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 2016

FINANCIAL HIGHLIGHTS			
	2016	2015	% of Change
	RMB'000	*RMB'000*	
		(Restated)	
Revenue	**6,505,616**	4,818,561	35.0%
Gross profit	**4,059,067**	2,984,565	36.0%
Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")	**2,043,110**	626,438	226.1%
Profit for the year	**1,051,962**	292,547	259.6%
Net cash flows from operating activities	**1,543,193**	365,732	321.9%
Basic earnings per share	**RMB1.52**	RMB0.41	270.7%

For the year ended 31 December 2016, the Group recorded the following:

- Revenue amounted to RMB6,505.6 million, representing an increase of RMB1,687.1 million or 35.0% from RMB4,818.6 million in 2015.
- Gross profit amounted to RMB4,059.1 million, representing an increase of RMB1,074.5 million or 36.0% from RMB2,984.6 million in 2015.
- EBITDA amounted to RMB2,043.1 million, representing an increase of RMB1,416.7 million, or 226.1% from RMB626.4 million in 2015.
- Profit for the year amounted to RMB1,052.0 million, representing an increase of RMB759.5 million or 259.6% from RMB292.5 million in 2015.
- Net cash flows from operating activities amounted to RMB1,543.2 million, representing an increase of RMB1,177.5 million or 321.9% from RMB365.7 million in 2015.
- Basic earnings per share increased from RMB0.41 in 2015 to RMB1.52, representing an increase of 270.7%.

The board (the "Board") of directors (the "Directors") of Biostime International Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2016

	Notes	**2016**	2015
		RMB'000	*RMB'000*
			(Restated)
REVENUE	*5*	**6,505,616**	4,818,561
Cost of sales		**(2,446,549)**	(1,833,996)
Gross profit		**4,059,067**	2,984,565
Other income and gains	*5*	**323,672**	143,997
Selling and distribution costs		**(1,951,748)**	(1,977,024)
Administrative expenses		**(357,187)**	(280,144)
Other expenses		**(143,985)**	(214,237)
Finance costs		**(468,287)**	(154,022)
Share of losses of an associate		**(5,012)**	(387)
PROFIT BEFORE TAX	*6*	**1,456,520**	502,748
Income tax expense	*7*	**(404,558)**	(210,201)
PROFIT FOR THE YEAR		**1,051,962**	292,547
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year		**62,313**	–
Reclassification adjustments for losses included in profit or loss		**(61,320)**	–
Income tax effect		**(298)**	–
Exchange realignment		**210**	–
		905	–
Exchange differences on translation of foreign operations		**64,594**	48,402
Exchange differences on net investment in a foreign operation		**(23,449)**	70,560
		41,145	118,962
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**42,050**	118,962
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,094,012**	411,509

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000 (Restated)
Profit attributable to:			
Owners of the parent		**954,396**	250,687
Non-controlling interests		**97,566**	41,860
		1,051,962	292,547
Total comprehensive income attributable to:			
Owners of the parent		**974,278**	353,892
Non-controlling interests		**119,734**	57,617
		1,094,012	411,509

	Note	RMB	RMB (Restated)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**1.52**	0.41
Diluted		**1.50**	0.40

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**531,197**	546,995
Prepaid land lease payments		**60,287**	61,765
Goodwill		**5,303,592**	4,937,296
Intangible assets		**3,001,886**	2,896,616
Bonds receivable		**127,701**	124,003
Loans receivable		**48,789**	54,896
Deposits		**5,662**	8,513
Investment in an associate		**35,193**	40,205
Loan to an associate		**40,000**	–
Held-to-maturity investment		**18,435**	17,901
Time deposits		**–**	70,159
Deferred tax assets		**352,973**	198,061
Pledged deposits		**–**	250,000
Derivative financial instruments	*12*	**246,751**	–
Total non-current assets		**9,772,466**	9,206,410
CURRENT ASSETS			
Inventories		**775,356**	856,224
Trade and bills receivables	*10*	**516,624**	622,842
Prepayments, deposits and other receivables		**608,998**	218,980
Loan to an associate		**–**	40,000
Loans receivable		**27,084**	21,984
Derivative financial instrument	*12*	**2,914**	2,728
Pledged deposits		**995,498**	1,677,000
Cash and cash equivalents		**1,506,203**	1,198,235
Total current assets		**4,432,677**	4,637,993
CURRENT LIABILITIES			
Trade and bills payables	*11*	**532,121**	618,711
Other payables and accruals		**862,721**	1,125,549
Derivative financial instruments	*12*	**3,074**	19,005
Interest-bearing bank loans		**549,387**	4,740,450
Convertible bonds		**1,223,619**	–
Senior notes		**201,171**	–
Financial liabilities associated with put options	*13*	**1,561,387**	–
Tax payable		**303,902**	175,609
Total current liabilities		**5,237,382**	6,679,324
NET CURRENT LIABILITIES		**(804,705)**	(2,041,331)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2016

	Notes	**2016** *RMB'000*	2015 *RMB'000* (Restated)
NET CURRENT LIABILITIES		**(804,705)**	(2,041,331)
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,967,761**	7,165,079
NON-CURRENT LIABILITIES			
Convertible bonds		**–**	2,659,057
Senior notes		**2,542,703**	–
Interest-bearing bank loans		**2,242,791**	–
Other payables and accruals		**23,175**	28,696
Deferred tax liabilities		**962,988**	875,083
Total non-current liabilities		**5,771,657**	3,562,836
Net assets		**3,196,104**	3,602,243
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*14*	**5,390**	5,387
Equity component of convertible bonds		**24,489**	66,978
Other reserves		**3,131,627**	3,220,787
		3,161,506	3,293,152
Non-controlling interests		**34,598**	309,091
Total equity		**3,196,104**	3,602,243

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION

The Company 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.

Prior to the acquisition of an approximate 83% equity interest in Swisse Wellness Group Pty Ltd ("Swisse") and its subsidiaries on 30 September 2015 (the "Acquisition"), the Group was principally involved in the manufacture and sale of premium pediatric nutritional and baby care products. Upon the completion of the Acquisition, the Group has expanded its businesses into the production and sale of adult nutrition supplements and skincare products. The Acquisition has enabled the Group to reposition itself as an all-round premium family nutrition and care provider.

The Group began to consolidate the financial statements of Swisse from 30 September 2015. Details of Swisse's contribution to the Group's revenue and operating results for the year are set out in note 4 to this announcement.

On 15 December 2016, pursuant to a share sale agreement, the Group conditionally agreed to acquire the remaining 17% effective equity interest in Swisse via the acquisition of the same percentage equity interest in Biostime Healthy Australia Holdings Pty Ltd ("Biostime Australia Holdings") (the "17% Acquisition") at a cash consideration of AUD311,300,000 (equivalent to approximately RMB1,561,387,000). The completion of the 17% Acquisition subsequently took place on 7 February 2017. Since then, Swisse became a wholly-owned subsidiary of the Group. Further details of the 17% Acquisition has been contained in note 13 to this announcement.

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

2. BASIS OF PREPARATION

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

These financial statements have been prepared under the historical cost convention except for derivative financial instruments, which have 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.

The Group had net current liabilities of approximately RMB804,705,000 as at 31 December 2016. Included in the Group's current liabilities as at 31 December 2016 were financial liabilities associated with put options of RMB1,561,387,000 which were classified as current liabilities in contemplation of the 17% Acquisition detailed in note 13.

Taking into account the financial resources of the Group, including the anticipated operating cash flows and the Group's unutilised committed banking facility from an international financial institution which was made available to the Group for the purpose of financing the 17% Acquisition, the Directors are of the opinion that the Group has sufficient cash flows in the foreseeable future to enable it to continue its operation and meet its liabilities as and when they fall due. Accordingly, these financial statements have been prepared on a going concern basis.

On 23 January 2017, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of US$200,000,000. The net proceeds from the issue of the senior notes have been used, together with the Group's cash on hand, to fund the 17% Acquisition which was completed on 7 February 2017.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. 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 IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 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.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. In previous year, the Group used to have five reportable operating segments, including the infant formulas segment, the adult nutrition and care products segment, the probiotic supplements segment, the dried baby food and nutrition supplements segment and the baby care products segment. During the year, in order to better allocate the resources of the Group and assess the performance of different operating segments, the following reportable operating segments, which are subject to risks and returns that are different from those of the other business segments, are adopted by the Group:

(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; and

(c) other pediatric products segment comprises the production of probiotic supplements, dried baby food and nutrition supplements and baby care products.

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 results of an associate, finance costs as well as head office and corporate expenses are excluded from this measurement.

Operating segment information for the year ended 31 December 2016:

	Infant formulas *RMB'000*	**Adult nutrition and care products** *RMB'000*	**Other pediatric products** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Segment revenue:					
Sales to external customers	**3,203,601**	**2,682,526**	**619,489**	**–**	**6,505,616**
Segment results	**2,105,436**	**1,542,142**	**411,489**	**–**	**4,059,067**
Reconciliations:					
Interest income					**53,663**
Other income and unallocated gains					**270,009**
Share of loss of an associate					**(5,012)**
Corporate and other unallocated expenses					**(2,452,920)**
Finance costs					**(468,287)**
Profit before tax					**1,456,520**
Other segment information:					
Depreciation and amortisation	**1,733**	**93,914**	**4,566**	**71,753**	**171,966**
Impairment of trade receivables	**–**	**9,857**	**278**	**–**	**10,135**
Write-down of inventories to net realisable value	**112,915**	**75,679**	**5,418**	**–**	**194,012**
Capital expenditure*	**5,847**	**53,062**	**37,711**	**6,515**	**103,135**

Operating segment information for the year ended 31 December 2015:

	Infant formulas *RMB'000*	Adult nutrition and care products *RMB'000*	Other pediatric products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue:					
Sales to external customers	3,355,849	849,903	612,809	–	4,818,561
Segment results	2,124,119	520,916	339,530	–	2,984,565
Reconciliations:					
Interest income					118,697
Other income and unallocated gains					25,300
Share of loss of an associate					(387)
Corporate and other unallocated expenses (Restated)					(2,471,405)
Finance costs					(154,022)
Profit before tax (Restated)					502,748
Other segment information:					
Depreciation and amortisation (Restated)	10,421	21,683	4,567	51,694	88,365
Impairment of trade receivables	–	3,936	–	–	3,936
Write-down/(write-back) of inventories to net realisable value	1,855	6,695	(856)	–	7,694
Capital expenditure* (Restated)	23,068	2,632,071	98,963	39,551	2,793,653

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

Geographical information

(a) *Revenue from external customers*

	2016	2015
	RMB'000	*RMB'000*
Mainland China	**4,155,455**	3,973,925
Australia	**2,070,954**	756,404
Other locations*	**279,207**	88,232
	6,505,616	4,818,561

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

(b) *Non-current assets*

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Mainland China	**621,752**	758,464
Australia	**2,887,575**	2,763,024
Other locations*	**124,898**	32,606
	3,634,225	3,554,094

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

* Including the special administrative regions of the People's Republic of China (the "PRC").

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 and goods and services tax) during the year.

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

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**6,505,616**	4,818,561
Other income and gains		
Bank interest income	**42,187**	108,520
Interest income from loans and bonds receivables	**11,476**	10,177
Service income	**93**	988
Foreign exchange gains	**99,141**	–
Fair value gains on derivative financial instruments, net	**160,416**	–
Government subsidies*	**7,179**	17,348
Others	**3,180**	6,964
	323,672	143,997

* There are no unfulfilled conditions or contingencies related to these government subsidies.

6. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Cost of inventories sold	**2,252,537**	1,826,302
Depreciation	**75,306**	58,629
Amortisation of intangible assets	**95,182**	28,258
Amortisation of prepaid land lease payments	**1,478**	1,478
Loss on disposal of items of property, plant and equipment and intangible assets	**4,265**	4,355
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**670,886**	552,093
Pension scheme contributions (defined contribution schemes)	**102,405**	112,743
Staff welfare and other expenses	**18,435**	59,848
Provision for/(reversal of) equity-settled share option expense	**33,004**	(10,619)
Provision for/(reversal of) equity-settled share award expense	**29,968**	(9,963)
	854,698	704,102
Foreign exchange differences, net	**(99,141)***	88,518**
Fair value (gains)/losses on derivative financial instruments, net	**(160,416)***	18,490**
Changes in carrying amount of financial liabilities associated with put options**	**21,163**	–
Impairment of trade receivables**	**10,135**	3,936
Write-down of inventories to net realisable value#	**194,012**	7,694
Loss on repurchase of convertible bonds	**18,003**	–

* Included in "Other income and gains" in profit or loss.

** Included in "Other expenses" in profit or loss.

\# Included in "Cost of sales" in profit or loss.

7. INCOME TAX

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Current – Charge for the year		
Mainland China	**322,235**	128,777
Hong Kong	**5,686**	3,271
Australia	**175,461**	5,330
Elsewhere	**16,759**	935
Deferred	**(115,583)**	71,888
Total tax charge for the year	**404,558**	210,201

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% (2015: 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% (2015: 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% (2015: 30%) on the estimated assessable profits arising in Australia.

8. DIVIDENDS

No interim or final dividend was proposed during year ended 31 December 2016 (2015: Nil).

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

The calculation of the basic earnings per share amount 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 626,939,496 (2015: 610,508,776) 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 the share award schemes. As the conversion or exercise of the 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 the convertible bonds.

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

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**954,396**	250,687

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**630,353,639**	613,925,551
Weighted average number of shares held for the share award schemes	**(3,414,143)**	(3,416,775)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**626,939,496**	610,508,776
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	**9,116,398**	10,983,717
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**636,055,894**	621,492,493

10. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**498,043**	625,013
Bills receivable	**36,103**	3,000
	534,146	628,013
Less: Impairment provision	**(17,522)**	(5,171)
	516,624	622,842

Advance payment is normally required for sale of the baby nutrition and care products except in limited circumstances for credit sales. Credit sales are usually allowed for the adult nutrition and care products with credit terms of 30 to 60 days from end of month. 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 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 represent bank acceptance notes issued by banks in Mainland China which are non-interest-bearing.

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

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**434,166**	289,922
1 to 3 months	**79,610**	313,809
Over 3 months	**2,848**	19,111
	516,624	622,842

11. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**524,459**	610,558
Bills payable	**7,662**	8,153
	532,121	618,711

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:

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**411,358**	370,967
1 to 3 months	**112,389**	220,867
Over 3 months	**8,374**	26,877
	532,121	618,711

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

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	**2016** Assets *RMB'000*	**2016** Liabilities *RMB'000*	2015 Assets *RMB'000*	2015 Liabilities *RMB'000*
Current					
Conversion option embedded in a loan receivable		**2,914**	**–**	2,728	–
Forward currency contracts		**–**	**3,074**	–	5,559
Financial Indebtedness Adjustment Clause (as defined in note 13)	*(a)*	**–**	**–**	–	13,446
		2,914	**3,074**	2,728	19,005
Non-current					
Early redemption option embedded in the senior notes		**55,509**	**–**	–	–
The Swaps (as defined below)	*(b)*	**68,957**	**–**	–	–
Cross currency swaps	*(c)*	**122,285**	**–**	–	–
		246,751	**–**	–	–

Notes:

(a) The Financial Indebtedness Adjustment Clause related to the Holdco Put Option (as defined in note 13) has been accounted for as a derivative financial instrument of the Group, further details of which have been set out in note 13 to this announcement.

(b) The Group has entered into interest rate swaps, cross currency swaps and cross currency interest rate swaps (collectively the "Swaps") to hedge certain of its exchange rate and interest rate exposures in the current year.

As at 31 December 2016, the Swaps designated for hedge purposes amounted to RMB68,957,000 (31 December 2015: Nil). The Swaps are designated as hedging instruments in respect of expected interest and principal payments for a floating rate bank borrowing, denominated in currency other than the functional currency of a Group's subsidiary which is the borrower of that bank borrowing.

(c) Cross currency swaps which cannot apply hedge accounting are measured at fair value through profit or loss. The fair value of these cross currency swaps as at 31 December 2016 was RMB122,285,000 (31 December 2015: Nil). A fair value gain of RMB117,094,000 was recognised in profit or loss during the year (2015: Nil).

13. FINANCIAL LIABILITIES ASSOCIATED WITH PUT OPTIONS

In contemplation with the Acquisition, the following three wholly-owned investment holding companies were set up by the Company during the year ended 31 December 2015:

- Biostime Healthy Australia Investment Pty Ltd ("Biostime Australia Investment"); and

- Biostime Australia Holdings, the immediate holding company of Biostime Australia Investment; and

- Biostime Healthy Australia Pty Ltd ("Biostime Australia"), the immediate holding company of Biostime Australia Holdings.

Biostime Australia Investment entered into a roll-up call option deed (the "Roll-Up Call Option Deed") with the non-controlling shareholders of Swisse (the "Non-controlling Shareholders") simultaneously with the entry into of the share sale agreement (the "Share Sale Agreement") dated 17 September 2015 in relation to the Acquisition. Under the Roll-Up Call Option Deed, Biostime Australia Investment has the right (the "Roll-up Call Option") to require the Non-controlling Shareholders to sell all of the shares they continue to hold in Swisse after the completion of the Acquisition in exchange for an issue of shares representing an equivalent stake in Biostime Australia Holdings within an agreed period.

Pursuant to the Share Sale Agreement, on completion of the exercise of the Roll-up Call Option, a put option (the "Holdco Put Option" or "Holdco Put Options" as appropriate) is to be granted to each of the Non-controlling Shareholders whereby each Non-controlling Shareholders is given the right to require Biostime Australia to buy all (but not some only) of its shares in Biostime Australia Holdings within an agreed period by giving a put option exercise notice. In the case of an exercise of the Holdco Put Option in the exercise period which immediately follows the third anniversary of the completion of the Acquisition, the fair market value of the relevant shares in Biostime Australia Holdings will be determined on the assumption that the financial indebtedness included in Swisse and its subsidiaries (the "Swisse Group") at such time is the lower of: (i) net debt of the Swisse Group as at the date of such valuation; and (ii) 2.0x times the Swisse Group's consolidated earnings before interest, tax, depreciation and amortisation in the 12 calendar months preceding the date of such valuation (the "Financial Indebtedness Adjustment Clause").

On 14 September 2016, the Roll-up Call Option was exercised and the Holdco Put Options were granted. Consequently, Biostime Australia Investment directly holds the entire share capital of Swisse whereas Biostime Australia and the Non-controlling Shareholders in aggregate hold approximately 83% and 17% equity interests in Biostime Australia Holdings, respectively.

Under current IFRSs, when the Holdco Put Option is granted, the Group is required to record a financial liability which is to be measured at the present value of the redemption amount. On initial recognition, the corresponding debit is made to put option reserve which is a component of equity attributable to owners of the parent. The financial liability is subsequently measured in accordance with IAS 39 *Financial Instruments*.

The Directors have estimated that at the grant date of the Holdco Put Options, the redemption amounts would be approximately AUD307,020,000 (equivalent to approximately RMB1,535,438,000), being 17% of the business value of the Swisse Group as at that date. Accordingly, the Group recorded financial liabilities in respect of the Holdco Put Options of RMB1,535,438,000 as at 14 September 2016 with a corresponding debit to the put option reserve.

On 15 December 2016, the Group announced the 17% Acquisition at a cash consideration of AUD311,300,000 (equivalent to approximately RMB1,561,387,000). As at 31 December 2016, a cash deposit of AUD100,000,000 (equivalent to RMB501,570,000) has been paid in connection with the 17% Acquisition. Accordingly, as at 31 December 2016, the Group has remeasured the financial liabilities associated with the Holdco Put Options according to the consideration payable and charged the difference between the amounts as at the date of initial recognition and year-end date of RMB21,163,000 to profit or loss.

The Financial Indebtedness Adjustment Clause embedded in the Holdco Put Options met the definition of a derivative financial instrument under IAS 39. Accordingly, the Group has recorded a derivative financial instrument of RMB13,446,000 in respect of this Financial Indebtedness Adjustment Clause as at 31 December 2015. On 14 September 2016, the grant date of the Holdco Put Options, the Financial Indebtedness Adjustment Clause had a negative fair value of RMB5,545,000. As such, a fair value gain of RMB8,581,000 has been recognised by the Group for the year in relation to the change in fair value of the Financial Indebtedness Adjustment Clause for the period from 1 January 2016 to 14 September 2016.

Upon the recognition of the financial liabilities associated with the Holdco Put Options, the Group has derecognised the derivative financial instrument associated with the Financial Indebtedness Adjustment Clause with a corresponding adjustment to the put option reserve.

14. SHARE CAPITAL

Shares

	2016	2015
Authorised:		
10,000,000,000 (2015: 10,000,000,000) ordinary shares of HK$0.01 each	**HK$100,000,000**	HK$100,000,000
Issued and fully paid:		
630,472,096 (2015: 630,080,426) ordinary shares of HK$0.01 each	**HK$6,304,721**	HK$6,300,804
Equivalent to	**RMB5,390,000**	RMB5,387,000

15. COMPARATIVE AMOUNTS

As further explained in note 4, due to the reorganisation of the reportable segment during the year, certain comparative amounts have been restated to conform with the current year's presentation.

Additionally, the purchase price allocation for the acquisition of Healthy Times Inc. ("Healthy Times"), a wholly-owned subsidiary, has been completed during the year, certain comparative amounts have been restated to conform with the current year's representation and accounting treatment.

16. EVENT AFTER THE END OF THE REPORTING PERIOD

(a) On 23 January 2017, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of US$200,000,000. The senior notes bear interest from and including 21 December 2016 at a rate of 7.25% per annum, payable semi-annually in arrears. The senior notes are listed on the Singapore Exchange Securities Trading Limited.

The gross proceeds of the senior notes were approximately US$209,000,000. The net proceeds from the issue of the senior notes have been used, together with the Group's cash on hand, to fund the 17% Acquisition.

(b) On 7 February 2017, the Group completed the 17% Acquisition. As a result, Biostime Australia Holdings became a wholly-owned subsidiary of the Company.

(c) On 20 February 2017, the Company, at the option of the bondholders, redeemed the remaining part of the bondholders' convertible bonds, at cash consideration of HK$1,400,968,000 (equivalent to approximately RMB1,240,879,000).

BUSINESS REVIEW

2016 was a year of challenges and new ambitions for the Group. During the year, we navigated our business through fierce market competition in the infant milk formula ("IMF") segment and major regulatory changes such as formula registration rules and new regulations on Cross Border E-Commerce ("CBEC"). Amid the challenging environment, we launched active sales in China through CBEC for Swisse and initiated post-acquisition integration of the Group. Through continuous investments in our brands, we maintained our leading positions in both the baby nutrition and care ("BNC") and adult nutrition and care ("ANC") segments.

The Group's total revenue and net profit for the year ended 31 December 2016 reached RMB6,505.6 million and RMB1,052.0 million on currency-adjusted basis, with gross margin improving to 62.4% in 2016 from 61.9% in 2015. During the same period, the BNC and ANC segments contributed 58.8% and 41.2% of the Group's total revenue with EBITDA contribution of 62.6% and 37.4%, respectively.

This past year, the Chinese IMF market remained intensely competitive as the PRC authorities released stringent formula registration rules in a bid to ensure the quality and safety of these products. The implementation of these rules has led to increased competition and reduction in prices and margins as many players seek to reduce the number of product series. Consequently, our revenue from the BNC segment experienced a slight decrease of 3.7% for the year of 2016 on a year-on-year basis, which was mainly attributed to the decline of our mid-tier IMF products under the ADiMIL™ brand, while the revenue from Biostime™ branded IMF products increased by 4.4% compared to the prior year. According to Nielsen, an independent market research firm, the Group's share of the overall IMF market in China remained stable at 5.8% for the twelve months ended 31 December 2016 as compared to 5.9% for the twelve months ended 31 December 2015. In order to capture the fast-growing demand for organic IMF products, we launched an organic IMF series in December 2016 under Healthy Times™, a 36-year-old California-based organic baby food brand acquired by the Group in 2015. In addition, sales of our probiotics products achieved a 29.8% increase compared to the same period last year, thanks to our innovative marketing initiatives as well as growing demand from the market as resulting from increased awareness of the health benefits associated with probiotics in China.

The revenue derived from the ANC segment amounted to AUD542.5 million and increased by 2.6% for the year ended 31 December 2016 compared with the corresponding period last year, assuming the financial results of Swisse were fully consolidated into the Group for twelve months ended 31 December 2015. Based on the research statistics from IRI, Swisse maintained a leading position in the Australian vitamin, herbal and mineral supplements ("VHMS") market with a market share of 16.6% for the twelve months ended 31 December 2016. The CBEC regulatory changes first announced in April 2016 led to destocking from distributors and retailers in Australia and lower retail prices across both the Australian and Chinese markets in 2016, which negatively impacted our sales. In order to maintain the premium positioning of Swisse and healthy inventory levels in our customer channels, we streamlined the number of distributors in Australia and our discount strategy in both markets in the fourth quarter of 2016. At the same time, we increased our marketing efforts to drive higher consumer demand.

2016 was the first complete financial year after the acquisition of Swisse in September 2015. To enhance our premium brand image among consumers in our two core markets of Australia and China, we continued to invest in Swisse's brand equity to ensure the long-term growth of this business. In the Australian market, we strengthened our long-term partnership with the Australian Olympic and Paralympic teams, and facilitated a wide-reaching and innovative brand marketing campaign for the 2016 Rio Olympics. Meanwhile in the Chinese market, Swisse continued to lead the healthcare category on Alibaba platforms with its unique branding and product offering. The strategic partnerships with major e-commerce platforms in China empowered Swisse to achieve strong sales growth by increasing its exposure through sophisticated co-operative campaigns, such as:

– Official China launch gala with Swisse brand ambassador Nicole Kidman;

– Arnold Classic Asia Multi Sport Festival with Tmall.hk;

– Champion House for the Rio Olympics with NetEase Kaola.com;

– Sole title sponsor of 12-hour live show for Singles' Day with JD.com; and

– Sponsorship of The Color Run™ Shenzhen with VIP.com.

Despite these major marketing and branding investments, coupled with impacts from PRC regulatory challenges, Swisse still achieved a solid EBITDA margin of 27.9% for the full year of 2016.

PROSPECTS

With the new mission of "Making People Healthier and Happier", the Group aspires to become a global leader in premium nutrition and wellness through our superior products and aspirational brands. In order to better reflect the equal importance of our two business segments, BNC and ANC, as well as our common corporate culture and values, we are planning to reposition our Group with a new name which will embody the new mission and vision of the Group.

Heading into 2017, we expect challenges from market competition and regulatory changes in both the IMF and VHMS segments, however, we also see great opportunities for growth and synergies from further integration.

Business Integration

Following the completion of the acquisition of the remaining 17% minority interest in Swisse, we have initiated a group-wide integration program to facilitate synergies and operational efficiencies across all business dimensions, including distribution, research and innovation, finance, customer relationship management ("CRM"), corporate culture and personnel capability.

The primary focus of our integration initiatives is to leverage the existing resources of the Group to realize maximum synergies. As part of this, in 2017 Swisse will expand its presence in China from CBEC to normal trade by utilizing Biostime's existing business resources including its sales teams, distribution systems, store networks and CRM systems. This will enable us to accelerate our exposure in the fast growing VHMS market in China and more efficiently build up a loyal customer base.

Baby Nutrition and Care

Looking ahead, we believe that the Chinese IMF market will continue to consolidate as the enforcement of formula registration rules come into effect on 1 January 2018. Price volatility is expected to continue in 2017 due to destocking as many players seek to reduce the number of product series before the enforcement of the registration rules. Post full implementation of the two-child policy and formula registration rules, we are confident that Biostime will benefit from both the increasing demand and market consolidation starting in the later part of 2017. At the end of 2016, we introduced the new Healthy Times™ organic IMF series to the Chinese market to strengthen our offering in the supreme segment. This new series has received positive feedback from consumers since its launch. In December 2016, we completed the full acquisition of Dodie, a renowned French baby product brand with nearly 60 years of history, to complement our product portfolio and capture the growing demand for baby care and accessories products. Dodie's strong brand equity and unique products in international markets will enhance our global image and expand our high quality product offering in the baby care segment.

Adult Nutrition and Care

After gradual destocking from distributors and retailers in Australia in 2016 following the announcement of the CBEC regulatory changes, we have recently observed that the market confidence has been gradually restored with inventory levels normalizing. However, we may face pressure in the first half of 2017 as a result of changes to the stock discount structure implemented in the fourth quarter of 2016 as part of our global pricing strategy and relative to the first half of 2016 which was prior to the regulatory changes. It will take some time for us to achieve a full recovery from the impact on our business, but we are confident we can achieve sustainable growth through business initiatives in Australia and China during the full year of 2017, especially given the clearer CBEC regulatory directions.

As of March 2017, Swisse is delighted to have entered into an international partnership agreement with Scuderia Ferrari F1® Team, the world's most successful Formula 1 team in history. This partnership is another transformational ingredient in Swisse's global marketing strategy and will support our growth and expansion into new markets, raising awareness with consumers worldwide, including within China. In Australia, we also look forward to aspirational brand and instore marketing initiatives related to our partnerships with the Australian Football League and Australian Rugby Union Team, and Swisse ambassadors. Swisse continues to lead in product innovation with the launch of a number of new products in our innovation pipeline set to launch globally over the next 12 to 18 months.

To accelerate our business expansion and broaden our consumer base, we have kicked off the offline roll-out in China with soft launch in selective retail outlets such as Watsons and Sam's club, and will leverage more existing retail resources to introduce Swisse offline products as conventional food, including the two hero products Hair, Skin and Nails (HSN) and Cranberry Concentrate in liquid and effervescent forms. With strong sales momentum on major e-commerce platforms and the upcoming official offline launch, we foresee promising growth for Swisse in the Chinese market and will continue to increase brand awareness via cutting-edge marketing campaigns. In addition, once the supporting rules are fully released, we will commence the filing and registration procedures for certain products that fall into the health food category as required by the Administrative Measure of Registration and Filing of Health Food (《保健食品註冊與備案管理辦法》).

Globalization
As a dedicated leader in our core markets, we procure our premium ingredients from the best sources in the world to make superior products under our aspirational brands. Thanks to our strong innovation capability and science-based proprietary formulas, we continue to lead in the IMF and VHMS categories by offering products that meet consumer needs in different markets.

Healthy lifestyle is becoming a priority for many consumers across the globe. By leveraging our global resources and working hand in hand with our business partners, we will strive to promote our superior products and aspirational brands in more territories, such as Singapore, United Kingdom, Italy, Netherlands, France and North America with a focus on innovation capability, brand investment and resources integration. We expect the combined strength of Swisse and Biostime to drive our sales, market share and consumer engagement globally in the future.

Capital Structure
In 2016, the Group successfully refinanced debt raised to fund the Swisse acquisition in September 2015 and existing convertible bonds, thereby significantly de-risking the balance sheet of the Group. Following these two successful debt refinances in 2016 and completion of the senior notes offering to fund the buyout of the remaining 17% Swisse minority stake in February 2017, our priority is to further improve our capital efficiency and overall financial stability to lay a solid foundation for future growth.

CHALLENGES
Regulatory changes, including IMF registration rules and CBEC regulations, remain the biggest challenges for our business. Nevertheless, we are proactively responding to the ever-changing environment by enabling the offline product launch of certain star products as conventional food in the Chinese market.

Within the IMF segment, we have been preparing for the application documents associated with the new formula registration rules and already started to submit. Supported by high manufacturing standards to ensure product safety as well as strong research and development capability to deliver premium quality, we are confident that our products can meet the stringent requirements set by the authorities.

Within the ANC products segment, the effective date of the new CBEC regulation, which was announced on 8 April 2016, has been further postponed to the end of 2017 in accordance with a statement of the Ministry of Commerce issued in November 2016. On 17 March 2017, Ministry of Commerce further clarified that starting from 1 January 2018, the commodities imported via CBEC will be considered as personal goods and no longer be subject to trading goods requirements until further notice. This will significantly reduce the regulatory constraints that may have been previously imposed on our ANC products. Though the government appears to have adopted a more open attitude towards CBEC, there may be new regulatory arrangements to ensure product quality and safety post the grace period. Our offline product launch in China will further help diversify any risk to our CBEC sales as the sales contribution from physical stores increases over time.

SOCIAL RESPONSIBILITY

Social responsibility for the Group is understanding that a healthy community means a healthy environment and healthy people balancing nutrition, movement and mindfulness in their daily life choices.

We understand the need to speak with consumers about taking control of their health, and that small changes in choices can make big impacts on their health and wellness. As such, the Group proactively seeks to nourish social, environmental, and economic factors within our community in order to build a more sustainable future.

The materials we purchase are carefully considered, so we are not only offsetting our emissions, but funding programs that have many benefits for the community. We nourish the environment through our carbon offsetting programs in Australia and Carbon Neutral status, verified through the Australian Government's National Carbon Offset Standard.

The Group also has two philanthropic foundations. The "Biostime China Foundation for Mother and Child" (the "BC Foundation") was established in 2007 in cooperation with the Chinese Red Cross Foundation and donates RMB0.10 to the BC Foundation for every product unit sold. Since its inception, the BC Foundation has raised a total of approximately RMB29.0 million and supported over 1,085 children and mothers who suffer from serious illnesses. In recognition of the Group's contribution to society, the Group was awarded "Public Welfare Innovation of the Year" and "Public Welfare Project of the Year" at the China Charity Festival 2016.

In addition, the Group also has the Celebrate Life Foundation which was founded by Swisse in 2014. The foundation's name encapsulates its mission and vision – helping people celebrate life every day. The Celebrate Life Foundation aims to inspire wellness throughout the community, by addressing Australia's biggest health challenge – growing rates of preventable disease. To make this happen, the Celebrate Life Foundation supports charitable programs and research initiatives that promote a greater awareness and encourage action around the three pillars of lifelong wellness: Mindfulness, Movement and Nutrition. Since its inception, the Celebrate Life Foundation has raised over AUD2.0 million for community programs.

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2016, revenue of the Group increased by 35.0% to RMB6,505.6 million as compared with 2015. 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 through the acquisition of an approximate 83% equity interest in Swisse on 30 September 2015. The financial results of Swisse were consolidated into that of the Group from 1 October 2015 onwards.

	Year ended 31 December			
	2016	**% of**	2015	% of
	RMB'000	**Revenue**	*RMB'000*	Revenue
Baby nutrition and care products	**3,823,090**	**58.8%**	3,968,658	82.4%
– Infant formulas	**3,203,601**	**49.3%**	3,355,849	69.7%
– Other pediatric products	**619,489**	**9.5%**	612,809	12.7%
Adult nutrition and care products	**2,682,526**	**41.2%**	849,903	17.6%
Total	**6,505,616**	**100.0%**	4,818,561	100.0%

Infant formulas

Revenue from the infant formulas segment decreased by 4.5% to RMB3,203.6 million for the year ended 31 December 2016 compared with prior year. This decrease was primarily attributable to the decline in revenue of the ADiMIL™ branded products by 74.1% compared with prior year, as a result of increased competition in the mid-tier segment and distributors reducing their inventory holding levels in anticipation of new regulations limiting the number of Stock Keeping Units ("SKUs") per manufacturer. However, revenue of the Biostime™ branded IMF products increased by 4.4% for the year ended 31 December 2016 compared with last year. The Group also launched Healthy Times™ branded organic infant formulas in December 2016, which received positive feedback from the consumers.

Adult nutrition and care products

The consolidation of Swisse's financial results into the Group commenced from 1 October 2015. The Swisse results from prior to the acquisition of an approximate 83% equity interest in Swisse were included in the below discussion for comparison purposes.

Revenue from the adult nutrition and care products segment increased by 2.6% to AUD542.5 million for the year ended 31 December 2016 compared with revenue of AUD528.9 million assuming Swisse's financial results were fully consolidated for the whole year ended 31 December 2015. Sales growth was primarily attributable to increased consumer demand for Swisse products in China, but negatively impacted by the CBEC regulatory change announced in April 2016 which resulted in destocking from distributor and resellers in Australia and lower prices across the Australia and Chinese market in 2016.

In 2016, Swisse began to service the Chinese market directly via its flagship store opening on Tmall.hk, and engagement with other major CBEC platforms, such as VIP.com, NetEase Kaola.com and JD.com. These sales directly into China accounted for 14.1% the revenue of the adult nutrition and care products for the year ended 31 December 2016.

Other pediatric products

Other pediatric products segment mainly consisted of probiotic supplements, the revenue of which accounted for 81.6% of this segment and has achieved outstanding growth of 29.8% for the year ended 31 December 2016, as a result of innovative marketing initiatives and growing consumer demand thanks to higher awareness of health benefits associated with probiotics in China. This fast growth was partially offset by the decline of other baby care products, which resulted in the overall other pediatric products segment growth of 1.1% in 2016.

Gross profit and gross profit margin

During the year ended 31 December 2016, the Group recorded gross profit of RMB4,059.1 million, which increased by 36.0% compared with last year. Gross profit margin increased from 61.9% in 2015 to 62.4% in 2016.

The gross profit of baby nutrition and care segment increased by 2.2% to RMB2,516.9 million in 2016 compared with last year, while the gross profit margin increased to 65.8%. The increase in gross profit margin was mainly resulted from: (i) the improved product mix towards higher proportion of sales from the higher-margin Biostime™ branded infant formulas and probiotic supplements; and (ii) reduced price discounting activities, replaced by other value-added consumer rewarding programs, which had less impact on the gross profit.

The gross profit of adult nutrition and care segment decreased by 5.4% to AUD311.9 million in 2016 compared with last year of AUD329.6 million assuming Swisse were fully consolidated for the whole year. The gross profit margin of adult nutrition and care segment decreased from 62.0% in 2015 to 57.5% in 2016, as a result of discounting in both Australia and China to drive volume growth post CBEC regulatory change.

Other income and gains

Other income and gains amounted to RMB323.7 million for the year ended 31 December 2016, representing an increase of 124.8% with the prior year. Excluding Swisse, other income and gains amounted to RMB314.6 million. Other income and gains primarily consisted of net foreign exchange gain of RMB99.1 million, interest income of RMB53.7 million, net fair value gains of RMB160.4 million from foreign exchange and interest rate contracts related to the debt instruments and others.

Selling and distribution costs

Selling and distribution costs amounted to RMB1,951.7 million for the year ended 31 December 2016, which remained stable compared with RMB1,977.0 million for last year. Excluding the selling and distribution costs of Swisse of RMB596.3 million and the amortization expenses of RMB74.0 million in relation to the intangible assets identified in the acquisition of Swisse, the selling and distribution costs decreased by 30.9% for the year ended 31 December 2016 compared with the prior year. This decrease was primarily attributable to one-off high marketing spending in relation to the SN-2 PLUS launch in the first three quarters of 2015 and also a reduction in the employees as a result of the Group's reorganization in the last quarter of 2015 following the acquisition of Swisse.

Swisse's standalone selling and distribution costs decreased by 17.9% to RMB596.3 million for the year ended 31 December 2016 compared to the year ended 31 December 2015, assuming Swisse were fully consolidated for the year. The decrease was mainly attributable to the one-off Management Incentive Share Plan ("MISP") cash bonuses in relation to the acquisition of Swisse in 2015. This decrease was partially offset by the increased sales activity in China and increased advertising and marketing expenses, which were primarily invested for the Rio Olympics campaign and launch of China active sales, as well as additional cooperative advertising with Australian customers to drive sales. As the MISP was implemented before the Acquisition, it had no impact on the operating results of the Group for the year ended 31 December 2016 and 2015, respectively.

The selling and distribution costs as a percentage of the Group's revenue decreased from 41.0% for the year ended 31 December 2015 to 30.0% in 2016.

Administrative expenses

Administrative expenses increased by 27.5% from RMB280.1 million for the year ended 31 December 2015 to RMB357.2 million for this year mainly due to the inclusion of Swisse's full year administrative expenses in 2016. Excluding the administrative expenses of Swisse of RMB127.0 million and amortization expenses of RMB3.7 million in relation to the intangible assets identified in the acquisition of Swisse, the administrative expenses decreased by 2.9% in 2016 compared with the prior year. This decrease was primarily due to the decreased one-off transaction costs in relation to the acquisition of Swisse in 2015.

Swisse's standalone administrative expenses decreased by 65.1% for the year ended 31 December 2016 compared to the year ended 31 December 2015, assuming Swisse fully were consolidated for the last whole year. The decrease was mainly attributable to the one-off "MISP" cash bonuses and transaction costs in connection with the acquisition of Swisse in 2015. This decrease was partially offset by an increase in employee expenses to enhance operational capability to support active sales in China and expansion globally.

The percentage of administrative expenses to Group revenue was 5.5% in 2016, compared with 5.8% in last year.

Other expenses

Other expenses for the year ended 31 December 2016 amounted to RMB144.0 million or RMB113.5 million excluding Swisse. Other expenses consisted of R&D expenses of RMB77.2 million and a non-cash loss of RMB21.2 million resulted from the change of the carrying amount of put options related to the rights that have been given to the non-controlling shareholders of Swisse to sell all their interests in Swisse to the Group. The other expenses in 2016 decreased by 32.8% compared with the prior year, which was because net foreign exchange loss was recorded in 2015 while a net foreign exchange gain was recorded in 2016.

EBITDA and EBITDA margin

EBITDA for the year ended 31 December 2016 increased to RMB2,043.1 million from RMB626.4 million for the year ended 31 December 2015. The EBITDA margin for the year ended 31 December 2016 was 31.4%, representing a strong increase from 13.0% in the last year.

Finance costs

During the year ended 31 December 2016, the Group incurred finance costs of RMB468.3 million, including bank loan interests of RMB226.7 million, bank charges of RMB52.4 million, interest expenses of the convertible bonds and senior notes of RMB171.1 million, and loss from the repurchase of part of the convertible bonds of RMB18.0 million.

Income tax expenses

Income tax expenses increased from RMB210.2 million in 2015 to RMB404.6 million in 2016. This increase was primarily attributable to the increase in the Group's profits before tax as a result of the acquisition of Swisse. The effective tax rate decreased from 41.8% in 2015 to 27.8% in this year. The decrease was mainly due to one-off items including the utilization of Swisse's carried forward losses which were incurred in U.S. before the acquisition of Swisse, and a tax deduction that result from tax consolidation of the Group's Australian subsidiaries which occurred in September 2016 post the completion of the exercise of the Roll-up Call Option. The benefit was partially offset by the higher corporation income tax rate for Australian companies at 30.0%, the non-deductible loss arising from the repurchase of part of the convertible bonds, as well as the non-deduction interest and transaction costs relating to certain bank loans and senior notes.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2016, the Group had net cash generated from operating activities of RMB1,543.2 million, resulting from the pre-tax cash from operation of RMB1,944.3 million, minus the income tax paid of RMB401.1 million.

Investing activities
For the year ended 31 December 2016, net cash flows used in investing activities amounted to RMB735.5 million. Net cash flows used in investing activities for the year ended 31 December 2016 were primarily related to the residual payment in relation to the acquisition of an approximate 83% equity interest in Swisse, the down payment in relation to the acquisition of remaining approximately 17% equity interest in Swisse, and the payment for acquisition of Dodie.

Financing activities
For the year ended 31 December 2016, net cash flows used in financing activities amounted to RMB657.5 million. The cash obtained in 2015 for funding the Swisse-acquisition outflow of RMB7,131.7 million was primarily related to repayment of the bridge loan and other short-term bank loans of RMB5,104.7 million, the repurchase of the convertible bonds of RMB1,649.5 million in a tender offer and the interest payment of RMB356.8 million for bank loans and senior notes. The cash inflow of RMB6,474.2 million was primarily related to the release of pledged deposits of RMB1,927.0 million, the net proceeds from the new term loan of RMB2,918.3 million, and the issuance of senior notes of RMB2,575.1 million net of the proceeds of RMB950.8 million pledged in the escrow account.

Cash and bank balances
As of 31 December 2016, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,506.2 million. Taking into consideration of remaining proceeds from the issuance of senior notes of RMB995.5 million which are held in the escrow account as pledged deposits, and scheduled to be released to redeem the remaining outstanding convertible bonds, the Group's cash and bank balances amounted to RMB2,501.7 million as of 31 December 2016.

Interest-bearing bank loans and convertible bonds
In April 2016, the Group secured a new term loan to refinance the bridge loan which had been borrowed to partly fund the acquisition of Swisse. The new term loan provides long-term funding certainty to the Group, thus strengthening the Group's capital structure.

The Group's outstanding interest-bearing bank loans amounted to RMB2,792.2 million as of 31 December 2016, including RMB549.4 million repayable within one year and RMB2,242.8 million repayable after one year.

In June 2016, the Company issued US$400.0 million 7.25% senior notes due 2021 to redeem the existing convertible bonds. As of 31 December 2016, the carrying amount of the senior notes amounted to RMB2,743.9 million.

As of 31 December 2016, the carrying amount of the liability portion of the convertible bonds amounted to RMB1,223.6 million.

Taking convertible bonds, senior notes and interest-bearing bank loans into consideration, the gearing ratio was 47.6%. The gearing ratio is calculated by dividing the sum of the carrying amount of convertible bonds, senior notes and interest bearing bank loans by total assets.

Working capital cycle

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 from end of month. The Group's suppliers generally grant a credit period of between 30 and 90 days.

The Group seeks to maintain strict control over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables remained stable at 32 days for the year ended 31 December 2016. The average turnover days of the trade payables was 84 days for the year ended 31 December 2016.

The Group endeavored to maintain its inventory at a healthy level to avoid excess inventory and deep discounting. The inventory turnover days were 120 days for the year ended 31 December 2016.

DIVIDENDS

No interim or final dividend was proposed by the Board for the year ended 31 December 2016 given the Group's priority on enhancing financial liquidity and optimizing capital structure.

CLOSURE OF REGISTER OF MEMBERS

Entitlement to attend and vote at the 2017 Annual General Meeting

The forthcoming annual general meeting will be held on Friday, 12 May 2017 (the "2017 AGM"). The register of members of the Company will be closed from Tuesday, 9 May 2017 to Friday, 12 May 2017, 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 2017 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 8 May 2017.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Throughout the year ended 31 December 2016, 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 2016, as the Board had held 8 meetings, in addition to 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 2016.

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 2016.

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

References are made to the announcements issued by the Company on 6 June 2016 and 15 June 2016, respectively, regarding the Company's offer (the "Offer") to repurchase the Company's HK$3,100,000,000 zero coupon convertible bonds due 2019 issued in February 2014 (the "Convertible Bonds"). The Convertible Bonds are listed on the Stock Exchange (Stock Code: 6024) and the ISIN is XS1019149928. On 22 June 2016, the Company repurchased HK$1,814.0 million Convertible Bonds with a purchase price of HK$1,941.0 million.

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

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 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 2016 and the annual results for the year ended 31 December 2016, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016 and the annual report for the year ended 31 December 2016, 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.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2016, consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows for the year then ended and the related notes thereto as set out in the preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditors, Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards in Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is 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 2016 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, 27 March 2017

As at the date of this announcement, the executive Director of the Company is Mr. Luo Fei; 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.