 | – | – | 76,000 |
| Dried baby food and nutrition supplements | – | 58,919 | – | 58,919 |
| Adult nutrition and care products | – | 4,554,792 | 266,681 | 4,821,473 |
| | 76,000 | 4,613,711 | 266,681 | 4,956,392 |

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. Cash flows beyond the forecast period are extrapolated using the estimated growth rates stated below:

For each of the cash-generating units with a significant amount of goodwill, the key assumptions, long term growth rates and discount rates used in the value-in-use calculations in 2015 are as follows:

| | **Infant formulas** | **Dried baby food and nutrition supplements** | **Adult nutrition and care products** |
|---|---|---|---|
| Sales amount (% annual growth rate) | 4%-5% | 10%-20% | 7%-19% |
| Gross margin (% of revenue) | 25%-26% | 50%-56% | 64% |
| Long term growth rate | 3% | 3% | 3% |
| Pre-tax discount rate | 16.7% | 17.9% | 18.9% |

*Budgeted sales amounts* – The budgeted sales amounts are based on the historical data and management's expectation on the future market.

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

*Discount rates* – The discount rates used are before tax and reflect specific risks relating to the relevant units.

*Raw materials price inflation* – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for countries from where the raw materials are sourced.

The values assigned to the key assumptions on market development of the cash-generating units, discount rates and raw materials price inflation are consistent with external information sources.

## 11. INVENTORIES

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **357,315** | 535,693 |
| Raw materials in transit | **142,104** | 156,031 |
| Work in progress | **4,711** | 2,491 |
| Finished goods | **352,094** | 102,812 |
| | **856,224** | 797,027 |

## 12. TRADE AND BILLS RECEIVABLES

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **625,013** | 1,529 |
| Bills receivable | **3,000** | 10,514 |
| | **628,013** | 12,043 |
| Less: Impairment provision | **(5,171)** | – |
| | **622,842** | 12,043 |

Advance payment is normally required for sales to customers in Mainland China except in very limited circumstances for credit sales. Sales to customers in Australia and other countries allowed credit sales with credit terms of 30 to 60 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

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

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

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 1 month | **289,922** | 1,513 |
| 1 to 3 months | **313,809** | 10,529 |
| Over 3 months | **19,111** | 1 |
| | **622,842** | 12,043 |

The above aged analysis included the bills receivable balance of RMB3,000,000 (2014: RMB10,514,000).

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

The movements in provision for impairment of trade receivables are as follows:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At beginning of year | **–** | – |
| Acquisition of subsidiaries | **3,819** | – |
| Impairment losses recognised *(note 6)* | **4,170** | – |
| Amount written off as uncollectible | **(2,584)** | – |
| Impairment losses reversed *(note 6)* | **(234)** | – |
| | **5,171** | – |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB5,171,000 (2014: Nil) with a carrying amount before provision of RMB5,171,000 (2014: Nil).

The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are expected not to be recovered.

## 13. TRADE AND BILLS PAYABLES

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade payables | **610,558** | 289,529 |
| Bills payable | **8,153** | 5,013 |
| | **618,711** | 294,542 |

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

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **370,967** | 273,967 |
| 1 to 3 months | **220,867** | 19,825 |
| Over 3 months | **26,877** | 750 |
| | **618,711** | 294,542 |

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

Included in the trade payables are amounts due to an associate of RMB5,169,000 (2014: RMB20,498,000), which are repayable within 30 days, which represents credit terms similar to those offered by the associate to its major customers.

## 14. OTHER PAYABLES AND ACCRUALS

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Advances from customers | **50,061** | 11,725 |
| Salaries and welfare payables | **66,702** | 87,900 |
| Accruals | **708,457** | 402,252 |
| Other tax payables | **78,655** | 114,187 |
| Deferred income | **23,707** | 31,397 |
| Other payables | **226,663** | 90,033 |
| | **1,154,245** | 737,494 |
| Less: | | |
| Non-current portion | **(28,696)** | – |
| Current portion | **1,125,549** | – |

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

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

| | | **2015** | | 2014 | |
|---|---|---|---|---|---|
| | | **Assets** | **Liabilities** | Assets | Liabilities |
| | *Notes* | ***RMB'000*** | ***RMB'000*** | *RMB'000* | *RMB'000* |
| Conversion option embedded in loan receivable | *(a)* | **2,728** | **–** | 2,570 | – |
| Forward currency contracts | *(b)* | **–** | **5,559** | – | – |
| Put option | *(c)* | **–** | **13,446** | – | – |
| | | **2,728** | **19,005** | 2,570 | – |

(a) The convertible loan is separated into two components: the debt element and the conversion option element. The fair value of the conversion option at 31 December 2015 was RMB2,728,000 (31 December 2014: RMB2,570,000). Fair value loss on the conversion option of RMB2,000 (2014: Nil) was recognised in profit or loss during the year.

(b) The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The fair value of the forward currency contracts as at 31 December 2015 was RMB5,559,000 (2014: Nil). A net fair value loss on forward currency contracts of RMB5,421,000 (2014:Nil) was recognised in the statement of profit or loss during the year.

(c) Biostime Healthy Australia Investment Pty Ltd ("Biostime Australia Investment"), one of the Company's subsidiaries, entered into a roll-up call option deed ("Roll-Up Call Option Deed") with the non-controlling shareholders of Swisse simultaneously with the acquisition of Swisse. Under the Roll-Up Call Option Deed, Biostime Australia Investment has the right to require the non-controlling shareholders of Swisse to sell all of the shares they continue to hold in Swisse after completion of the acquisition, in exchange for an issue of shares representing an equivalent stake in Biostime Australia Holdings Pty Ltd ("Biostime Australia Holdings"), an indirect subsidiary of the Company in an agreed period.

At the same time with the completion of the exercise of the Roll-Up Call Option, a put option, with a financial indebtedness adjustment clause embedded, would be granted to the minority shareholders. The Group has recognised the put option as derivative financial instrument at 30 September 2015 with an amount of RMB358,000.

The fair value of the put option at 31 December 2015 was RMB13,446,000 (31 December 2014: Nil). Changes in fair value of put option amounting to RMB13,067,000 (2014: Nil) were charged to the statement of profit or loss during the year.

## 16. INTEREST-BEARING BANK LOANS

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | ***RMB'000*** | Effective interest rate (%) | Maturity | *RMB'000* |
| **Current** | | | | | | |
| Secured bank loan | **Libor+2.5%** | **Sep-2016** | **2,900,929** | – | – | – |
| Secured bank loan | **4.140%** | **Mar-2016** | **830,000** | – | – | – |
| Secured bank loan | **Libor+0.875%** | **Mar-2016** | **779,236** | – | – | – |
| Secured bank loan | **Libor+1.2%** | **Mar-2016** | **194,809** | – | – | – |
| Unsecured bank loan | **Libor+0.75%** | **Mar-2016** | **35,476** | – | – | – |
| | | | **4,740,450** | | | – |

*Notes:*

(a) Certain of the Group's bank loans are secured and guaranteed by:

(i) the pledge of certain of the Group's time deposits amounting to RMB1,927,000,000 (2014: Nil);

(ii) the pledge of certain of the Company's direct and indirect equity interest in its subsidiaries, namely Biostime Hong Kong Limited, Mama100 International Holdings Limited, Mama100 International Investment Limited, Biostime International Investment Limited, Biostime Healthy (BVI) Limited, Biostime Healthy (Cayman) Limited, Biostime Healthy II (BVI) Limited, Biostime Healthy Hong Kong Limited, Biostime (Guangzhou) Health Products Limited, Biostime Inc. (Guangzhou), BMcare Baby Products Inc. (Guangzhou), Adimil (Changsha) Nutrition Products Limited, Biostime Healthy Australia Pty Ltd., Biostime Australia Holdings, Biostime Healthy Australia Investment and Swisse;

(iii) certain of the Company's direct and indirect subsidiaries, Biostime Hong Kong Limited, Mama100 International Holdings Limited, Mama100 International Investment Limited, Biostime International Investment Limited, Biostime Healthy (BVI) Limited, Biostime Healthy (Cayman) Limited, Biostime Healthy II (BVI) Limited, Biostime Healthy Hong Kong Limited, Biostime Healthy Australia Pty Ltd., Biostime Australia Holdings, Biostime Australia Investment and the Company have provided security over any intra-group receivables lent by them to other entities of the Group; The Company has also provided security over intra-group loans lent to other entities of the Group;

(iv) each of Biostime Healthy (BVI) Limited, Biostime Healthy (Cayman) Limited, Biostime Healthy II (BVI) Limited and Biostime Healthy Hong Kong Limited has provided (all assets) security, including security over their accounts, book debts and certain contracts and each of Biostime Healthy Australia Pty Ltd., Biostime Australia Holdings and Biostime Australia Investment has provided general (all assets) security for certain of the Group's bank loans, including security over Biostime Australia Investment's equity interest in Swisse;

(v) Swisse, Swisse Wellness Pty Ltd and SWG Holdco Pty Ltd acceded as guarantors for certain of the Group's bank loans.

(b) At 31 December 2015, the Group's bank loans were denominated in RMB, US$ and Euro at aggregate amounts of RMB830,000,000, RMB3,874,974,000 and RMB35,476,000, respectively.

## 17. SHARE CAPITAL

**Shares**

| | **2015** | 2014 |
|---|---|---|
| Authorized: | | |
| 10,000,000,000 (2014: 10,000,000,000) ordinary shares of HK$0.01 each | **HK$100,000,000** | HK$100,000,000 |
| Issued and fully paid: | | |
| 630,080,426 (2014: 606,825,765) ordinary shares of HK$0.01 each | **HK$6,300,804** | HK$6,068,258 |
| Equivalent to | **RMB5,387,000** | RMB5,197,000 |

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

| | **Number of shares in issue** | **Share capital** | **Equivalent to** |
|---|---|---|---|
| | | *HK$'000* | *RMB'000* |
| At 1 January 2014 | 602,294,000 | 6,023 | 5,161 |
| Share options exercised *(note (a))* | 2,428,449 | 24 | 19 |
| Issues for 2013 Share Award Scheme *(note (b))* | 2,103,316 | 21 | 17 |
| | 4,531,765 | 45 | 36 |
| At 31 December 2014 and 1 January 2015 | 606,825,765 | 6,068 | 5,197 |
| Share options exercised *(note (c))* | 2,741,576 | 28 | 22 |
| Share consideration for the acquisition of a subsidiary *(note (d)) (note 18)* | 20,513,085 | 205 | 168 |
| | 23,254,661 | 233 | 190 |
| At 31 December 2015 | 630,080,426 | 6,301 | 5,387 |

*Notes:*

(a) During the year 2014, the subscription rights attaching to 2,428,449 share options were exercised at the subscription price ranging from HK$2.53 to HK$24.70, resulting in the issue of 2,428,449 shares for a total cash consideration, before expenses, of HK$11,971,000 (equivalent to RMB9,483,000).

(b) During the year 2014, the Company issued 2,103,316 shares pursuant to 2013 Share Award Scheme at an issue price of HK$0.01, resulting in an increase in share capital of HK$21,000 (equivalent to RMB17,000).

(c) During the year 2015, the subscription rights attaching to 2,741,576 share options were exercised at the subscription price ranging from HK$2.53 to HK$24.70, resulting in the issue of 2,741,576 shares for a total cash consideration, before expenses, of HK$14,567,000 (equivalent to RMB11,838,000).

(d) During the year 2015, the Company issued 20,513,085 shares of HK$13.48 each as consideration of HK$276,516,000 (equivalent to RMB226,967,000) for the acquisition of Swisse.

## 18. BUSINESS COMBINATIONS

### (a) Acquisition of Swisse

On 30 September 2015, the Group acquired certain companies through the acquisition of 83% equity interests in Swisse from third parties of the Group. These subsidiaries are principally engaged in research, marketing and distribution of vitamins, health supplements, skin care and sports nutrition products in Australia and New Zealand under the "Swisse" brand. The acquisition was made as part of the Group's strategy to enrich the variety of the Group's products. The subsidiaries and business acquired are as follows:

| **Subsidiaries acquired** | **Acquisition date** | **Acquired interests (%)** |
|---|---|---|
| Swisse Wellness Group Pty Ltd | 30 September 2015 | 83% |
| Swisse Wellness Pty Ltd | 30 September 2015 | 83% |
| S W International Pty Ltd | 30 September 2015 | 83% |
| Swisse Wellness Pty Ltd (NZ) | 30 September 2015 | 83% |
| Swisse Wellness (UK) Limited | 30 September 2015 | 83% |
| Noisy Beast Pty Ltd | 30 September 2015 | 39% |
| Noisy Beast UK Limited | 30 September 2015 | 39% |

The total purchase consideration for the acquisition was AUD1,449,901,000 (equivalent to RMB6,490,037,000) which was shown as below:

| | *Notes* | **Amount** *AUD'000* | **Amount** *RMB'000* |
|---|---|---|---|
| Cash consideration | | 1,213,000 | 5,404,674 |
| Share consideration | *(1)* | 50,000 | 226,967 |
| Post-completion adjustment | | 22,631 | 125,901 |
| Settlement of a loan | *(2)* | 164,270 | 732,495 |
| | | 1,449,901 | 6,490,037 |

(1) 20,513,085 shares of the Company were issued at an issue price of HK$13.48 each on 30 September 2015, as disclosed in note 17 to the financial statements. The issue price for the consideration shares represented a discount of approximately 0.1% to the closing price of HK$13.50 per share as quoted on the Stock Exchange on 16 September 2015.

(2) A loan amounted to AUD164,270,000 (equivalent to RMB732,495,000) was lent to Swisse before the acquisition. As at the date of the acquisition, the outstanding loan was deemed to have been fully settled by Swisse and constituted part of the consideration.

The Group has paid part of the cash consideration of AUD1,213,000,000 (equivalent to RMB5,404,674,000) by the end of 2015.

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

| | Notes | **Fair value recognised on acquisition** *RMB'000* |
|---|---|---|
| Property, plant and equipment | | 21,603 |
| Intangible assets | | 2,600,170 |
| Deferred tax assets | | 142,515 |
| Inventories | | 97,506 |
| Trade receivables | | 442,151 |
| Cash and cash equivalents | | 202,801 |
| Other current assets | | 14,987 |
| Tax payables | | (81,312) |
| Trade payables | | (458,839) |
| Deferred tax liabilities | | (787,518) |
| Other liabilities | | (5,869) |
| Total identifiable net assets at fair value | | 2,188,195 |
| Non-controlling interests | | (252,592) |
| Derivative financial instrument | *15* | (358) |
| Goodwill on acquisition | *10* | 4,554,792 |
| Total consideration for acquisition | | 6,490,037 |
| Satisfied by: | | |
| Cash | | 6,263,070 |
| Share | | 226,967 |
| | | 6,490,037 |

The purchase price allocation of Swisse is still preliminary, pending the finalisation of valuation of certain intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

The Group incurred transaction costs of RMB64,623,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in profit or loss. The Group has paid part of the transaction costs of RMB23,119,000 by the end of 2015.

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

| | *RMB'000* |
|---|---|
| Cash consideration | (6,263,070) |
| Cash consideration payable | 125,901 |
| Cash and bank balances acquired | 202,801 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (5,934,368) |
| Transaction costs of the acquisition included in cash flows from operating activities | (23,119) |
| | (5,957,487) |

Since the acquisition, Swisse contributed RMB838,121,000 to the Group's revenue and RMB242,222,000 to the consolidated profit for the year ended 31 December 2015.

**(b) Acquisition of Healthy Times Inc. ("Healthy Times")**

On 1 July 2015, the Group acquired a 100% interest in Healthy Times from third parties of the Group. Healthy Times is a corporation founded in the USA and is principally engaged in the manufacture and sales of premium organic baby foods and baby care products. The acquisition was made as part of the Group's strategy to enrich the variety of the Group's products. The purchase consideration for the acquisition of US$10,372,000 (equivalent to approximately RMB64,558,000) was in the form of cash. The Group has paid the purchase consideration by the end of year 2015.

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

| | Note | Fair value recognised on acquisition *RMB'000* |
|---|---|---|
| Inventories | | 4,092 |
| Trade receivables | | 2,755 |
| Cash and cash equivalents | | 57 |
| Trade payables | | (1,161) |
| Other payables and accruals | | (104) |
| Total identifiable net assets at fair value | | 5,639 |
| Goodwill on acquisition | *10* | 58,919 |
| Total consideration for acquisition | | 64,558 |
| Satisfied by cash | | 64,558 |

The purchase price allocation of Healthy Times is still preliminary, pending the finalisation of valuation of certain intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

The Group incurred transaction costs of RMB595,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in profit or loss. The Group has paid part of the transaction costs of RMB535,000 by the end of 2015.

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

| | *RMB'000* |
|---|---|
| Cash consideration | (64,558) |
| Cash and bank balances acquired | 57 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (64,501) |
| Transaction costs of the acquisition included in cash flows from operating activities | (535) |
| | (65,036) |

Since the acquisition, Healthy Times contributed RMB6,514,000 to the Group's revenue and a loss of RMB1,114,000 to the consolidated profit for the year ended 31 December 2015.

## BUSINESS REVIEW

During the year of 2015, the Group reached a new stage of its development. Through its acquisition of an 83% equity interest of Swisse in September 2015, the Group has repositioned itself as an all-round premium family nutrition and care provider. In the baby nutrition and care market in China, the Group is in leading positions across all major channels. Meanwhile, Swisse is the market leader with strong brand recognition in the Australian vitamin, herbal and mineral supplements ("VHMS") segment.

With the financial results of Swisse consolidated into those of the Group for the fourth quarter of 2015, the Group's total revenue for the year ended 31 December 2015 reached RMB4,818.6 million and its net profit for the year reached RMB293.3 million. Among the Group's total revenue, 82.4% was generated from the baby nutrition and care products segment, while the remaining 17.6% was derived from the adult nutrition and care products segment.

During the year under review, the Chinese infant formula market maintained high single digit growth, but competition intensified at the same time because of the entrance of new competitors and increasing industry-wide promotional activities. Amid the more challenging environment, the Group kept a leading position in this market. According to Nielsen, an independent market research firm, the Group's share of the overall infant formula market in China increased from 5.6% in 2014 to 5.9% in 2015, making the Group the sixth largest player in the overall infant formula market. In terms of online sales, the Group has quickly gained market share since it launched B2C online sales in the second half of 2014 and ranked among the top 10 industry players with a market share of 1.5% in 2015.

The Group's revenue derived from the baby nutrition and care products segment for the year under review was RMB3,968.7 million, decreasing by 16.1% from that of 2014. The decrease was mainly attributable to the one-off discount offered to distributors on the previous version of Biostime-branded infant formulas for the preparation of the launch of SN-2 PLUS Balanced Formulas. Such new formulas were proven to promote the balanced growth of babies by a clinical study which the Group conducted jointly with its strategic partners. These new products have now been distributed to the retail outlets nationwide and received positive feedback from both member stores and end-consumers. Alongside the launch of the SN-2 PLUS series, the Group has also placed new commercials on TV and advertisements on the Internet, highlighting its milk source from Normandy, France and the SN-2 PLUS lipid structure technology to differentiate its products from those of competitors. The Group is confident that the SN-2 PLUS Balanced Formulas will help it to maintain competitive advantage and achieve positive growth in the long run.

Regarding the adult nutrition and care products segment, Swisse contributed incremental sales equivalent to RMB849.9 million to the Group for the fourth quarter of 2015. Based on the research report of an independent market research company, Swisse became the No.1 brand in the total Australian vitamin and herbal market in 2015. In China, Swisse is currently the No. 1 brand in the healthcare category on both Tmall and Taobao. This strong momentum was mainly driven by Swisse's dedication to innovation, sophisticated marketing as well as the rapidly growing indirect sales in China. Swisse successfully has launched in Singapore and the United Kingdom and will continue its global roll-out in select countries in Europe, Asia and North America.

To align with the new positioning as a leading premium family nutrition and care provider, the Group has integrated its previous Biostime Business Unit, Adimil Business Unit and BMcare Business Unit into a Baby Nutrition and Care Business Unit, and has also established a dedicated Swisse China Business Unit to support Swisse's business development in China. Under these circumstances, the strategic objective of Mama100 e-commerce platform has been revised to be an internal service platform, which will be dedicated to the sales and marketing of the Group's products exclusively. The Group believes that this new structure will help integrate resources and achieve higher operating efficiency for its long-term business growth.

## PROSPECTS

Looking ahead, the Group believes that the baby nutrition and care market in China remains attractive and will be further boosted by the full implementation of two-child policy, which will have a positive and significant impact on the number of newborns. In addition, the Chinese VHMS segment represents a large market with enormous growth potential. It currently has a market size of approximately RMB100 billion and is expected to grow at a double digit CAGR from 2015 to 2019 driven by an aging population, Chinese consumers' growing awareness of health and well-being and increasing disposable income. Another tailwind for this market is the recently announced Administrative Measures for Registration and Filing of Health Food (《保健食品注冊與備案管理辦法》) to be effective on 1 July 2016, which requires only filing for certain imported vitamin and mineral supplements using approved raw materials, and this policy will generally shorten the approval process for health food to be sold in traditional channels. The Group is confident that its new strategy and strong execution capability will set its business up for success and help capture the opportunities in both the baby and adult nutrition and care segments.

### Marketing and Distribution

The Group will adhere to its all-round innovative market model which is composed of brand communication, interactive education, online and offline POS management, and database marketing (the "BIOD model"). The Group will allocate more resources to emerging media and maintain a certain exposure in traditional media. It will continue to develop in-house customer relationship management system to achieve precision marketing and consumer education.

Sales and distribution channel expansion under the online and offline POS management system is a critical business growth driver for the Group. According to Nielsen, the weighted average offline distribution rate of the Group is about 63%, representing a growth opportunity for the Group. As for the market, baby specialty store and pharmacy channels are rapidly growing in sales. The Group will expand in these channels to increase the nationwide distribution penetration of the Group's products.

Swisse has for many years positioned itself as a premium, proven and aspirational brand, with premium formulas using high standard ingredients and pharmaceutical manufacturing, proven by scientific evidence and being aspirational through the use of sponsorships including the Olympic games and celebrities endorsing the brand. Its sophisticated marketing model integrates campaigns across different formats and is repeatable across all marketing media and regions. Swisse will continue to invest in strengthening its leading market position in Australia. Entering China, Swisse will refine its 360-degree marketing model to fit into the business environment in China.

The Group has initiated the registration process with Chinese authorities for Swisse's products. Under the new registration and filing systems for health food, Swisse will accelerate the offline roll-out of its products in China.

With growing Chinese consumer demand for high quality, offshore products, cross-border e-commerce has emerged as a new sales channel. Health food products are among the most popular categories. Swisse launched its global flagship store at Tmall.hk in March 2016 and has been receiving increasingly strong traffic. Going forward, the Group will seek to make Swisse's products available on multiple cross-border e-commerce platforms in order to take full advantage of this channel shifting trend.

### Innovation

Consumers are always seeking premium family nutrition and care products. The Group will stay committed to fulfilling its customers' diversified and ever-growing needs. Going forward, with its prominent and global R&D network in the fields of baby and adult nutrition and care, the Group will seek to expand its product offerings in different markets, leveraging its strong brand assets and distribution network.

Besides product development, the Group believes that innovation in business model is also critical to maintain competitiveness. The Group's innovative Customer Relationship Management ("CRM") System, supported by an extensive member database and sophisticated data analysis methods, has always played a key role in the Group's business performance. The Group will continuously advance this in-house CRM system to support precision marketing and consumer education. It will also seek to leverage this CRM system to manage Swisse's customer data and apply database marketing in order to achieve greater synergy.

## CHALLENGES

The Group mainly provides baby nutrition, health food and functional supplements in China. The regulations related to these categories are subject to change. The Group's operation may need to adjust according to the implementation of new regulations.

As the majority of the Group's infant formula products and raw materials are imported from Europe, the Group is exposed to the fluctuation in EUR to RMB exchange rate. Furthermore, as the functional currencies of its subsidiaries include AUD and US$, the Group is also exposed to the volatility of AUD and US$ exchange rates.

## SOCIAL RESPONSIBILITY

The Group established the "Biostime China Foundation for Mother and Child" (the "Foundation") in cooperation with the Chinese Red Cross Foundation in 2007 and donates RMB0.1 to the Foundation for every product unit sold. The Foundation has assisted a significant number of children and mothers suffering from serious illnesses and supported a wide range of projects to promote community welfare. In recognition of the Group's contribution to society, the Group was proudly awarded "Public Welfare Innovation of the Year" and "Public Welfare Project of the Year" at the China Charity Festival 2015.

## RESULTS OF OPERATION

### Revenue

For the year ended 31 December 2015, revenue of the Group increased by 1.8% to RMB4,818.6 million as compared with 2014. The increase in revenue was mainly attributable to the Group enriching its product portfolio into the adult nutrition and care products segment under the "Swisse" brand. On 30 September 2015, the Group successfully completed the acquisition of an approximately 83% equity interest in Swisse. The financial results of Swisse were consolidated into that of the Group from 1 October 2015 onwards.

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| | **2015** | **% of** | 2014 | % of |
| | ***RMB'000*** | **Revenue** | *RMB'000* | Revenue |
| Infant formulas | **3,355,849** | **69.6%** | 3,981,575 | 84.1% |
| Probiotic supplements | **389,384** | **8.1%** | 425,094 | 9.0% |
| Dried baby food and nutrition supplements % | **113,715** | **2.4%** | 151,420 | 3.2% |
| Baby care products | **109,710** | **2.3%** | 173,474 | 3.7% |
| Adult nutrition and care products | **849,903** | **17.6%** | – | – |
| Total | **4,818,561** | **100.0%** | 4,731,563 | 100.0% |

### Infant formulas

To coordinate the launch of the "Biostime" branded SN-2 PLUS Balanced Formulas at the end of June 2015, the Group carried out a series of non-recurring price discounting activities in the first three quarters of 2015 to clear away the previous version of infant formulas stocks. As a result, revenue from infant formulas decreased by 15.7% from RMB3,981.6 million in 2014 to RMB3,355.8 million in 2015. This new series of SN-2 PLUS Balanced Formulas enjoyed extensive and increasing attention from end customers and was well-received by the market after its launch. Despite the industrial headwind, the Group continued to increase its market share and maintained a leading position in 2015. Revenue from high-tier infant formulas accounted for 65.3% of total sales within the segment during the year, representing an increase of 2.3 percentage points from 63.0% in 2014.

### Probiotic supplements

In 2015, probiotic supplements recorded revenue at RMB389.4 million, representing a decline of 8.4% as compared with that of last year. Due to the intensified market competition, the Group increased customer rewards to develop cross-selling. Sales volume of probiotic supplements remained stable as compared to 2014.

**Dried baby food and nutrition supplements**

Revenue from dried baby food and nutrition supplements accounted for 2.4% of the total sales of the Group in 2015, and declined by 24.9% to RMB113.7 million in 2015 as compared with 2014. The decrease was mainly due to the unstable supply of baby cereal products in a new facility. With the stabilized supply in baby cereal products and expanded product portfolios under the "Healthy Times" brand name, sales in this segment are expected to resume in the coming year.

**Baby care products**

Revenue from baby care products decreased by 36.8% from RMB173.4 million in 2014 to RMB109.7 million in 2015. The decrease in revenue was mainly due to the unstable supply of diapers in the supplier's new factory which was put into production in the first half of 2015.

**Adult nutrition and care products**

On 30 September 2015, the Group completed the acquisition of an approximately 83% equity interest in Swisse and the financial results of Swisse have been consolidated into that of the Group ever since. This milestone event enabled the Group outreached its product portfolios into adult nutrition and care segment with vitamins and health supplements products under the "Swisse" brand name. During the fourth quarter of 2015, revenue from sale of the adult nutrition and care products amounted to RMB849.9 million, representing 17.6% of the total sales of the Group. In late 2015, the Group initiated direct sales the Swisse branded products on the Mama100 APP and received high popularity among Chinese customers. In March 2016, the Group officially introduced the vitamin and health supplement products to the Chinese market through its newly set-up flagship store at Tmall.hk and showed strong sales momentum ever since the store opened. Looking forward in 2016, the Group is confident that sales of Swisse branded products will further boost with its precise market position and shared customer base with other products of the Group.

**Gross profit and gross profit margin**

In 2015, gross profit increased slightly from RMB2,926.9 million in 2014 to RMB2,984.6 million in 2015. Gross profit margin remained stable at 61.9% in 2015 as compared with that in 2014.

**Other income and gains**

Other income and gains in 2015 amounted to RMB144.0 million, representing an increase of 12.4% comparing with last year. Other income and gains primarily consisted of interest income of RMB118.7 million and government subsidies of RMB17.3 million.

**Selling and distribution costs**

Selling and distribution costs increased by 24.4% from RMB1,587.8 million in year 2014 to RMB1,975.8 million in 2015. During the year, the Group continued to invest its brand building activities to win customer recognition. On top of placing commercial advertisements in traditional media like TV and prints, the Group increased expenditures on emerging media, such as online search engines, renowned online sales platforms, video websites and online parenting forums. Management believed that all these initiatives taken were in the new trend of customer behaviors. At the same time, the Group stepped up investment in marketing and promotion activities to coordinate the newly launch of the SN-2 PLUS Balanced Formulas. Thus, selling and distribution costs as a percentage to revenue increased from 33.6% in 2014 to 41.0% in 2015.

**Administrative expenses**

Administrative expenses increased by 59.8% from RMB175.3 million in 2014 to RMB280.1 million in 2015. The increase was mainly caused by the one-off professional fees incurred in the acquisition of Swisse. Taken no consideration of such one-off professional fees related to the acquisition of Swisse, the administrative expenses as a percentage to revenue was 4.5% in 2015.

**Other expenses**

For the year ended 31 December 2015, other expenses amounted to RMB214.2 million, primarily consisting of R&D expenses of RMB84.0 million, net exchange loss for the year of RMB88.5 million and fair value change of a derivative of RMB18.5 million. The net exchange loss was mainly due to the re-translation of monetary assets and liabilities in foreign currencies

**Finance costs**

In 2015, the Group incurred finance costs of RMB154.0 million, including bank loan interests and other related expense of RMB57.6 million and non-cash interest expense of Convertible Bonds of RMB96.4 million.

**Income tax expenses**

Income tax expenses decreased by 32.4% from RMB311.6 million in 2014 to RMB210.6 million in 2015. The effective tax rate increased from 27.9% in 2014 to 41.8% in 2015. The increase in the effective tax rate was mainly due to the increase in unrecognized tax losses, which mostly arose from exchange differences, one-off transaction costs in relation to acquisition and interest expenses not deductible for tax in certain of the Group's entities.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating activities

For the year ended 31 December 2015, the Group had net cash generated from operating activities of RMB365.7 million, consisting of cash generated from operations of RMB645.3 million, partially offset by income tax paid of RMB279.6 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB640.7 million before working capital adjustments and net positive changes in working capital of RMB4.6 million.

### Investing activities

For the year ended 31 December 2015, net cash flows used in investing activities amounted to RMB4,163.8 million. The Group's net cash outflows for investing activities were mainly due to the acquisition of two subsidiaries at RMB5,998.9 million, partially offset by a net decrease in time deposits of RMB1,893.0 million, which freed up cash.

### Financing activities

For the year ended 31 December 2015, net cash generated from financing activities amounted to RMB2,570.5 million. It primarily reflected the net proceeds from bank loans of RMB4,740.5 million to finance the acquisition of Swisse, partially offset by the net increase in pledged deposits of RMB1,927.0 million to secure the bank loans as well as the distribution of dividends to the shareholders of the Company of RMB196.0 million.

### Cash and bank balances

As of 31 December 2015, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,198.2 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB70.2 million and pledged deposits to secure the outstanding bank loans of RMB1,927.0 million, the Group's cash and deposits to secure the outstanding bank loans amounted to RMB3,195.4 million as of 31 December 2015.

### Interest-bearing bank loans and convertible bonds

As of 31 December 2015, the outstanding balance of the interest-bearing bank loans and Convertible Bonds amounted to RMB4,740.5 million and RMB2,659.1 million respectively. The gearing ratio was 53.5% calculated by dividing the interest-bearing bank loans and Convertible Bonds by the total assets.

As at 31 December 2015, the Group recorded net current liabilities of RMB2,041.3 million, which was mainly resulted from the Bridge Loan of US$443.2 million (being the principal of US$450.0 million, netting off an upfront fee of US$6.8 million, and equivalent to approximately RMB2,900.9 million) obtained for the acquisition of 83% equity interest in Swisse.

The Group is in the process of refinancing the Bridge Loan by a syndicated loan and the internal credit approvals have been obtained from certain banks relating to the syndicated loan. The Company believes that the Group will be able to secure the refinancing of the syndicated loan in due course. At the same time it will be able to continue to generate positive cash flows from its operations before the Bridge Loan falls due. On this basis, the Company considers that the Group is able to meet in full its financial obligations as they fall due in the coming 12 months.

### Working capital cycle

The Group's cash cycle decreased from 112 days in 2014 to 96 days in 2015.

Advance payment is normally required for sale of the baby nutrition and care products except for limited circumstances, while the Group usually allows credit sales for the adult nutrition and care products with credit term ranging from 30 to 60 days. As such, the average turnover days for trade and bills receivables increased from 1 day in 2014 to 24 days for the year ended 31 December 2015.

The inventory turnover days decreased to 162 days in 2015 from 176 days in 2014. The Group endeavored to maintain its inventory at a healthy level to avoid excess inventory and deep discounting.

The average turnover days of trade payables increased from 65 days in 2014 to 90 days in 2015, which was mainly due to the increased purchase from suppliers with longer credit terms.

## USE OF PROCEEDS

The shares of the Company became listed on the Main Board of the Stock Exchange on 17 December 2010 with net proceeds from the global offering of the Company's shares of approximately HK$1,595.6 million after consideration of the partial exercise of the over-allotment option. As at 31 December 2015, all the net proceeds from the global offering have been utilized.

## DIVIDENDS

No interim or final dividend was proposed by the Board during the year ended 31 December 2015 (2014 interim dividend: HK$0.26 per ordinary share, 2014 final dividend: HK$0.41 per ordinary share).

## CLOSURE OF REGISTER OF MEMBERS

### Entitlement to attend and vote at the 2016 Annual General Meeting

The forthcoming annual general meeting will be held on Friday, 13 May 2016 (the "2016 AGM"). The register of members of the Company will be closed from Wednesday, 11 May 2016 to Friday, 13 May 2016, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2016 AGM, all transfers accompanied by the relevant share certificates must be lodged with the

Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 10 May 2016.

## CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. Throughout the year ended 31 December 2015, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provisions A.2.1 and C.1.2 as disclosed below.

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

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

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 year ended 31 December 2015, as the Board had held 8 meetings in additional 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 they comply with the CG Code and align with the latest developments.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2015.

## AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2015 and the annual results for the year ended 31 December 2015, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015 and the annual report for the year ended 31 December 2015, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

**PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is also published on the websites of the Company (www.biostime.com) and the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2015 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 29 March 2016

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