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**BIOSTIME INTERNATIONAL HOLDINGS LTD.**

**合生元國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01112)**

**OVERSEAS REGULATORY ANNOUNCEMENT**

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Reference is made to the announcements of Biostime International Holdings Limited (the “**Company**”) dated 6 June 2016, 15 June 2016 and 16 June 2016 in relation to the Notes Issue (the “**Previous Announcements**”). All terms used herein have the same meaning as defined in the Previous Announcements, unless otherwise defined.

Please refer to the attached offering memorandum in relation to the Notes (the “**Offering Memorandum**”), which is available on the website of the Singapore Exchange Securities Trading Limited as of 22 June 2016.

The posting of the Offering Memorandum on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.10B of the Listing Rules, and not for any other purposes.

The Offering Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

The Offering Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be based on the information contained in the Offering Memorandum.

By Order of the Board  
**Biostime International Holdings Limited**  
**Mr. Luo Fei**  
*Chairman*

Hong Kong, 22 June 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.*

## IMPORTANT NOTICE

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (I) QIBS (AS DEFINED BELOW) OR (II) OUTSIDE THE UNITED STATES AND WHO ARE NON-US PERSONS IN ACCORDANCE WITH REGULATION S (AS DEFINED BELOW).**

**You must read the following disclaimer before continuing:** The following disclaimer applies to the attached offering memorandum. You are therefore advised to read this disclaimer carefully and in full before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

**Confirmation of your representation:** You have accessed the attached document on the basis that you have confirmed your representation to Goldman Sachs (Asia) L.L.C. (the "Initial Purchaser") that (i) either (a) you are a non-US Person (as defined in Regulation S under the US Securities Act of 1933, as amended (the "Securities Act")) outside the United States and, to the extent you purchase the Notes, as defined and described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the Securities Act or (b) you are acting on behalf of, or you are, a qualified institutional buyer ("QIB"), as defined in Rule 144A under the Securities Act, and (ii) you consent to delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission.

The attached offering memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Initial Purchaser or any of its respective directors, officers, employees, representatives, agents or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Prospective purchasers that are QIBs are hereby notified that the seller of the Notes described in the offering memorandum will be relying on the exemption from the provisions of Section 5 of the Securities Act pursuant to Rule 144A.

**Restrictions:** The attached offering memorandum is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the Notes described in the offering memorandum. You are reminded that the information in the attached offering memorandum is not complete and may be changed.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF THE NOTES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.**

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Company or any Subsidiary Guarantor (each as defined in the attached offering memorandum) or the Initial Purchaser to subscribe for or purchase any of the Notes described therein, and access has been limited so that it shall not constitute a general advertisement or general solicitation (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere.

The attached offering memorandum does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer and the Initial Purchaser or any affiliate of the Initial Purchaser, licensed brokers or dealers in that jurisdiction, the offering of any of the Notes shall be deemed to be made by the Initial Purchaser or such affiliate on behalf of the Company in such jurisdiction.

You are reminded that you have accessed the attached offering memorandum on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver or forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the Notes described therein.

**Actions that you may not take:** You should not reply by e-mail to this announcement, and you may not purchase any Notes by doing so. Any reply e-mail communication, including those you generate by using the "Reply" function on your e-mail software, will be ignored and/or rejected.

**THE ATTACHED OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED OFFERING MEMORANDUM.**

**You are responsible for protecting against viruses and other destructive items.** Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



**BIOSTIME INTERNATIONAL HOLDINGS LTD.**

**合生元國際控股有限公司**

*(incorporated with limited liability under the laws of the Cayman Islands)*

**US\$400,000,000**

**7.25% Senior Notes due 2021**

The US\$400,000,000 7.25% Senior Notes due 2021 (the “Notes”) will bear interest from June 21, 2016 at 7.25% per annum payable semi-annually in arrears on June 21 and December 21 of each year, beginning December 21, 2016. The Notes will mature on June 21, 2021. The Notes are senior obligations of Biostime International Holdings Ltd. (the “Company”). The Notes are guaranteed, on a senior subordinated basis, by certain of our existing subsidiaries (the “Subsidiary Guarantors”). We refer to the guarantees by the Subsidiary Guarantors as Subsidiary Guarantees.

At any time and from time to time on or after June 21, 2018, we may redeem the Notes, in whole or in part, at the redemption prices set forth in the section titled “Description of the Notes—Optional redemption,” plus accrued and unpaid interest to, but not including, the redemption date. At any time prior to June 21, 2018, we may at our option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus a premium as set forth in this offering memorandum, and accrued and unpaid interest, if any. At any time and from time to time prior to June 21, 2018, we may redeem up to 40% in aggregate principal amount of the Notes, at a redemption price equal to 107.25%, plus accrued and unpaid interest, if any, with the proceeds from certain equity offerings. For a more detailed description of the redemption features of the Notes, see “Description of the Notes—Optional redemption.”

Upon the occurrence of a Change of Control Triggering Event, as defined in the indenture governing the Notes (the “Indenture”), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Company will, on or prior to the issue date of the Notes, execute an escrow agreement (the “Escrow Agreement”), and will direct the deposit in an escrow account (the “Escrow Account”) with The Hongkong and Shanghai Banking Corporation Limited, as escrow agent (the “Escrow Agent”), the net proceeds from the offering of the Notes (the “Escrowed Funds”). The release of Escrowed Funds from time to time will be subject to the delivery of an officer’s certificate from the Company to the Escrow Agent certifying, among other things, that the Company is required to make a payment in respect of its HK\$3,100,000,000 zero coupon convertible bonds due 2019 (the “Convertible Bonds”). For a more detailed description of the release of the Escrowed Funds, see “Description of the Notes—Escrow of proceeds.”

The Notes will be secured by a charge over the Escrow Account and, on a second-ranking basis, a floating charge over the assets of the Company (other than any assets located in the PRC or Capital Stock of subsidiaries). The security for the Notes will be shared, on a *pari passu* basis, with the Convertible Bonds.

For a more detailed description of the Notes, see “Description of the Notes” beginning on page 232.

**Investing in the Notes involves risks. See “Risk factors” beginning on page 30.**

**Issue Price: 100% plus accrued interest, if any, from the issue date**

**The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or the securities laws of any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (i) to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A (“Rule 144A”) and (ii) to non-US persons (as defined in the Securities Act) outside the United States in compliance with Regulation S under the Securities Act (“Regulation S”). Prospective purchasers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resale or transfer, see the section titled “Transfer restrictions.”**

There is currently no public market for the Notes. Approval-in-principle has been received for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, their associated companies or the Notes. The Notes will not be designated for trading in the Financial Industry Regulatory Authority, Inc.’s PORTAL market. See “Listing and general information.”

The Notes will be issued in registered form in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes will be represented on issuance by two or more Global Notes (as defined herein) and it is expected that delivery of the Notes will be made on or about June 21, 2016 (the “issue date”), in New York, New York through the facilities of The Depository Trust Company (“DTC”) against payment therefor in immediately available funds.

***Sole Global Coordinator, Sole Lead Manager and Sole Bookrunner***





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This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation of the Notes in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

This offering memorandum is not a prospectus for the purposes of the European Union's Directive 2003/71/EC, and any amendments thereto, as implemented in member states of the European Economic Area (the "EU Prospectus Directive"). This offering memorandum has been prepared on the basis that all offers of the Notes made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with offers of the Notes.

IN CONNECTION WITH THIS OFFERING OF NOTES, GOLDMAN SACHS (ASIA) L.L.C., AS STABILIZING MANAGER, OR ANY PERSON OR ENTITY ACTING ON ITS BEHALF, MAY OVER-ALLOT THE NOTES OR EFFECT PURCHASES AND SALES OF THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY WILL BE CONDUCTED IN ACCORDANCE WITH APPLICABLE LAWS AND REGULATIONS AND MAY BE ENDED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE ALLOTMENT OF THE NOTES. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF GOLDMAN SACHS (ASIA) L.L.C., AS STABILIZING MANAGER (OR ANY

PERSON OR ENTITY ACTING ON ITS BEHALF) AND NOT FOR THE COMPANY OR ON ITS BEHALF. THERE IS NO ASSURANCE THAT GOLDMAN SACHS (ASIA) L.L.C, AS STABILIZING MANAGER (OR ANY PERSON OR ENTITY ACTING ON ITS BEHALF) WILL UNDERTAKE ANY SUCH STABILIZATION ACTION.

We, having made all reasonable inquiries, confirm that: (i) this offering memorandum contains all information with respect to us and our subsidiaries referred to herein and the Notes and the Subsidiary Guarantees that is material in the context of the offering and issue of the Notes; (ii) the statements contained in this offering memorandum relating to us and our subsidiaries are in all material respects true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering memorandum with regard to us and our subsidiaries are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; and (iv) there are no other facts in relation to us, our subsidiaries, the Notes and the Subsidiary Guarantees, the omission of which would, in the context of the offering and issue of the Notes, make this offering memorandum, as a whole, misleading in any material respect.

This offering memorandum is strictly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum in its entirety (including the financial statements included elsewhere herein) before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or create copies, or give copies or disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By possessing this offering memorandum or purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section titled "Transfer restrictions."

No representation or warranty, express or implied, is made by the Initial Purchaser (as defined herein) or the Trustee (as defined herein) or any of its respective affiliates as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchaser, whether as to the past or the future. To the fullest extent permitted by law, the Initial Purchaser and the Trustee do not accept any responsibility for the contents of this offering memorandum or for any other statement made or purported to be made by the Company or any Subsidiary Guarantor in connection with the offering of the Notes. The Initial Purchaser accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering memorandum or any such statement. The Initial Purchaser does not undertake to review the financial condition or affairs of the Company or any Subsidiary Guarantor during the life of the Notes and the Subsidiary Guarantees or to advise any investor or potential investor in the Notes or the Subsidiary Guarantees of any information coming to the attention of the Initial Purchaser.

Prospective investors in the Notes should rely only on the information contained in this offering memorandum. Neither we nor the Initial Purchaser have authorized the provision of information different from that contained in this offering memorandum. If given, any such information should not be relied upon. Neither the Company nor the Initial Purchaser is making an offer of the Notes in any jurisdiction where an offering of the Notes is not permitted. The information contained in this offering memorandum is accurate in all material respects only as of the date of this offering memorandum, regardless of the time of delivery of this offering memorandum or of any sale of the Notes. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or those of each of our respective subsidiaries or that the information set forth herein is correct in all material respects as of any date subsequent to the date hereof.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchaser or the Trustee or any person affiliated with the Initial Purchaser or the Trustee in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes or the Subsidiary Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of us and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the Initial Purchaser or the Trustee.

The Notes and the Subsidiary Guarantees have not been approved or disapproved by the United States Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

Prospective purchasers of the Notes are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. We are not, and the Initial Purchaser is not, making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchaser to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering memorandum, see the sections titled "Transfer restrictions" and "Plan of distribution."

Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice nor a recommendation or a statement of opinion, or a report of either of those things, that a prospective investor make a decision in relation to the Notes nor as otherwise constituting "financial product advice" for the purposes of Part 7 of the Corporations Act 2001 (Cth) of Australia (the "Australian Corporations Act"). This offering memorandum does not take into account the objectives, financial situation or needs of any potential investor. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the Notes under applicable legal investment or similar laws or regulations.

This offering memorandum has not been, and will not be, lodged with the Australian Securities and Investments Commission ("ASIC") or any other regulatory authority in Australia and is not, and does not purport to be, a document containing disclosure to investors for the purposes of Part 6D.2 or Part 7.9 of the Australian Corporations Act. It is not intended to be used in connection with any offer for which such disclosure is required and does not contain all the information that would be required by those provisions if they applied. It is not to be provided to any "retail client" as defined in section 761G of the Australian Corporations Act. This offering memorandum is not, and under no circumstances is to be construed as, an advertisement or public offering of any Notes in Australia. The Company is not licensed to provide financial product advice in respect of the Notes. Cooling-off rights do not apply to the acquisition of the Notes.

In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. None of us, the Initial Purchaser or any of our or the Initial Purchaser's respective affiliates or representatives is or are making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment, tax or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.



The information contained in this offering memorandum under the heading “Exchange rates” includes extracts from information and data released by official and other sources. While we accept responsibility for summarizing such information, we accept no further responsibility in respect thereof.

We reserve the right to withdraw the offering of the Notes at any time, and the Initial Purchaser reserves the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchaser and certain related entities may acquire for their own account a portion of the Notes.

## Certain conventions, currency presentation and definitions

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our,” the “Company,” “Biostime,” the “Group” and words of similar import, we are referring to Biostime International Holdings Ltd. itself, or to Biostime International Holdings Ltd., and its consolidated subsidiaries subsequent to or prior to the consummation of the Acquisition (as defined herein), as the context requires. When we use the term “Swisse” and words of similar import, we are referring to Swisse Wellness Group Pty Ltd itself, or to Swisse Wellness Group Pty Ltd and its consolidated subsidiaries, as the context requires. When we use the term “Acquisition” and words of similar import, we are referring to the acquisition by Biostime of Swisse completed on September 30, 2015, which is further described in the section titled “The Swisse Shareholders’ Agreement.”

Market data and certain industry forecasts and statistics included in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. We use a combination of information and data provided by external sources, including information published by Nielsen, Euromonitor International (“Euromonitor”), IRI, the National Bureau of Statistics of the PRC and the Australian Bureau of Statistics. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchaser or our or the Initial Purchaser’s respective directors and advisors, and neither us, the Initial Purchaser nor our or the Initial Purchaser’s respective directors and advisors make any representation as to the accuracy or completeness of that information. Due to possibly inconsistent collection methods and other problems, the statistics herein may be inaccurate and should not be unduly relied upon. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. In making an investment decision, each investor must rely on its own examination of us and the terms of the offering and the Notes, including the merits and risks involved. Unless stated otherwise, all retail values expressed in this section are in local currency terms or US dollar terms, using a year-on-year exchange rate. All retail values, whether country-specific, regional and global, are expressed in current value terms, with inflationary effects included.

In some cases, there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analysis and estimates, thereby requiring us to rely on our own internally developed estimates regarding the industry in which we operate, our position in the industry, our market share and the market shares of various industry participants based on experience, our own investigation of market conditions, data sourced from third-party information providers, surveys conducted by us or on our behalf by third-party surveying organizations, and our review of industry publications. While we have examined and relied upon certain market or other industry data from external sources as the basis for our estimates, neither we nor the Initial Purchaser have verified that data independently. We and the Initial Purchaser cannot assure you of the accuracy and completeness of, and take no responsibility for, such data. Similarly, while we believe our internal estimates to be reasonable, these estimates have not been verified by any independent source and we and the Initial Purchaser cannot assure you as to their accuracy.

In this offering memorandum, all references to “US\$” and “US dollars” are to United States dollars, the official currency of the United States; all references to “HK\$” and “H.K. dollars” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC; all references to “RMB” or “Renminbi” are to the Renminbi, the official currency of the People’s Republic of China; all references to “A\$” are to Australian dollars, the official currency of Australia; all references to “€” and “Euro” are to the currency of the Member States of the European Union participating in the European Monetary Union; and all references to “DKK” and “Danish Krone” are to the Danish Krone, the currency of Denmark.

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to US dollars were made at the rate of RMB6.4778 to US\$1.00, the noon buying rate in New York City for cable transfers payable in

Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2015, all translations from Australian dollars into US dollars were made at the rate of US\$0.7286 to A\$1.00, the noon buying rate in New York City for cable transfers payable in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2015, all translations from Euros into US dollars were made at the rate of US\$1.0859 to €1.00, the noon buying rate in New York City for cable transfers payable in Euros as certified for consumers, purposes by the Federal Reserve Bank of New York on December 31, 2015, all translations from Hong Kong dollars into US dollars were made at the rate of HK\$7.7507 to US\$1.00 and all translations from Danish Krone into US dollars were made at the rate of DKK6.8723 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Danish Krone as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2015. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into Australian dollars, H.K. dollars, Euros or Danish Krone, or vice versa, at any particular rate or at all. For further information relating to certain exchange rates, see “Exchange rates.”

References to the “PRC” and “China” are to the People’s Republic of China and, for the purposes of this offering memorandum, except where the context requires, do not include the Hong Kong Special Administrative Region of the PRC (“Hong Kong” or “HK”), the Macau Special Administrative Region of the PRC (“Macau”), or Taiwan. The “PRC government” or the “State” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them.

References to “Australia” are to the Commonwealth of Australia.

Reference to “baby care products” in “Industry Overview” refer to baby and child-specific products as categorized by Euromonitor, which includes baby and child-specific hair care, baby and child-specific skin care, baby and child-specific sun care, baby and child-specific toiletries, baby wipes, medicated baby and child-specific products and nappy (diaper) rash treatments.

References to “BINC” refer to the Biostime Institute of Nutrition and Care, an international platform we established to facilitate expert communication and academic exchange among medical and scientific professionals in China and worldwide.

References to “B2C” refer to the business-to-consumer sales model whereby we sell our products directly to consumers through e-commerce platforms.

References to “C2C”, “parallel” or “passive” sales refer to the consumer-to-consumer sales model whereby our products are sold on a consumer-to-consumer basis on e-commerce platforms. Sales ultimately made through the C2C channel are primarily represented in our revenue as going through one of our offline sales channels.

References to “CFDA” refer to the China Food and Drug Administration (國家食品藥品監督管理局).

References to “Convertible Bonds” are to the Company’s HK\$3,100,000,000 zero coupon convertible bonds due 2019.

References to “ERP” refer to our enterprise resource planning system, which supports multiple functional units including finance, marketing, production and human resources.

References to “Euromonitor Australia VDS report” refer to Euromonitor International, Vitamins and Dietary Supplements in Australia Report, November 2015.

References to “Euromonitor Beauty and Personal Care data” refer to Euromonitor International, Beauty and Personal Care, 2016 edition.

References to “Euromonitor China baby food report” refer to Euromonitor International, Baby Food in China Report, August 2015.

References to “Euromonitor China VDS report” refer to Euromonitor International, Vitamins and Dietary Supplements in China report, November 2015.

References to “Euromonitor Consumer Health data” refer to Euromonitor International, Consumer Health, 2016 edition.

References to “Euromonitor Packaged Food data” refer to Euromonitor International, Packaged Food, 2016 edition.

References to “infant formula” are to infant milk formulas, for use by infants through children up to the age of seven except for the references in “Industry Overview,” which are to infant milk formula as defined under Euromonitor’s milk formula category.

References to “IRI” refer to the data from IRI Scan, Dollars, MAT to 31st March 2016, Total Market (AU Pharmacy, AU Grocery Scan & AU Independents Scan).

References to “O2O” refer to the online-to-offline sales model, where consumers order products and settle payments for products online through our Mama100 mobile application and then collect the purchased item(s) at the nearest baby specialty stores.

References to “SEHK” refer to the Stock Exchange of Hong Kong Limited.

References to “Tender Offer” refer to our offer to purchase for cash all or a portion of our Convertible Bonds held by non-U.S. holders.

References to “VHMS” refer to the vitamin, health and mineral supplement market except for the references in “Industry Overview”, which are to vitamin and dietary supplements as categorized by Euromonitor.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency, the Chinese name prevails.

## Forward-looking statements

This offering memorandum includes statements that are, or may be deemed to be, “forward-looking statements” within the meaning of the US securities laws. All statements other than statements of historical fact contained in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, the impact of government regulations or actions, liquidity requirements, and any statements preceded by, followed by or that include, the words “believe,” “expect,” “aim,” “intend,” “will,” “may,” “anticipate,” “seek,” “should,” “estimate” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- competitive conditions and our ability to compete under those conditions;
- our ability to implement our operating strategies and realize business growth opportunities and achieve cost synergies;
- our relationship with third party suppliers and our ability to maintain a stable supply chain;
- our ability to maintain or promote our brands, in particular managing our brand reputation against potential quality issues or product liabilities;
- our ability to sustain historical sales and profit margins and manage our growth;
- our ability to introduce new product offerings;
- our ability to expand our operations;
- our dependence on the consumer demand for our infant formula products, sales of which constitute a significant portion of our revenue;
- our ability to adapt our strategy to new demographic, consumer and economic trends or scientific changes;
- our ability to maintain good relationships with our distributors in countries and regions where we operate;
- our ability to provide quality service through e-commerce platforms;
- our ability to protect our intellectual property rights and to defend ourselves against intellectual property claims or other legal claims from third parties;
- our ability to retain our senior management and key personnel;
- our ability to prevent harms caused by a failure of our information technology and administrative system;
- our ability to maintain sufficient insurance coverage to cover potential losses;

- government regulations, restrictions and approval processes, including the PRC government's oversight of the PRC pediatric products industry, as well as regulations with respect to the Group's corporate structure and related corporate and business operations arrangements;
- fluctuations in interest rate and currency exchange rates; and
- those other risks identified in the "Risk factors" section of this offering memorandum.

The risks included here and elsewhere in this offering memorandum are not exhaustive. Moreover, we operate in a competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors on our business or the extent to which any factor, or combination of factors, may cause our actual results to differ materially from those contained in any forward-looking statements. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk factors" and elsewhere in this offering memorandum. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this offering memorandum. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this offering memorandum might not occur in the way we expect, or at all.

### **Available information**

To permit compliance with Rule 144A under the Securities Act in connection with resales of the Notes, we are required to furnish upon request of a holder of the Notes and to any prospective purchaser designated by a holder of the Notes the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. Any such request should be directed to the Company, at No. 3508, 35/F, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

We are not currently, and will not be, subject to the periodic reporting and other information requirements of the Exchange Act. So long as any of the Notes remain outstanding, we will provide to the Trustee for forwarding to the holders of the Notes certain periodic information to holders of the Notes. See "Description of the Notes."

## Enforcement of civil liabilities

We are an exempted company incorporated in the Cayman Islands with limited liability, and each Subsidiary Guarantor is also incorporated outside the United States in jurisdictions such as the Cayman Islands, the British Virgin Islands (“BVI”), Australia and Hong Kong. The Cayman Islands, BVI, Australia, Hong Kong and other jurisdictions have different bodies of securities laws from the United States and protections for investors may differ.

The Indenture and the Notes will be governed by the laws of the State of New York. Substantially all of our assets and the assets of the Subsidiary Guarantors are located outside the United States. In addition, all of our directors and officers and the Subsidiary Guarantors’ directors and officers are nationals or residents of countries other than the United States, and all or a substantial portion of such persons’ assets are located outside the United States. Any judgment obtained in the United States against the Company or any such other person, including judgments with respect to the payment of principal, premium (if any) and interest on the Notes or any judgment of a US court predicated upon civil liabilities under US federal or state securities laws, may not be collectible in the United States. As a result, although the Company will appoint an agent for service of process in the United States and will submit to the jurisdiction of courts located in the State of New York, in each case, in connection with any action in relation to the Notes and the Indenture or under US securities laws, it may be difficult for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors or such persons or to enforce against us or any of the Subsidiary Guarantors or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Moreover, certain provisions of laws or of regulations may limit the possibility to enforce judicial measures rendered against the Company in the PRC, Australia, Hong Kong, the Cayman Islands and the British Virgin Islands and elsewhere on certain of its assets. If a judgment is obtained in a US court against the Company, investors will need to enforce such judgment in jurisdictions where the Company and/or its directors and executive officers have assets. Even though the enforceability of US court judgments in the PRC, Australia, Hong Kong, the Cayman Islands and the British Virgin Islands is described below, you should consult with your own advisors as needed to enforce a judgment in the PRC, Australia, Hong Kong, the Cayman Islands and the British Virgin Islands or elsewhere outside the United States.

### Cayman Islands

Ogier, our counsel as to Cayman Islands laws, has advised us that the courts of the Cayman Islands would recognize, as a valid judgment, a final and conclusive judgment *in personam* obtained in the federal or state courts in the United States against the Company or a Subsidiary Guarantor under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, a final and conclusive *in personam* judgment for non-monetary relief, and would give a judgment based thereon, *provided* that: (i) such courts had proper jurisdiction over the parties subject to such judgment; (ii) such courts did not contravene the rules of natural justice of the Cayman Islands; (iii) such judgment was not obtained by fraud; (iv) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (v) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; (vi) such judgment is not inconsistent with a Cayman Islands judgment or order in respect of the same matter; (vii) such judgment is enforced within six years of the date of such judgment; and (viii) there is due compliance with the correct procedures under the laws of the Cayman Islands.

## **British Virgin Islands**

Ogier, our counsel as to British Virgin Islands laws, has advised us that the courts of the British Virgin Islands would recognize as a valid judgment (and treat it as a cause of action in itself which may be sued upon at common law so that no retrial of the issues would be necessary if fresh proceedings are brought in the British Virgin islands to enforce that judgment), a final and conclusive judgment *in personam* obtained in the federal or state courts in the United States against the Company or a Subsidiary Guarantor under which a sum of money is payable (other than a sum of money payable in respect of punitive damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon, *provided* that (i) such courts had proper jurisdiction over the parties subject to such judgment, (ii) such judgment was not obtained by fraud or in breach of the rules of natural justice of the British Virgin Islands, (iii) the enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands and (iv) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

## **Australia**

Clifford Chance, our counsel as to Australian law, has advised that there is doubt as to the enforceability in Australia in original actions or in actions for enforcement of judgments of US courts (“US Judgment”), concerning civil liabilities predicated upon the civil liability provisions of the federal or state securities laws of the United States. Also, corresponding US Judgments (whether or not such judgments relate to US federal securities laws) may or will not be enforceable in Australia in certain other circumstances, including where such judgments contravene local public policy; are obtained by fraud or duress; breach the rules of natural justice or general principles of fairness; are obtained in circumstances where the judgment debtor did not receive notice of the proceedings in sufficient time to enable the judgment debtor to defend; are not for a fixed or readily ascertainable sum; are rendered by a court that did not have jurisdiction according to the private international law rules of the local court; are subject to appeal, dismissal, stay of execution, an order under the Australian Foreign Proceedings (Excess of Jurisdiction) Act 1984 (Cth) or are otherwise not final and conclusive; involve consequential, multiple or punitive damages or proceedings of a penal nature; are in respect of taxes or any revenue law or foreign governmental interest; are in favor of a person other than the party applying for enforcement; have already been fully satisfied in another/other jurisdiction(s); are in breach of any applicable limitation periods placed upon enforcement of foreign judgments; or are on a cause of action previously adjudicated. Also, enforcement of a US Judgment in Australia would require that service of process in relation to the proceedings in connection with that US Judgment had been properly effected in accordance with applicable Australian law.

## **Hong Kong**

Clifford Chance, our counsel as to Hong Kong law, has advised that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. However, under Hong Kong common law, a foreign judgment (including one from a court in the United States predicated upon US federal or state securities laws) may be enforced in Hong Kong by bringing an action in a Hong Kong court, and then seeking summary or default judgment on the strength of the foreign judgment, provided that the foreign judgment is for a debt or definite sum of money and is final and conclusive on the merits. In addition, the Hong Kong courts may refuse to recognize or enforce a foreign judgment if such judgment: (i) was obtained by fraud; (ii) was rendered by a foreign court that lacked the appropriate jurisdiction at the time according to Hong Kong rules; (iii) is contrary to Hong Kong rules of public policy or notion of natural justice; or (iv) is directly or indirectly for the payment of foreign taxes, penalties, fines or charges of a like nature.



## PRC

Zhong Lun Law Firm, our counsel as to PRC law, has advised that courts of the PRC may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country or region where the judgment is made or on the principle of reciprocity between such jurisdictions. However, the PRC does not have any treaties or other agreements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. According to the PRC Civil Procedures Law, courts of the PRC will not enforce a foreign judgment if they decide that such judgment violates the basic principles of PRC law, national sovereignty, security or public interest. Therefore, it may not be possible to enforce a judgment in the PRC against the Company or a Subsidiary Guarantor related to the Notes and originally obtained in the United States.

Further, Zhong Lun Law Firm, our counsel as to PRC law, and Ogier, our counsel as to Cayman Islands law, have each advised that there is uncertainty as to whether the courts of the PRC and the Cayman Islands, respectively, would (i) enforce judgments of the US courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States, or (ii) entertain original actions brought in the courts of the PRC and the Cayman Islands, respectively, against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

## Exchange rates

### PRC

The People's Bank of China (the "PBOC") sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of the Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong dollars and US dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to US dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange ("SAFE") and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the US dollar. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day and makes it the central parity for the trading against the Renminbi on the following working day. On May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the US dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. In August 2015, the PBOC changed the way it calculates the mid-point price of the Renminbi against US dollar, requiring the market-makers who submit for the PBOC's reference rates to consider the previous day's closing spot rate, foreign exchange demand and supply as well as changes in other major currency rates. This change, and other changes such as widening of the trading band that may be implemented in the future, may increase volatility of the value of the Renminbi against foreign currencies. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. The PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the following business day.

None of the Company or the Initial Purchaser makes any representation that the Renminbi or the US dollar amounts referred to in this offering memorandum have been, or may be, converted into US dollars or Renminbi, as the case may be, at any particular rate, if at all. Fluctuations in the exchange rate of Renminbi against the US dollar and certain other foreign currencies may adversely affect our business, results of operations and financial condition. For further information, see "Management's discussion and analysis of financial condition and results of operations—Quantitative and qualitative disclosure about market risks—Foreign currency risk."

The following table sets forth the noon buying rate for US dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Low	Average <sup>(1)</sup>	Noon Buying Rate	
			High	Period End
		(RMB per US\$1.00)		
2011 .....	6.2939	6.4630	6.6364	6.2939
2012 .....	6.2221	6.3093	6.3879	6.2301
2013 .....	6.0537	6.1478	6.2438	6.0537
2014 .....	6.0402	6.1620	6.2591	6.2046
2015 .....	6.1870	6.2827	6.4896	6.4778
2016				
January .....	6.5219	6.5726	6.5932	6.5752
February .....	6.5154	6.5501	6.5795	6.5525
March .....	6.4480	6.5027	6.5500	6.4480
April .....	6.4571	6.4754	6.5004	6.4738
May .....	6.4738	6.5259	6.5798	6.5798
June (through June 10, 2016).....	6.5590	6.5663	6.5815	6.5590

(1) For yearly data, determined by averaging the daily rates during the relevant year. For monthly data, determined by averaging the daily rates during the relevant month.

The RMB per US dollar exchange rate on December 31, 2015 was RMB6.4778 = US\$1.00.

## Australia

The following table sets forth the noon buying rate for US dollars in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Low	Average <sup>(1)</sup>	Noon Buying Rate	
			High	Period End
		(US\$ per A\$1.00)		
2011 .....	0.9453	1.0332	1.1026	1.0251
2012 .....	0.9688	1.0359	1.0806	1.0393
2013 .....	0.8858	0.9683	1.0579	0.8929
2014 .....	0.8097	0.9034	0.9488	0.8173
2015 .....	0.6917	0.7522	0.8212	0.7286
2016				
January .....	0.6855	0.7011	0.7166	0.7071
February .....	0.7058	0.7134	0.7238	0.7152
March .....	0.7172	0.7504	0.7677	0.7677
April .....	0.7504	0.7664	0.7817	0.7612
May .....	0.7184	0.7318	0.7641	0.7242
June (through June 10, 2016).....	0.7225	0.7366	0.7479	0.7395

(1) For yearly data, determined by averaging the daily rates during the relevant year. For monthly data, determined by averaging the daily rates during the relevant month.

The US dollar per Australian dollar exchange rate on December 31, 2015 was US\$0.7286 = A\$1.00.

The above rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing elsewhere in this offering memorandum.

None of the Company or the Initial Purchaser makes any representation that the Australian dollar or the US dollar amounts referred to in this offering memorandum have been, could have been or could in the future be converted into US dollars or Australian dollars, as the case may be, at any particular rate, if at all.

Fluctuations in the value of the Australian dollar relative to the RMB and US dollar may have a significant effect on the translation into US dollars of the Company's Australian dollar assets, liabilities, revenue and expenses, and may continue to do so in the future. For further information on the impact of fluctuations in exchange rates on the Company's operations, see "Risk factors—Risks relating to our business and industries—Fluctuations in currency exchange rates could have a material adverse effect on our financial condition and results of operations."

### **Australian exchange control restrictions**

The Australian Charter of the United Nations Act 1945 (Cth) (the "1945 Act") prohibits certain transactions (involving assets which are deemed, consistent with a decision of the United Nations Security Council, to be freezable) with, or on behalf of, certain listed or proscribed persons or entities.

The assets deemed to be freezable under the 1945 Act are:

- (i) assets listed by the Minister for Foreign Affairs under section 15 of the 1945 Act;
- (ii) assets owned or controlled by persons or entities proscribed by the Governor-General in regulations made under section 18 of the 1945 Act;
- (iii) assets owned or controlled by persons or entities listed by the Minister for Foreign Affairs under section 15 of the 1945 Act; and
- (iv) assets derived or generated from assets mentioned in the above paragraphs.

The Australian Autonomous Sanctions Act 2011 (Cth) (the "2011 Act") enables Australia to make regulations, in the absence of a resolution of the United Nations Security Council, imposing, among other things, sanctions on certain proscribed persons or entities, or preventing the use of or dealing with assets. In order for the Governor-General to make regulations in this regard, the Minister for Foreign Affairs must be satisfied that the proposed regulations will facilitate the conduct of Australia's relations with other countries or with entities or persons outside Australia or will otherwise deal with matters, things or relationships outside Australia.

Targeted financial sanctions are imposed under the 2011 Act and the Autonomous Sanctions Regulations 2011 (Cth) (the "2011 Regulations"), and require the approval of the Minister for Foreign Affairs to be obtained with respect to certain foreign currency transactions and monetary orders connected with a person or entity proscribed from time to time under the 2011 Regulations. The Minister for Foreign Affairs must not grant approval unless the Minister is satisfied that, among other things, it would be in the Australian national interest to grant the approval.

Traditionally, persons, entities or assets listed or proscribed under the 1945 Act or the 2011 Act (or under the previous applicable regulations, the Australian Banking (Foreign Exchange) Regulations 1959 (Cth)) are persons, entities or assets against which the United Nations Security Council or the Commonwealth of Australia has imposed economic or political sanctions. The Australian Department

of Foreign Affairs and Trade maintains a consolidated list of persons and entities having a proscribed connection subject to these restrictions which is available to the public at the Department's website (which does not form part of this offering memorandum) at <http://dfat.gov.au/international-relations/security/sanctions/pages/consolidated-list.aspx>.

Save for the restrictions outlined above, and save for certain licensing and reporting requirements applicable to persons engaged in certain businesses in Australia involving dealing in currencies, Australia does not impose restrictions on the conversion of Australian dollars into US dollars at market-determined rates.

## **Presentation of financial and other information**

### **Biostime**

Unless otherwise indicated, the financial information contained in this offering memorandum relating to Biostime has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). The reporting currency of Biostime is the Renminbi.

In this offering memorandum, the term “Biostime Consolidated Financial Statements” refers to the audited consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2013, 2014 and 2015 forming a part of this offering memorandum (the “Biostime Audited Consolidated Financial Statements”) and to the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries as of and for the three months ended March 31, 2016 (the “Biostime Unaudited Interim Condensed Consolidated Financial Statements”) also forming a part of this offering memorandum. The results of Swisse have been included in our consolidated financial results from September 30, 2015 and thus our results from 2015 include one quarter of Swisse from October 1, 2015 to December 31, 2015.

IFRS differs in certain material respects from generally accepted accounting principles in the U.S. GAAP (“U.S. GAAP”). As a result, the results of operations and financial condition derived from the consolidated financial statements that are included in this offering memorandum may differ from the results of operations and financial condition derived from consolidated financial statements prepared in accordance with U.S. GAAP. We have not prepared a reconciliation of our financial information to U.S. GAAP or a summary of significant accounting differences in the accounting and valuation methods of IFRS and U.S. GAAP, nor have we otherwise reviewed the impact the application of U.S. GAAP would have on our financial reporting. Accordingly, in making an investment decision, you must rely on your own examination of our financial information. You should consult your own professional advisors for an understanding of the differences between IFRS on the one hand and U.S. GAAP on the other hand, and how those differences could affect the financial information contained in this offering memorandum. Moreover, the financial information included in this offering memorandum is not intended to comply with the SEC requirements.

The preparation of financial statements in conformity with IFRS requires us to use certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Practices.”

### **Swisse**

On September 30, 2015, we acquired an 83% shareholding in Swisse Wellness Group Pty Ltd (“Swisse”). The total purchase consideration for the acquisition was A\$1,449.9 million (US\$1,056.4 million). This acquisition consideration was paid in cash except for A\$50 million (US\$36.4 million), which was paid by way of the issuance of 20,513,085 shares of the Company to the sellers at an issue price of HK\$13.5 (US\$1.7) each, representing approximately 3.4% of the existing shares of the Company.

Unless otherwise indicated, the financial information contained in this offering memorandum relating to Swisse has been prepared in accordance with Australian Accounting Standards (“AAS”) as adopted by the Australian Accounting Standards Board (“AASB”) which also comply with IFRS as issued by the IASB. AAS differ in certain material respects from US GAAP. The reporting currency of Swisse is Australian dollars.

In this offering memorandum, the term “Swisse Consolidated Financial Statements” refers to the audited consolidated financial statements of Swisse and its subsidiaries as of and for the years ended June 30, 2013, 2014 and 2015 forming a part of this offering memorandum (the “Swisse Audited Consolidated Financial Statements”).

The Swisse financial information for the 12 months ended March 31, 2016 has been derived by adding the interim condensed consolidated statements of comprehensive income of Swisse and its subsidiaries for each of the three months ended June 30, 2015, September 30, 2015, December 31, 2015 and March 31, 2016. The foregoing quarterly condensed consolidated statements of comprehensive income are presented in the section titled “Summary condensed quarterly financial information of Swisse.”

### **Pro Forma Financial Information**

We present in this offering memorandum certain unaudited *pro forma* consolidated financial information of Biostime for the year ended December 31, 2015, the three months ended March 31, 2016 and the 12 months ended March 31, 2016, and related explanatory notes (the “Unaudited Pro Forma Consolidated Financial Information”).

The Unaudited Pro Forma Consolidated Financial Information has been prepared to simulate the main effects of the acquisition of Swisse on Biostime’s consolidated statements of profit or loss as if they had taken place on January 1, 2015. The consolidated *pro forma* financial information included in this offering memorandum for the year ended December 31, 2015, the three months ended March 31, 2016 and the twelve months ended March 31, 2016 has been derived from the Unaudited Pro Forma Consolidated Financial Information. The explanatory notes to the Unaudited Pro Forma Consolidated Financial Information include an explanation of the basis of preparation.

The Unaudited Pro Forma Consolidated Financial Information presented in this offering memorandum is based on available information and certain assumptions that we believe are reasonable. The Unaudited Pro Forma Consolidated Financial Information is presented for illustrative purposes only and does not purport to represent what the actual results of operations would have been if the events for which the *pro forma* adjustments were made had occurred on the dates assumed, nor does it purport to project our results of operations for any future period or our financial condition at any future date. Our future operating results may differ materially from the *pro forma* amounts set out in this Offering Memorandum due to various factors, including changes in operating results.

The accounting principles used for the preparation of the Unaudited Pro Forma Consolidated Financial Information are, unless otherwise specified, consistent with those used in the preparation of the Biostime Audited Consolidated Financial Statements, which have been prepared in accordance with IFRS. Details of the accounting policies applied are provided in the Biostime Audited Consolidated Financial Statements.

The *pro forma* financial information set forth elsewhere in this offering memorandum has not been prepared in accordance with the requirements of Regulation S-X under the U.S. Securities Exchange Act of 1934 or U.S. GAAP. Neither the adjustments nor the resulting *pro forma* financial information have been audited or reviewed in accordance with IFRS or U.S. GAAS. The Unaudited Pro Forma Consolidated Financial Information should be read in conjunction with the historical consolidated financial statements and notes thereto of Biostime and Swisse, included elsewhere in this offering memorandum and “Management’s discussion and analysis of financial condition and results of operations.”

The pro forma financial information has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date. The *pro forma* financial information should be read in conjunction with the Biostime Consolidated Financial Statements, the Swisse Consolidated Financial Statements and the section titled “Unaudited Pro Forma Consolidated Financial Information” included elsewhere herein. Neither the assumption underlying the pro forma adjustments nor the resulting *pro forma* financial information have been audited or reviewed in accordance with any generally accepted auditing standards.

### **Non-IFRS financial measures**

Certain financial information presented in this offering memorandum consists of non-IFRS financial measures. These are supplemental measures of our performance that our management uses to assess our operating performance, and we believe that the presentation of these non-IFRS financial measures facilitates an understanding of our underlying operating performance and liquidity. We also believe that these and similar measures are used in our industry as a means of evaluating a company’s operating performance, liquidity, and financing structure, and believe they present helpful comparisons of financial performance between periods by excluding the effect of certain non-recurring items.

These non-IFRS financial measures are intended only to supplement performance indicators in accordance with IFRS, and not to replace them. These measures have limitations as analytical tools, and should not be considered in isolation or as alternatives to profit/(loss) before tax, profit/(loss) after tax for the period or cash flow from operating activities or any other performance measure derived in accordance with IFRS. Because of these limitations, you should not place undue reliance on any of such non-IFRS measures. For a description of how these non-IFRS financial measures are calculated and a reconciliation of these measures to the most nearly comparable IFRS measures, see “*Summary—Summary Historical Consolidated Financial Data and Other Information.*”

### ***Adjusted Revenue, Biostime Standalone Revenue and Biostime Standalone Adjusted Revenue***

In June 2015, we introduced our new SN-2 PLUS infant formula. In connection with the launch we had to offer exceptional one-time discounts such as “buy three get one free” and “buy one get one free” to distributors in the first three quarters of 2015 in order to clear old series formula from our distribution chain as distributors and retailers had limited shelf space. Such exceptional sales discounts did not occur in 2013 and 2014 and are not expected to reoccur in the future. Adjusted Revenue represents Revenue before the exceptional discounts taken to clear infant formula stock due to the introduction of our SN-2 PLUS infant formula.

Following the acquisition of Swisse on September 30, 2015, our results incorporate those of the Swisse business for all subsequent periods. In order to provide an understanding of the performance of the Biostime business without taking into account the Swisse business, we have presented Biostime Standalone Revenue and Biostime Standalone Adjusted Revenue which represents our Revenue and Adjusted Revenue, respectively, less the revenue derived from our adult nutrition and care products segment which represents the business of Swisse and consolidation adjustments to eliminate intercompany sales and purchases.



***EBITDA, Adjusted EBITDA, Biostime Standalone EBITDA, Biostime Standalone Adjusted EBITDA, Adjusted EBITDA margin, Biostime Standalone Adjusted EBITDA margin, Gross profit margin***

We define EBITDA as profit for the period plus income tax expense, finance costs, bank interest income, interest income from loans and bonds receivable, depreciation and amortization.

We define Adjusted EBITDA as EBITDA adjusted to remove certain non-cash or non-recurring items, as described below. The following items with respect to Biostime have been excluded from EBITDA: (a) a fine we incurred in 2013 as a result of a violation of the PRC Anti-Monopoly Law, along with several other infant formula makers in the PRC; (b) foreign exchange gains relating to the acquisition of Swisse and the related bridge loan used to finance the acquisition; (c) transaction costs directly related to the acquisition of Swisse, which included advisory and consulting fees paid to financial advisors, due diligence and legal fees and insurance; (d) severance payments relating to the restructuring of our business into two business units in China, the Adult Nutrition and Care Business Unit and Baby Nutrition and Care Business Unit; (e) exceptional sales discounts in relation to the launch of SN-2 PLUS infant formula; (f) the cost of updated shelf displays at retailers to replace our old logo and labels for Biostime<sup>TM</sup> infant formula with the new logo and labels for the SN-2 PLUS infant formula; (g) advertising expenditures to promote the new SN-2 PLUS infant formula; (h) other exchange losses which arose due to the significant fluctuation of the exchange rates of the Renminbi, US dollar and Australian dollar in 2015; (i) the gain on disposals of property, plant and equipment; (j) other non-cash adjustments, including fair value losses on derivative financial instruments, equity-settled share option and share award expenses, impairment of trade receivables and inventory, and share of losses/(profits) of an associate. The following items with respect to Swisse have been excluded from EBITDA: (a) the gain on sale of property, plant and equipment; (b) transaction costs in relation to the acquisition of Swisse incurred by Swisse; (c) bonuses paid under Swisse's Management Incentive Share Plan connected to the acquisition of Swisse; (d) certain non-operating and other adjusting items in Swisse related to impairment charges on certain receivables from related parties; (e) other non-cash adjustments comprised of fair value losses on derivative financial instruments and impairments of trade receivables and inventory.

Our management considers Adjusted EBITDA to be a more accurate reflection of the underlying performance of our business and believes that this measure provides additional useful information for prospective investors on our performance and is consistent with how business performance is measured internally.

We define Biostime Standalone EBITDA as EBITDA excluding the Swisse contribution to EBITDA and consolidation adjustments.

We define Biostime Standalone Adjusted EBITDA as Adjusted EBITDA excluding the Swisse contribution to Adjusted EBITDA, the Swisse related adjustments to Adjusted EBITDA, and consolidation adjustments.

We use Adjusted EBITDA, EBITDA and Biostime Standalone Adjusted EBITDA as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. These measures are used, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performance of our business. We believe EBITDA-based and other measures are useful and commonly used measures of financial performance in addition to net profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures, non-recurring expenses or exceptional sales discounts, one time charges or gains related to acquisitions and divestitures, we believe EBITDA-based and other measures can provide a useful additional basis for comparing the current performance of the

underlying operations being evaluated. In addition, we believe our Biostime standalone metrics enable us to better analyze the performance of the different segments of our business since the Acquisition. For these reasons, we believe EBITDA-based and other measures are regularly used by the investment community as a means of comparison of companies in our industry.

Different companies and analysts may calculate EBITDA-based and other measures differently, so making comparisons among companies on this basis should be done very carefully. EBITDA-based and other measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for operating profit or net profit as an indicator of our operations in accordance with IFRS. EBITDA-based measures have limitations as analytical tools. Some of these limitations include the following: (i) they do not reflect our cash expenditures or future requirements for capital commitments or contractual commitments; (ii) they do not reflect changes in, or cash requirements for, our working capital needs; (iii) they do not reflect the interest expense or cash requirements necessary to service interest or principal payments on our debt; (iv) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and these non-IFRS financial measures do not reflect any cash requirements for such replacements; (v) they do not reflect any cash income taxes that we may be required to pay; (vi) they are not adjusted for all non-cash income or expense items that are reflected in our consolidated statement of profit or loss; (vii) they do not reflect the impact of earnings or charges resulting from certain matters we consider not to be indicative of our ongoing operations; and (viii) other companies in our industry may calculate these measures differently than we do, thereby limiting their usefulness as comparative measures.

Neither EBITDA nor Adjusted EBITDA is used in the indenture governing the Notes (the “Indenture”). The term “Consolidated EBITDA” is used in the Indenture and is not the same as EBITDA or Adjusted EBITDA as presented in the remainder of this offering memorandum. The financial information included in this offering memorandum is not intended to comply with the SEC’s reporting requirements.

We define EBITDA margin as EBITDA as a percentage of Revenue, and define Adjusted EBITDA margin as Adjusted EBITDA as a percentage of Adjusted Revenue. We define Biostime Standalone Adjusted EBITDA margin as Biostime Standalone Adjusted EBITDA as a percentage of Biostime Standalone Adjusted Revenue. We define gross profit margin as gross profit as a percentage of revenue.

#### ***Adjusted net capital expenditures***

We define Adjusted net capital expenditures as payments for property, plant and equipment and payments for intangible assets less proceeds from the sale of property, plant and equipment excluding capital expenditures related to constructing our new plant in Guangzhou.

#### ***Free cash flow***

We define free cash flow as Adjusted EBITDA adjusted to (i) remove Adjusted net capital expenditures and (ii) adjust for changes in working capital.

#### ***Cash conversion rate***

We define cash conversion rate as free cash flow as a percentage of Adjusted EBITDA.

#### ***Changes in working capital***

We define total working capital as inventories, trade and bills receivables, prepayments, deposits and other receivables, trade and bills payable, other payables and accruals and rental deposits. We define changes in working capital as increase/decrease in working capital which represents the sum of the

increase/decrease during the period in inventories, trade and bills receivables, prepayments, deposits and other receivables, trade and bills payable, other payables and accruals and, with respect to Biostime, rental deposits and, with respect to Swisse, provisions and employee entitlements, after taking out the effect of impairment charges on these items, where applicable.

### ***Net borrowings***

We define net borrowings as total debt excluding cash bridge facilities, less cash and cash equivalents.

### ***Net senior borrowings***

We define net senior borrowings as total debt (excluding cash bridge facilities), that are senior, first priority secured or are borrowings of our subsidiaries, less cash and cash equivalents.

### ***LTM information***

This offering memorandum contains certain unaudited financial information for the 12 months ended March 31, 2016. The summary financial information for the twelve months ended March 31, 2016 for Biostime is calculated by taking Biostime's consolidated statement of profit or loss for the three months ended March 31, 2016 and adding it to the difference between Biostime's statement of profit or loss for the full year ended December 31, 2015 and the three months ended March 31, 2015. The summary financial information for the 12 months ended March 31, 2016 for Swisse is calculated by adding Swisse's consolidated statement of comprehensive income for the three months ended June 30, 2015, September 30, 2015, December 31, 2015 and March 31, 2016. Please see "Summary condensed quarterly financial information of Swisse."

As our financial year ends on December 31, the presentation of this data is not made in accordance with IFRS. We present this data as it is the basis for certain ratios and as adjusted financial information included in this offering memorandum that we believe is useful as supplemental measures for investors in assessing our ability to incur and service our debt, including the Notes. This data is not necessarily indicative of the results that may be expected for 2016, and should not be used as the basis for, or prediction of, an annualized calculation.

### **Rounding**

Certain data contained in this offering memorandum, including financial information, has been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column, row or table may not conform exactly to the total figure given for that column, row or table, or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

### **Non-financial operating data**

Certain key performance indicators and other non-financial operating data included in this offering memorandum are derived from management estimates, are not part of our financial statements or financial accounting records, and have not been audited or otherwise reviewed by outside auditors, consultants or experts. Our use or computation of these terms may not be comparable to the use or computation of similarly titled measures reported by other companies. Any or all of these terms should not be considered in isolation or as an alternative measure of performance under IFRS.

## SUMMARY

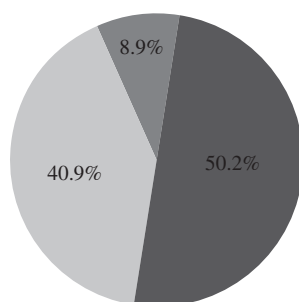
*This summary contains information about the offering and about us. It does not contain all the information that may be important to you in deciding whether to invest in the Notes. You should read the entire offering memorandum carefully, including the section titled “Risk factors” and the financial statements and related notes thereto, before making an investment decision. Certain defined terms used herein are defined elsewhere in this offering memorandum.*

### Overview

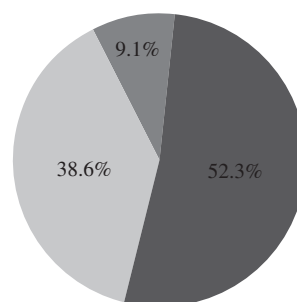
We are an all-round nutrition and care provider for the entire family, providing high-end pediatric and adult nutrition and care products through our established brands in China, Australia and internationally.

Our product offering is divided into three broad segments: (i) formulas for infants and children under seven years old as well as for expectant and nursing mothers; (ii) adult nutrition and care products; and (iii) probiotic and other pediatric supplements, dried baby foods and baby care products. Biostime™ and ADiMIL™ are the two principal brands under which we currently sell our infant formula products, probiotic supplements and dried baby food products in China. We currently sell our adult nutrition and care products, under our Swisse™ brand, in Australia and New Zealand, as well as in several other international markets, most significantly in China. We acquired our adult nutrition and care products business when we purchased 83% of Swisse on September 30, 2015. For further information, see “The Swisse Shareholders’ Agreement”. For the 12 months ended March 31, 2016, on a *pro forma* basis we generated revenue and gross profit of RMB6,553.9 million (US\$1,011.7 million) and RMB4,180.0 million (US\$645.3 million), respectively. The following charts illustrate the percentage of revenue and gross profit across our three product segments for the three months ended March 31, 2016:

**Revenue**



**Gross Profit**



- Infant formula products.
- Adult nutrition and care products.
- Probiotic and other pediatric supplements, dried baby foods and baby care products.

We are an established and leading provider of baby nutrition and care products in China. Our infant formula offering is positioned at the higher end of the market and focuses on educated consumers with relatively higher disposable income. We entered the super-premium tier of the infant formula market eight years ago. According to Nielsen, as of December 31, 2015, we were the second largest participant in the super-premium tier with a 16.0% market share by retail sales value. We also have a 5.9% market share by retail sales value of the overall infant formula market in China, according to Nielsen. We believe we were a pioneer in the children’s probiotics market in China. We were the first company in China to register probiotics as health food supplements for infants and children in 2002 and we believe we have established a leading market position and high brand recognition since then.

We are an established and leading provider of vitamins, herbal, minerals and health supplements (“VHMS”) products in Australia and New Zealand, with a growing presence in international markets, most significantly in China. Our adult nutrition and care products segment offers Swisse™ branded products across four differentiated product categories: (i) VHMS, (ii) superfoods, (iii) sports nutrition and (iv) skincare. According to IRI data, we are the leading provider of vitamin and herbal products with a 19.0% share, by scanned retail sales value of the Australian VHMS market as of March 20, 2016. We hold a leading market position in a number of VHMS categories in Australia and New Zealand. For example, according to IRI data of scanned retail sales value, as of March 2016, we hold an approximately 82.4% share of the milk thistle category (“Liver Detox”), an approximately 74.8% share of the top-selling hair, skin and nails (“HSN”) category, and an approximately 71.1% share of the cranberry category. In addition, in 2015, our Swisse™ brand was ranked number one in terms of sales value in the VHMS products under the health products category on Alibaba’s e-commerce platforms in China.

We focus on mass advertising campaigns to build and maintain brand awareness of our baby nutrition and care products as well as targeted marketing to promote consumer interaction and retention. For our advertising campaigns, we promote our baby nutrition and care products through online and offline media platforms including TV, print and in-store displays. Our targeted marketing campaigns concentrate on consumer education and interaction which uses our sophisticated and proprietary consumer relationship management (“CRM”) system to track purchases and spending habits via our Mama100 membership program. The Mama100 membership program is an integrated database marketing platform, which provides value added services for members including a mobile application, a WeChat platform, a monthly magazine, consumer events, a dedicated call center and an online forum for members to obtain and share parenting information, advice and experiences. Through our Mama100 membership program we aim to identify new consumers and solidify relationships with existing consumers. We believe that developing strong relationships with our existing consumers is particularly important where the life cycle of each consumer is relatively short (the period of a baby’s infancy) to allow us to maximize sales of baby nutrition and care products as well as cross selling opportunities. We had approximately two million active Mama100 members in 2015 and 88.5% of the revenue from our baby nutrition and care products segment for the three months ended March 31, 2016 was contributed by our Mama100 members. We believe these membership numbers and proportion of revenue are evidence of brand loyalty within our extensive consumer base.

For our adult nutrition and care products, marketing focuses on our offering of premium and proven products that have been produced using world class raw materials in accordance with Australia’s Therapeutic Goods Administration (“TGA”) standards, rigorous quality control processes and in close consultation with independent research institutions. Our marketing philosophy centers on an aspirational lifestyle message that we deliver across a variety of media platforms (e.g., TV, print and selected new Media Channels). These platforms include partnerships with international and country-specific brand ambassadors. These ambassadors include our global brand ambassador, international actress and multiple award winner Nicole Kidman as well as other ambassadors such as the former captain of the Australian national cricket team, Ricky Ponting. We also engage in on-going and campaign event-based sponsorships such as the Australian Olympic Team and the Australian Rugby Union.

We source high quality premium raw materials and in manufactured products principally in Western Europe, including France and Denmark as well as Australia. We adopt a rigorous approach when selecting our ingredients and material inputs to ensure they are premium and of the highest quality and efficacy standards. Our products are manufactured based on our specific design specifications and formulas utilizing manufacturing best practices and leading technologies. Our infant formula products are manufactured in accordance with applicable European Union food hygiene standards and under approval by the Certification and Accreditation Administration of the PRC (the “CNCA”). Our adult care and nutrition products are manufactured under license by TGA and meet Good Manufacturing Practice (“GMP”) requirements, meaning our adult nutrition products are manufactured to pharmacy grade standards. As part of the manufacturing process our products are subject to safety checks including a five-layered food safety check for our infant milk formulas and numerous quality

assurance tests during the main stages of production for our adult nutrition and care products. Throughout our operating history we have not had any material quality issues with any of our products and we believe that our consistent approach to sourcing and manufacturing our products to the highest quality standards provides us with a significant competitive advantage.

We reach our consumers through an extensive distribution network across the markets in which we operate. With respect to our baby nutrition and care products distributed in China, we utilize both offline and online channels. For offline channels, our products are sold to regional distributors who on-sell to baby specialty stores and retail sales outlets such as supermarkets and local pharmacies covering more than 39,000 locations and supported by more than 5,500 in-store commissioned sales promoters as of March 31, 2016. Our baby nutrition and care products segment has a strong national footprint. In particular, we were one of the first companies to provide infant formula and probiotic products directly to baby specialty stores and, according to Nielsen, we were the second largest participant in this sales channel for infant formulas in 2015. As a result of our direct relationship with these baby specialty stores, we are able to monitor the flow of our baby nutrition and care products in real-time via bar code scanners that track inventory and sales records that allow our products to be traced from regional distributor to retailer to consumer. As a result, we can obtain valuable consumer data and logistics intelligence to respond effectively to fluctuations in supply and demand.

In online channels we have a growing presence and in 2015, we featured in the top ten, by sales value, in the infant formula e-commerce market in China. In March 2016 we launched our flagship online store for our adult nutrition and care products on Tmall.HK. We are expanding our active sales presence in the Chinese VHMS market by leveraging our extensive online and offline distribution capabilities. In China, we offer our adult nutrition and care products on all major Chinese cross-border e-commerce platforms, including Alibaba, JD.com, VIP.com and Kaola.

We distribute our adult nutrition and care products in Australia and New Zealand through pharmacies, grocery and health food stores and other retail outlets. We distribute our adult nutrition and care products internationally, including in selected markets in Western Europe and Asia through our international distribution agreement with PGT Healthcare (“PGT”), a joint venture between The Procter & Gamble Company and Teva Pharmaceutical Industries Ltd.

New product development and innovation is important to maintaining our leading competitive position. We have continuously invested in developing our research and development capabilities and our approach has been to focus on joint development and/or cooperation with our suppliers in addition to our independent research activities in Guangzhou and Europe. This approach has enabled us to introduce innovative and improved products in China such as (i) infant formulas that include  $\beta$ -vegetable oil, (ii) our SN-2 PLUS infant formula that was introduced in June 2015 and (iii) the application of full-formulation spray drying technology to promote nutrition dissolution. We regularly utilize clinical trials to support the efficacy of our products such as with the SN-2 PLUS infant formula. Clinical studies proved that SN-2 promoted enhanced nutrient absorption to support the balanced growth of babies as well as reduced crying time and constipation. For adult nutrition and care products, we utilize a product development process which allows us to rapidly formulate and launch a product into the Australian market ahead of our competitors, allowing us to respond to the latest developments in the health and wellness industry. We work in close consultation with an advisory panel that includes leading academics, scientists and clinicians in the field of integrative medicine who provide expert advice, including written reports that validate our formulations. Furthermore, to ensure the health benefit claims behind our adult care and nutrition products are backed by hard science, we have partnered with numerous research organizations, which independently review our evidence supporting the claimed health benefits.

## **Our Strengths**

### ***We operate in high growth industries supported by favorable macroeconomic trends.***

According to Euromonitor Consumer Health data, the Chinese VHMS market has grown at a 11.7% compound annual growth rate from 2010 to 2015 to represent the second largest VHMS market in the world at a value of approximately US\$18 billion. Furthermore, the Chinese VHMS market is expected to continue to grow at a 9.4% compound annual growth rate, outstripping expected global growth of 6.6% compound annual growth rate, from 2015 to 2020 to reach approximately US\$28 billion. Growth in this industry is expected to be driven by rising consumer health awareness, coupled with a growing middle class with higher disposable income and greater access to foreign VHMS products due to the growth of e-commerce sites.

The baby nutrition and care market in China is underpinned by two core macroeconomic trends, rising disposable income and favorable demographic developments. With China's increasing GDP per capita, more Chinese households have disposable income to afford higher quality and foreign sourced baby products. For example, we believe increased disposable income has led to significant growth in demand for premium and ultra-premium infant formula products in China. Furthermore, we believe the recent introduction of China's "two-child policy" will support strong growth in our key demographic segment by allowing couples to have two children. The Chinese infant formula market is also the largest in the world by value, representing 43% of the global market. Chinese infant formula market has a market growth rate that is currently outpacing the global infant formula market and it is expected to grow at a 17.7% compound annual growth rate from 2015 to 2020 according to Euromonitor Packaged Food data. Furthermore, the market is undergoing significant average selling price increases. This premiumization of the Chinese infant formula market is occurring as consumers have increasing disposable income and have become more educated and selective which has driven demand for premium infant formula products.

The Australian VHMS market has experienced strong historical growth and possesses favorable macroeconomic drivers including an increasing and aging population and an increasing penetration of VHMS usage. According to Euromonitor Consumer Health data, the Australian VHMS market is expected to grow at a compound annual growth rate of 4.1% from 2015 to 2020. We believe this growth is underpinned by Australia's increasing and aging population and the growing health and wellness trend among consumers, particularly as consumers continue to progressively shift from a remedial approach to a more preventative approach to their health.

### ***We have established market leading positions that provide a sustainable competitive advantage.***

We hold established and leading market positions in the Chinese infant formula and probiotics markets and in the Australian VHMS market. We believe that we hold these established market positions due to (i) consumer trust in our brands supported by the strength of our proprietary marketing model; (ii) our long-standing and established presence in profitable distribution channels; (iii) our reputation for offering high quality products with premium ingredients and best in class manufacturing processes; and (iv) our product innovation and development activities that help us differentiate our consumer proposition. We believe these factors collectively represent unique competitive advantages which will protect our strong market leading position.

### ***We offer high quality, innovative and proven products.***

We source high quality premium raw materials and manufactured products principally in Western Europe, including France and Denmark, as well as in Australia. We adopt a rigorous approach when selecting our ingredients and material inputs for our products to ensure they are premium and of the highest quality and efficacy standards. Our products are manufactured based on our specific design specifications and formulas utilizing manufacturing best practices and leading technologies and we regularly audit our manufacturers to ensure high quality standards are maintained. Furthermore, we have made selective investments in some of our suppliers in order to gain greater integration of

manufacturing and supply. Our baby nutrition and care products are manufactured in accordance with applicable European Union food hygiene standards and under approval by the CNCA and our adult nutrition products are manufactured under license by TGA and meet GMP requirements, meaning our adult care and nutrition products are manufactured to pharmacy grade standards. As part of the manufacturing process our products are subject to safety checks including a five-layered food safety check for our infant formulas which involves a series of comprehensive quality control tests by (i) our Western European suppliers, (ii) our own laboratories in France, (iii) European customs authorities, (iv) Chinese customs authorities, and (v) our in-house laboratory in China. For our adult nutrition products our ingredients are vetted by a rigorous quality testing process that exceeds the regulatory minimums in all jurisdictions where we operate and we utilize numerous quality assurance tests during the main stages of production. In addition, we work with contract manufacturers in connection with the establishment of ‘process validation’ protocols to monitor and ensure the quality of the full range of VHMS products from both quantitative component and visual/physical stability testing perspectives.

New product development and innovation is important to maintaining our leading competitive position. We believe that our emphasis on maintaining the highest quality standards has, for example, resulted in our infant formula ranking in the top five for brand reputation (along with international brands such as Wyeth, Abbott and Mead Johnson) among infant formula brands by Chinese consumers according to our internal survey, and is a key contributor to the brand’s success. We believe that our product innovation and development efforts support and improve our ability to introduce innovative, technologically advanced new products and materials and improve our production processes to meet market demands. Chinese consumers regard scientific advancement as a factor of importance in making a purchasing decision. For example, in a 2014 survey, 90% of respondents from seven tier 1 and tier 2 cities regarded scientific advancement as the most important factor in making their purchasing decision. They also ranked Biostime as second in order of preference in this respect. We continuously invest in improving our research and development capabilities with a focus on joint development and/or cooperation with our suppliers in addition to our independent research activities in Guangzhou and Europe and regularly utilize clinical trials to support the efficacy of our baby nutrition and care products. Our research and development for our adult nutrition and care products is focused on supporting our established track record of continuously providing an offering of high quality, premium and innovative products which are scientifically validated and responsive to consumer demand. We work in close consultation with an advisory panel that includes leading academics, scientists and clinicians in the field of integrative medicine and these panel members provide expert advice, including written reports, that validate our formulations. Furthermore, to ensure the health benefit claims behind our adult care and nutrition products are backed by hard science, we have partnered with numerous research organizations, which independently review our evidence supporting the claimed health benefits.

***Our proven and effective marketing and proprietary consumer relationship systems enhance the awareness of our brands.***

We believe that we have proven and effective marketing models that successfully promote sales of our baby nutrition and care products and adult care and nutrition products.

According to our internal survey, in China, our Biostime™ branded baby nutrition and care products rank amongst the top five for brand reputation along with foreign pharmaceutical brands such as Wyeth, Abbott and Mead Johnson — Biostime’s marketing focuses on the European origin of its products to capitalize on Chinese consumers’ preference for foreign infant formula due to perception of superior quality. In addition, our proprietary BIOD marketing model which focuses on (i) brand communication (B), (ii) interactive education (I), (iii) online and offline point-of-sale (“POS”) management (O) and (iv) database marketing (D) serves to facilitate brand stickiness. This is evidenced by the fact that Biostime™, our flagship baby nutrition and care brand, is ranked first in terms of consumer willingness to repurchase according to our internal survey and that 88.5% of revenue from our baby nutrition products segment was generated from Mama100 members for the three months ended March 31, 2016.



For our adult nutrition and care products, marketing focuses on our offering of premium and proven products that have been produced using world class raw materials in accordance with TGA standards, rigorous quality control processes and in close consultation with independent research institutions. Our marketing philosophy centers on an aspirational lifestyle message that we deliver across a variety of media platforms (e.g. TV, print and selected new media channels). These platforms include partnerships with international and country-specific brand ambassadors. These ambassadors include our global ambassador, international actress and multiple award winner Nicole Kidman as well as other ambassadors such as the former captain of the Australian national cricket team, Ricky Ponting. We also engage in on-going and campaign event based sponsorships such as the Australian Olympic Team and the Australian Rugby Union. The effectiveness of this marketing model has allowed us to grow market share without increasing advertising spend as a proportion of sales. We believe this marketing model maximizes the effectiveness of our marketing efforts, which are targeted at increasing brand awareness and growing market share, therefore allowing us to reduce the proportionate spend of advertising expenses relative to sales.

***We have a large and diversified distribution network that provides scale and broad consumer access.***

We believe our distribution network across China, Australia and internationally provides us with a strong competitive advantage. In China, our offline distribution network has grown through the adoption of a multi-format distribution strategy targeting a broad channel mix of baby specialty stores and retail sales outlets such as supermarkets and local pharmacies. We believe that our use of baby specialty stores in China, through which we offer all of our baby nutrition and care products, provides competitive advantages as consumers use these stores as a “one-stop shop” for baby products and, according to Nielsen, they are one of the fastest growing sales channels for sales of baby nutrition and care products in China, growing by 15% and 21% in 2014 and 2015, respectively. Accordingly, we believe that the baby specialty store distribution channel which we adopted relatively early compared to our competitors, offers us significant cross-selling opportunities. In addition, we believe that the baby specialty stores in tier 2 and tier 3 cities in China are under-penetrated, offering significant growth prospects for this channel. Furthermore, we believe we were the first supplier of baby nutrition and care products to make our products available through pharmacies. To date, our baby nutrition and care products are sold in approximately 5,140 pharmacies in China.

In addition, we monitor the flow of our baby nutrition and care products real-time via the bar code scanners that are installed in the warehouses of our regional distributors. Our ability to track inventory and sales records allows us to track products from the distributor to retailer to consumer. This system provides us with valuable consumer data, logistics intelligence and control of each product batch at every point in the distribution chain. Furthermore, we expect that we will be able to leverage this distribution system to enhance distribution of our adult nutrition and care products in China.

In Australia, we sell our adult care and nutrition products to a long-established consumer base comprised of pharmacies, grocery and health food stores and other retail outlets. In particular, we have managed to increase the proportion of sales in Australia and New Zealand that are made through the higher margin pharmacy channel to approximately 77.8% of our Swisse revenue for the three months ended March 31, 2016. We are expanding our active sales presence in the Chinese market by leveraging our extensive online and offline distribution capabilities. We offer our adult nutrition and care products through our Mama100 membership program. In March 2016, we launched online shops on several cross border e-commerce platforms, including a flagship store on Tmall.HK, to promote the sales of our adult nutrition and care products in China.

In addition to our own distribution channels in China, Australia and elsewhere, we distribute our Swisse™ branded adult nutrition and care products internationally, including in selected markets in Western Europe and Asia through our international distribution agreement with PGT. To date, PGT has launched Swisse™ branded products in Singapore, the UK, Italy and the Netherlands.

***Our high cash flow conversion supports deleveraging.***

Our results of operations reflect strong earnings, primarily as a result of the strong market position we hold in our core markets in China and Australia. During the year ended December 31, 2015 our Adjusted EBITDA on a *pro forma* basis for the Acquisition was RMB1,996.9 million (US\$308.3 million). For the 12 months ended March 31, 2016 our Adjusted EBITDA on a *pro forma* basis for the Acquisition was RMB2,145.5 million (US\$331.2 million). We believe that both our baby nutrition and care product and adult nutrition and care product segments generate high profit margin from sales in their respective markets and provide strong earnings diversification. Furthermore, since we do not currently expect our business to require substantial ongoing capital expenditure, we expect that we will be able to generate a high cash flow conversion rate, with each of our business segments capable of contributing to the service of our debt obligations and supporting rapid deleveraging.

***Experienced and highly capable management team with proven track record of performance.***

We have a highly experienced senior management team with a proven record of performance.

Founder of the Group, Luo Fei, is directly engaged in the business, holding the positions of Executive Chairman and Chief Executive Officer, while also remaining a principal shareholder. Mr. Luo has approximately 20 years' experience in the biotechnology industry. Radek Sali, who has been with the Swisse business for over 10 years and currently serves as the Chief Executive Officer of Swisse since 2007, is also an Executive Director of the Group and remains a shareholder in Swisse following its acquisition by Biostime. In addition, we have recently strengthened the financial management team of the Group through our appointment of Mr. Wang Yidong as the Chief Finance Officer of the Group in May 2016. Mr. Wang Yidong has over 18 years' experience in financial management, accounting and corporate finance with international corporations.

Our broader management team also has a proven track record in delivering operational and financial results and has been instrumental in strategizing and executing our strategic goals. The senior management team aims to foster a culture of continuous innovation in all of its operations. After the acquisition of Swisse by Biostime on September 30, 2015, the majority of the senior management team of our adult nutrition and care business remain shareholders in Swisse.

**Our Strategies**

***Grow our core business and focus on the most attractive distribution channels.***

We intend to continue to capitalize on strong demand for high quality and premium imported infant formula and VHMS products in our core markets. We expect to achieve this strategy by focusing on our most active distribution channels within each of our core markets. Furthermore, we will leverage continued strong customer demand for our products by expanding, innovating and diversifying our existing product offerings.

With respect to our infant formula products, we intend to grow our infant formula product presence in the baby specialty store channel in China through increasing store penetration levels from the current weighted penetration rate of approximately 62% to the approximately 84% weighted penetration rate achieved by our leading competitor in this channel according to Nielsen. To achieve this, we intend to selectively “accredit” stores in this channel to stock our infant formula product range based on their reputation, client network and ability to offer favorable trading terms.

For our adult nutrition and care products, we intend to leverage our existing strengths in the offline grocery and pharmacy channels in Australia to further enhance sales. In particular, we believe that the pharmacy channel in Australia is capable of achieving higher sales margins than other channels. We also intend to continue to develop our online sales through Chinese e-commerce platforms, which is currently our fastest growing distribution channel for these products.

***Continue to position ourselves as a premium all-round family nutrition provider.***

We are focused on reinforcing our position as a provider of premium all-round family nutrition through our extensive baby nutrition and care products and adult nutrition and care products portfolio. We intend to achieve this objective through our continued development of new and innovative products with an emphasis on maintaining the highest quality standards; using proven and effective marketing models that successfully promote sales, including utilizing targeted marketing to promote customer education and interaction; maximizing the benefits of our strong distribution channels, particularly offline in China through baby speciality stores and online through Chinese and Australian e-commerce platforms; and realizing the synergies from the integration of our Biostime and Swisse businesses to deliver increased market share, as well as cross-sharing our research and development efforts.

***Continue to invest in new product development and innovation.***

We will continue to employ a science-based approach to new product development and maintain our position as a leading innovator in the market. We will continue to invest and strengthen our advisory panels and continue to partner with reputable organizations including leading universities to ensure that our health benefit claims continue to be scientifically validated. We will maintain our speed to market in responding to trends in the health and wellness industry ahead of our competitors, which we believe will continue to reinforce our market-leading position in the VHMS industry.

Furthermore, in line with the on-going premiumization of the Chinese infant formula industry, which has seen growing consumer preference for premium, organic baby food products, we intend to introduce an organic range into our infant formula product offering as well as continuing to innovate and develop our SN-2 PLUS infant formula product. We also plan to leverage the Swisse™ brand to grow market share in the high-growth skincare and sports nutrition (active) categories in Australia and China.

***Leverage synergies and competitive advantages from the integration of our Biostime and Swisse businesses***

We believe there are substantial synergies to be generated from the integration of Biostime and Swisse businesses. These synergies can drive increasing revenue and profit growth. We will leverage our offline distribution channels in China by introducing Swisse™ branded products into our extensive network of bricks and mortar retail outlets, which are concentrated in high-margin baby speciality stores and pharmacies. In conjunction, we intend to quickly grow Swisse's share of the high-growth cross-border e-commerce market by further promoting and selling Swisse products on Mama100 (our proprietary mobile-enabled sales platform), major cross-border e-commerce platforms (including JD.com, VIP.com and Kaola), and our flagship Tmall store.

As Swisse™ branded products continue to gain greater traction with consumers in China, we will analyze their purchasing behavior using our industry-leading consumer relationship management software to execute effective and targeted marketing of Swisse™ products. We will also aim to combine our Swisse™ and Biostime™ research and development efforts, which will benefit from the increased scale and knowledge cross-sharing. We also believe that the combination of the two operating businesses' supply chain and sourcing will improve operational efficiency and reduce costs. In addition, we will also be able to leverage our existing regulatory knowledge in China in order to expand active sales of our adult nutrition and care products in China.

By utilizing our significant expertise and capabilities in building strong market share in the health and wellness industry in China, we believe these strategies will work in combination to raise awareness of the Swisse™ brand with Chinese consumers and grow Swisse's sales of adult nutrition and care products in China.

***Continue to generate strong cash flow to reduce leverage***

We have demonstrated our ability to generate strong cash flows over the last three years. During the year ended December 31, 2015, our Adjusted EBITDA on a *pro forma* basis for the Acquisition was RMB1,996.9 million as compared to Adjusted EBITDA of RMB1,337.2 million during the year ended December 31, 2013 (which did not include the earnings of Swisse). For the 12 months ended March

31, 2016, our Adjusted EBITDA on a *pro forma* basis for the Acquisition was RMB2,145.5 million (US\$331.2 million). We intend to focus on maintaining strong cash flow generation by increasing revenue and managing margins, capital expenditures and costs which we believe will enable us to rapidly reduce our leverage.

### **Recent Regulatory Developments**

On February 26, 2016, the China Food and Drug Administration (“CFDA”) issued the Administrative Measures for the Registration and Filing of Health Food (the “New Measures”), effective from July 1, 2016. The New Measures introduce a dual-track registration and filing system for the importation of health food for sale in China. Health foods subject to the filing process will be exempted from onsite inspection and technical review by the CFDA, as well as the other procedures under the registration system. In April 2016, CFDA and other authorities announced two lists which together outline the product categories which will be allowed into China through bonded warehouses (the “Positive Lists”) pursuant to the New Measures. In May 2016, the General Administration of Customs extended the effective date of the Positive Lists to May 11, 2017. We believe a substantial amount of our Swisse™ branded adult nutrition and care products are considered normal food under PRC laws and thus will not be required to be registered or filed as health food with the CFDA and our current method of importing our Swisse™ branded adult nutrition and care products into China through bonded warehouses is in compliance with applicable laws and regulations of PRC.

On June 6, 2016, the CFDA released the Administrative Regulations for the Registration of Formula of Infant Milk Formula Powder Products (嬰幼兒配方乳粉產品配方註冊管理辦法), pursuant to which, formulas of infant milk formula products sold on the Chinese market should be registered with the CFDA and allows each domestic formula manufacturer and offshore formula manufacturer that intends to export formula products into China to register up to nine formula products in three formula series (for stage 1 formula (0-6 months), stage 2 formula (6-12 months) and stage 3 formula (12-36 months)). The aforesaid registrations will be valid for a term of five years and should be renewed six months before expiry. The new regulation will be effective on October 1, 2016.

Pursuant to a prior statement from the Ministry of Finance, the registration deadline applicable to infant milk formula products imported through cross-border e-commerce has been postponed to January 1, 2018. For further information, see “Regulation—Cross border e-commerce”.

### **Tender Offer**

In connection with the offering of the Notes, we made a Tender Offer for the Convertible Bonds which is conditional upon completion of the Notes offering. Pursuant to the Tender Offer, we expect to repurchase HK\$1,814 million (equivalent to approximately US\$234 million) in principal amount of our Convertible Bonds for approximately HK\$1,941 million (equivalent to approximately US\$250 million), with a settlement date on or about June 22, 2016. See “Use of Proceeds” and our announcement published on June 15, 2016 in relation to the acceptance amount, purchase price and results of the Tender Offer on the Stock Exchange of Hong Kong Limited.

### **Recent developments**

#### **Appointment of new chief finance officer**

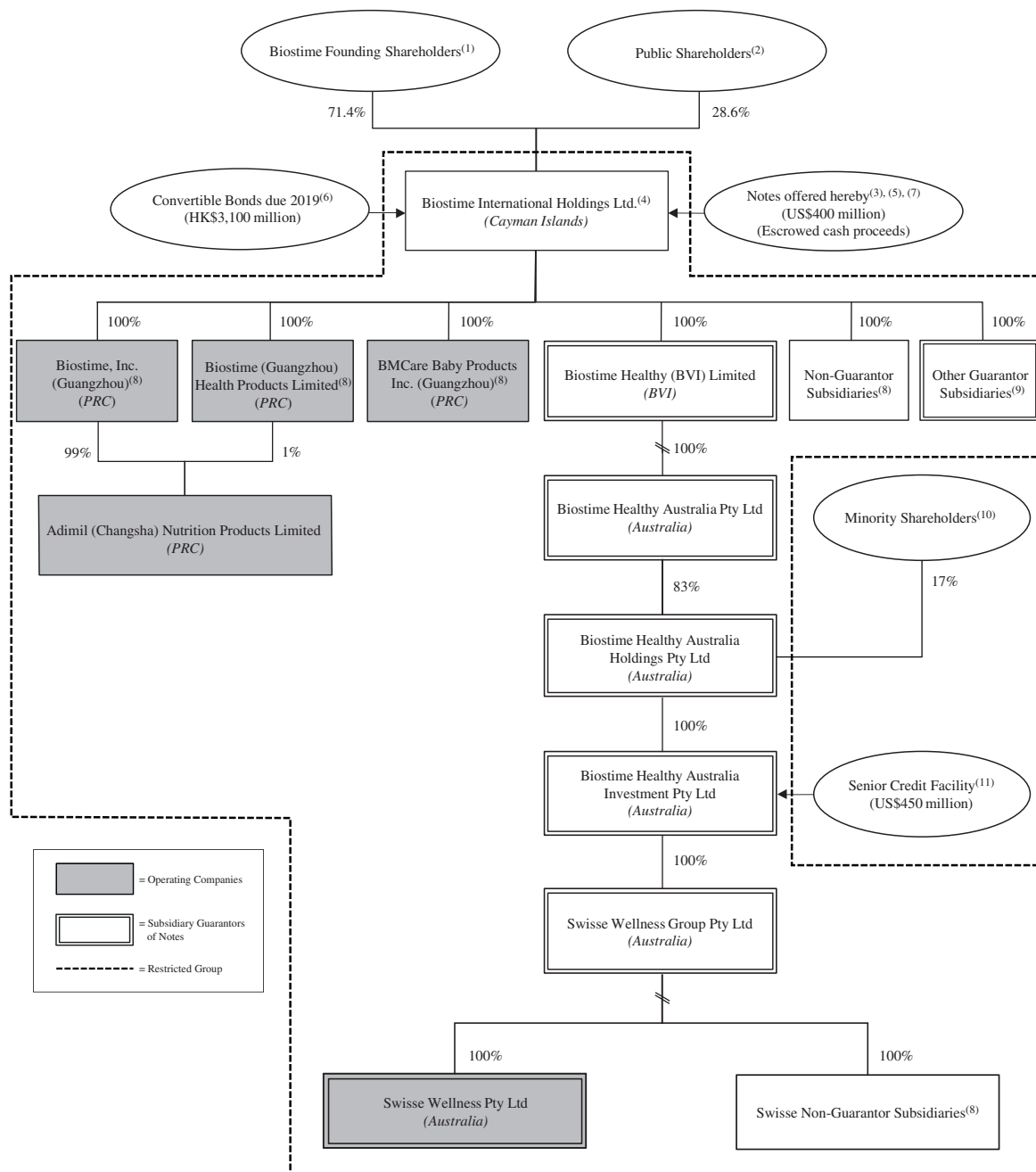
The board of directors of the Company appointed Mr. Wang Yidong as the chief finance officer of the Group with effect from May 3, 2016. Mr. Wang Yidong has over 18 years experience in financial management, accounting and corporate finance with global corporation. Mr. Wang replaces Mr. Cao Wenhui who resigned as the chief finance officer of the Group with effect from May 3, 2016 in order to pursue other business and professional endeavors. For further information, see “Management.”

### **General information**

The Company is an exempted company with limited liability in the Cayman Islands and is listed on the SEHK. The Company is controlled by Biostime Pharmaceuticals (China) Limited which owns 450,000,000 shares of the Company representing 71.40% of the total number of shares in the Company as of March 31, 2016. Mr. Luo Fei and Mr. Luo Yun indirectly own 47.71% of Biostime Pharmaceuticals (China) Limited with the remaining shareholding indirectly owned by Mr. Wu Xiong, Mr. Chen Fufang, Dr. Zhang Wenhui and Ms. Kong Qingjuan who own 26.0%, 11.9%, 9.99% and 4.4%, respectively. For further information, see “Principal Shareholders.”

## Summary corporate and financing structure

The following diagram shows a simplified summary of our corporate and financing structure after giving effect to the offering. The following is provided for indicative and illustration purposes only and should be read in conjunction with the information contained in this offering memorandum as a whole. The diagram does not include all of our subsidiaries, nor all of the debt obligations thereof. For a summary of the debt obligations identified in this diagram, see the sections titled “Description of the Notes,” “Description of certain financing arrangements” and “Capitalization.”



- (1) As of March 31, 2016, 71.40% of the Company’s stock was owned by Biostime Pharmaceuticals (China) Limited which owns 450,000,000 shares of the Company. Mr. Luo Fei and Mr. Luo Yun indirectly own 47.71% of Biostime Pharmaceuticals (China) Limited with the remaining shareholding indirectly owned by Mr. Wu Xiong, Mr. Chen Fufang, Dr. Zhang Wenhui and Ms. Kong Qingjuan who own 26.0%, 11.9%, 9.99% and 4.4%, respectively. See “Principal shareholders” for further information.
- (2) As of March 31, 2016, 28.6% of the Company’s stock was held by public shareholders through the Company’s listing on the SEHK. To the knowledge of the directors of the Company, none of these public shareholders has an interest or short position in the shares or underlying shares of the Company as representing 5% or more of the nominal value of shares comprised in the relevant share capital of the Company. See “Principal shareholders” for further information.

- (3) The Notes will be jointly and severally guaranteed on a senior subordinated basis by all of the Restricted Subsidiaries that are obligors under the Senior Credit Facility other than the Restricted Subsidiaries organized under the laws of the PRC. The Company and the Subsidiary Guarantors represented 37.2% of our total consolidated revenue and 52.3% of Adjusted EBITDA for the six months ended March 31, 2016. The Notes will be secured by (i) an Escrow Charge as described under “The Offering—Use of proceeds; escrow of proceeds”, and (ii) on a second-ranking basis (pursuant to the terms of the Intercreditor Agreement) a floating charge over the assets of the Company (other than any assets located in the PRC or Capital Stock of subsidiaries).
- (4) Biostime International Holdings Ltd. is the issuer of the Notes offered hereby. All covenants in respect of the Notes apply to the issuer and its subsidiaries. For further information on the covenants, see “Description of the Notes—Certain Covenants.”
- (5) The Notes will be secured by, amongst other security, a floating charge over the assets of the Company (other than any assets located in the PRC or Capital Stock of subsidiaries) on a second-ranking basis (pursuant to the terms of the Intercreditor Agreement). For further information on the Intercreditor Agreement, see “Description of certain financing arrangements—Intercreditor Agreement.”
- (6) On February 20, 2014, the Company issued the Convertible Bonds convertible (unless previously redeemed, converted or purchased and cancelled) at the option of the holder of the Convertible Bonds into fully paid ordinary shares of the Company (the “Shares”) with a par value of HK\$0.01 at an initial conversion price of HK\$90.84 per Share. As of March 31, 2016, the liability component of the Convertible Bonds was RMB2,670 million (US\$412 million). For further information, see “Description of certain financing arrangements—Convertible Bonds”, “Use of proceeds” and “Capitalization”.
- (7) The net proceeds from the offering of the Notes will be deposited into the Escrow Account. The net proceeds will be only released from the Escrow Account in whole or in part (as applicable) in connection with any mandatory or optional redemption or repayment or repurchase of the Company’s Convertible Bonds until all the Convertible Bonds are repaid. If any amounts remain in the Escrow Account after the Convertible Bonds have been repurchased, redeemed and/or repaid in full, such amounts shall be paid to the Company. For further information, see “Use of Proceeds” and “Capitalization.” The Notes will be secured by, amongst other security, a charge over the Escrow Account as described under “The Offering—Use of proceeds; escrow of proceeds.”
- (8) As of March 31, 2016, on a pro forma basis after giving effect to the offering and the use of proceeds therefrom, the total indebtedness of the non-guarantor subsidiaries would have been RMB170.0 million (US\$26.2 million). In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor subsidiaries, such non-guarantor subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets of the Company. See “Risk Factors—Risks relating to the Notes, the Subsidiary Guarantees and the Collateral —We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities and obligations of our subsidiaries that do not guarantee the Notes.”
- (9) The Other Guarantor Subsidiaries are comprised of Biostime Healthy Hong Kong Limited, Biostime Healthy II (BVI) Limited, Biostime Healthy (Cayman) Limited, Biostime Hong Kong Limited and Biostime International Investment Limited. SWG Holdco Pty Ltd, which is not depicted in the diagram, is also a Subsidiary Guarantor.
- (10) As of March 31, 2016 we held an 83% shareholding in Swisse which we acquired on September 30, 2015. Pursuant to the terms of this acquisition we entered into an agreement with the sellers (as the remaining minority shareholders) of Swisse (the “Shareholders’ Agreement”). This diagram assumes the completion of the Roll-up Option, which pursuant to the Senior Facility Agreement is required to be completed by October 27, 2016. For further information on our acquisition of Swisse and the Shareholders’ Agreement see “The Swisse Shareholders’ Agreement.”
- (11) On April 24, 2016, we entered into a syndicated facility agreement (the “Senior Facility Agreement”) providing for a US\$450 million term loan facility (the “Loan Facility”), with The Hongkong and Shanghai Banking Corporation Limited as agent and security agent and affiliates of Goldman Sachs (Asia) L.L.C., as mandated lead arranger and original lender. The borrower under the Senior Facility Agreement is Biostime Healthy Australia Investment Pty Ltd. (the “Borrower”). The Loan Facility was made available to us in a single installment on April 27, 2016 (the “Closing Date”), the proceeds of which were used to refinance a US\$450 million acquisition bridge loan that was incurred by us for financing the acquisition of our 83% shareholding in Swisse. For further information see “The Swisse Shareholders’ Agreement” and “Capitalization.”

## THE OFFERING

*The following summary of the offering contains basic information about the Notes, the Subsidiary Guarantees and the Collateral. It may not contain all of the information that is important to you and is subject to limitations and exceptions. For additional information regarding the Notes, the Subsidiary Guarantees and the Collateral, see “Description of the Notes.”*

<b>Issuer</b> .....	Biostime International Holdings Ltd. (the “Company”).
<b>Notes offered</b> .....	US\$400,000,000 aggregate principal amount of 7.25% Senior Notes due 2021 (the “Notes”).
<b>Offering price</b> .....	100% of the principal amount of the Notes.
<b>Maturity date</b> .....	The Notes will mature on June 21, 2021.
<b>Interest</b> .....	The Notes will bear interest from and including June 21, 2016 at the rate of 7.25% per annum, payable semi-annually in arrears.
<b>Interest payment dates</b> .....	June 21 and December 21 of each year, commencing December 21, 2016.
<b>Subsidiary Guarantees</b> .....	Each of the Subsidiary Guarantors will jointly and severally guarantee, on a senior subordinated basis, the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Initial Subsidiary Guarantors are: Biostime International Investment Limited, Biostime Hong Kong Limited, Biostime Healthy (BVI) Limited, Biostime Healthy (Cayman) Limited, Biostime Healthy II (BVI) Limited, Biostime Healthy Hong Kong Limited, Biostime Healthy Australia Investment Pty Ltd, Biostime Healthy Australia Pty Ltd, Biostime Healthy Australia Holdings Pty Ltd, Swisse Wellness Group Pty Ltd, SWG Holdco Pty Ltd and Swisse Wellness Pty Ltd.

As of and for the six month period ended March 31, 2016, the Company and the Subsidiary Guarantors represented 76.4% of our consolidated assets, 37.2% of our consolidated revenues and 52.3% of our Adjusted EBITDA.

A Subsidiary Guarantee may be released in certain circumstances. See “Description of the Notes—The Subsidiary Guarantees—Release of the Subsidiary Guarantees” in this offering memorandum.

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Restricted Subsidiaries that are obligors under the Senior Facility other than the Restricted Subsidiaries organized under the laws of the PRC (the “Non-Guarantor Subsidiaries”). For further information on the Senior Facility, see “Description of certain financing arrangements—Senior Facility.”

**Ranking of the Notes.....**

The Notes are:

- general secured obligations of the Company;
- secured as set forth under “—Security”;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- subordinated to all existing and future secured Indebtedness of the Company that is secured on a first-priority basis by assets that secure the Notes on a junior ranking basis (including the Indebtedness under the Senior Facility Agreement and certain Hedging Obligations) or secured by assets of the Company that do not secure the Notes (including PRC assets and PRC share pledges), to the extent of the value of the assets securing such Indebtedness (see “Description of certain financing arrangements”);
- guaranteed by the Subsidiary Guarantors on a senior subordinated basis, subject to the terms of the Intercreditor Agreement or any Additional Intercreditor Agreement, and to the limitations described under “Description of the Notes—The Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Notes, the Subsidiary Guarantees and the Collateral”; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

**Ranking of Subsidiary Guarantees.....**

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a senior subordinated obligation of such Subsidiary Guarantor;
- is effectively subordinated to the secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor, including the assets securing the Senior Facility Agreement and certain Hedging Obligations;
- is subordinated in right of payment to any of such Subsidiary Guarantor’s existing and future Senior Indebtedness, including its guarantee under the Senior Facility Agreement (see “Description of certain financing arrangements”);
- will rank at least *pari passu* with all other unsecured, senior subordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, senior subordinated Indebtedness pursuant to applicable law);



- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

**Collateral**.....

The Notes will be secured by:

- the Escrow Charge as described under “—Use of Proceeds; Escrow of Proceeds”; and
- on a second-ranking basis (pursuant to the terms of the Intercreditor Agreement) by a floating charge over the assets of the Company (other than any assets located in the PRC or Capital Stock of subsidiaries).

The Collateral is subject to the terms of the Intercreditor Agreement and may be limited by applicable law or subject to certain defenses that may limit its validity or enforceability. The Collateral will be shared, on a *pari passu* basis, with the Convertible Bonds. See “Description of certain financing arrangements—Intercreditor agreement.”

The Collateral may be released in certain circumstances. See “Description of the Notes—Security.”

**Use of proceeds; escrow of proceeds**.....

Concurrently with the closing of the offering of the Notes on the Original Issue Date, the net proceeds from the issuance of the Notes will be deposited into the Escrow Account pursuant to the terms of an escrow agreement (the “Escrow Agreement”) dated as of the Original Issue Date among the Company, the Trustee and The Hongkong and Shanghai Banking Corporation Limited, as Escrow Agent (the “Escrow Agent”). Approximately US\$250 million from the Escrow Account is expected to be used to repurchase Convertible Bonds accepted in the Tender Offer and to pay certain expenses related to the Tender Offer. The Company will grant to the Security Agent for the benefit of the Trustee and the holders of the Notes a security interest over the Escrow Account pursuant to an escrow charge dated the Original Issue Date between the Company and the Security Agent (the “Escrow Charge”).

Upon delivery of a written notice in the form of an Officer’s Certificate, to the effect that, the Company is required (or otherwise obligated) to make a payment in respect of the Convertible Bonds (including in connection with any mandatory or optional redemption, repayment or repurchase of the Convertible Bonds) and the amount of such required payment or that the Convertible Bonds have been repaid in full, the escrowed funds will be released to the Company from time to time and utilized as described in “Use of Proceeds.” If any amounts remain in the Escrow Account after the Convertible Bonds have been repurchased, redeemed and or repaid in full, such amounts (if any) shall be paid to the Company.

**Optional redemption** .....

At any time and from time to time on or after June 21, 2018, the Company may redeem the Notes, in whole or in part, at the redemption prices set forth in “Description of the Notes—Optional redemption,” plus accrued and unpaid interest to, but not including, the redemption date.

At any time prior to June 21, 2018, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to, but not including, the redemption date, as set forth in the section titled “Description of the Notes—Optional redemption.”

At any time and from time to time prior to June 21, 2018, the Company may redeem up to 40% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in one or more Equity Offerings or of Common Stock of the SWG IPO Entity in a Qualifying SWG IPO at a redemption price of 107.25% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date; *provided* that at least 60% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering or the Qualifying SWG IPO, as the case may be. See “Description of the Notes—Optional redemption.”

**Repurchase of the Notes upon a Change of Control Triggering Event.....**

Upon the occurrence of a Change of Control Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the repurchase date.

**Additional Amounts.....**

All payments in respect of the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto), except as required by law of a relevant jurisdiction. If withholding or deduction is required by law of any relevant jurisdiction, subject to certain exceptions, the payor will pay additional amounts as may be necessary so that the net amount received by each holder of a Note (including additional amounts) after such withholding or deduction will not be less than the amount such holder would have received if such withholding or deduction had not been required. See “Description of the Notes—Additional Amounts”.

**Redemption for taxation reasons.....**

Subject to certain exceptions and as more fully described in the section entitled “Description of the Notes—Redemption for Taxation Reasons,” the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws or certain other circumstances. See “Description of the Notes—Redemption for taxation reasons.”

**Covenants** .....

The Company will issue the Notes under the Indenture, which will, among other things, limit our ability and the ability of our Restricted Subsidiaries to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- make investments or other specified Restricted Payments;
- pay dividends or make other distributions or repurchase or redeem our Capital Stock;
- issue or sell Capital Stock of Restricted Subsidiaries;
- create liens on assets to secure indebtedness;
- guarantee indebtedness of the Company or Restricted Subsidiaries;
- transfer or sell assets;
- enter into, renew or extend certain transactions with shareholders or affiliates;
- enter into agreements that restrict our Restricted Subsidiaries’ ability to pay dividends;
- enter into sale and leaseback transactions;
- impair the security interests in respect of the collateral;
- enter into unrelated businesses; and
- merge or consolidate with or into another company.

These covenants will be subject to a number of important exceptions and qualifications. For more details, see “Description of the Notes.”

**Events of Default**.....

Events of default with respect to the Notes include failure to pay principal, interest or additional amounts. See “Description of the Notes—Events of Default.”

**Further Issues** .....

Subject to the covenants in the Indenture, the Company may from time to time, without the consent of the holders of the Notes, issue further securities having the same terms and conditions as the Notes in all respects (except for the issue date, issue price and the first interest period and, to the extent necessary, certain temporary securities law transfer restrictions). Any further issue may be consolidated with, and form a single series with, the Notes sold in this offering. See “Description of the Notes—Further Issues.”

<b>Transfer restrictions</b> .....	The Notes and the Subsidiary Guarantees will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer restrictions.”
<b>Form, denomination and registration</b> .....	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of DTC. See “Description of the Notes—Book-Entry; Delivery and Form.”
<b>Book-entry only</b> .....	The Notes will be issued in book-entry form through the facilities of DTC for the accounts of its participants, including Euroclear and Clearstream. For a description of certain factors relating to clearance and settlement, see “Description of the Notes—Book-Entry; Delivery and Form.”
<b>Delivery of the Notes</b> .....	The Company expects to make delivery of the Notes, against payment in same-day funds on or about June 21, 2016 which the Company expects will be the fourth business day following the date of this offering memorandum referred to as “T+4.” You should note that initial trading of the Notes may be affected by the T+4 settlement. See “Plan of distribution.”
<b>No prior market</b> .....	Although approval-in-principle has been received to admit the Notes to listing on the SGX-ST in accordance with its rules, the Notes will be new securities for which there is no established market. Although the Initial Purchaser has informed us that they intend to make a market in the Notes, the Initial Purchaser is not obligated to do so and may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.
<b>Trustee</b> .....	HSBC Bank USA, National Association.
<b>Paying and Transfer Agent and Registrar</b> .....	HSBC Bank USA, National Association.
<b>Listing Agent</b> .....	Clifford Chance Pte. Ltd.
<b>Security Agent</b> .....	The Hongkong and Shanghai Banking Corporation Limited.
<b>Escrow Agent</b> .....	The Hongkong and Shanghai Banking Corporation Limited.
<b>Listing</b> .....	Approval-in-principle has been received for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the Company’s associated companies or the Notes.

The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST.

The Notes will not be designated for trading in the Financial Industry Regulatory Authority Inc.'s PORTAL market.

**Clearing System and Settlement**.....

The Notes have been accepted for clearance through the facilities of Euroclear, Clearstream and DTC. Certain trading information with respect to the Notes is set forth below:

	<b>CUSIP</b>	<b>ISIN</b>	<b>Common Code</b>
<b>144A Notes</b>	090688 AA0	US090688AA08	143308804

**Regulation S**

<b>Notes</b>	G11259 AB7	USG11259AB79	143308740
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**Tax considerations**.....

You should carefully review the information regarding tax considerations relevant to an investment in the Notes under "Tax considerations," and you are urged to consult your own tax advisors prior to investing in the Notes.

**Governing law** .....

The Notes, the Subsidiary Guarantees and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.

The Intercreditor Agreement is governed by and will be construed in accordance with the laws of England.

The Escrow Agreement and the Security Documents will be governed by and will be construed in accordance with the laws of Hong Kong.

**Risk factors** .....

Investing in the Notes involves risks. You should carefully consider the information under the caption "Risk factors" and other information included in this offering memorandum before deciding whether to invest in the Notes.

## SUMMARY CONSOLIDATED FINANCIAL DATA AND OTHER INFORMATION

The following tables set forth our summary historical consolidated financial information as of and for the dates and periods indicated as well as certain other financial and operating data.

The summary historical financial data as of and for the three months ended March 31, 2016 has been derived from the Biostime Unaudited Interim Condensed Consolidated Financial Statements. The Biostime Unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with IFRS and are included elsewhere in this offering memorandum. The summary historical financial data of Biostime included in this offering memorandum as of and for the years ended December 31, 2013, 2014 and 2015 has been derived from the Biostime Audited Consolidated Financial Statements. The Biostime Audited Consolidated Financial Statements have been prepared in accordance with IFRS and are included elsewhere in this offering memorandum. The results of Swisse have been included in our consolidated financial results from September 30, 2015 and thus our results from 2015 include one quarter of Swisse from October 1, 2015 to December 31, 2015.

The summary financial information for the 12 months ended March 31, 2016 for Biostime is calculated by taking Biostime's consolidated statements of profit or loss for the three months ended March 31, 2016 and adding it to the difference between Biostime's statements of profit or loss for the full year ended December 31, 2015 and the three months ended March 31, 2015.

The summary historical financial data of Swisse included in this offering memorandum as of and for the years ended June 30, 2013, 2014 and 2015 has been derived from the Swisse Consolidated Financial Statements. The Swisse Consolidated Financial Statements have been prepared in accordance with AAS and are included elsewhere in this offering memorandum.

The results of operations for prior years are not necessarily indicative of the results to be expected for the full fiscal year or any future period. Interim financial results are not necessarily indicative of results for the full financial year or any future reporting period.

The summary financial information for the 12 months ended March 31, 2016 for Swisse is calculated by adding Swisse's interim condensed consolidated statements of comprehensive income for the three months ended June 30, 2015, September 30, 2015, December 31, 2015 and March 31, 2016. Please see "Summary condensed quarterly financial information of Swisse."

We have prepared unaudited *pro forma* consolidated financial information which comprises *pro forma* consolidated statements of profit or loss for the year ended December 31, 2015, the three months ended March 31, 2015 and the 12 months ended March 31, 2016, and related explanatory notes (the "Unaudited Pro Forma Consolidated Financial Information").

The Unaudited Pro Forma Consolidated Financial Information has been prepared to simulate the main effects of the acquisition of Swisse on Biostime's consolidated statements of profit or loss as if they had taken place on January 1, 2015. The consolidated *pro forma* financial information included in this offering memorandum for the year ended December 31, 2015, the three months ended March 31, 2015 and the 12 months ended March 31, 2016 has been derived from the Unaudited Pro Forma Consolidated Financial Information. The explanatory notes to the Unaudited Pro Forma Consolidated Financial Information include an explanation of the basis of preparation.

The Unaudited Pro Forma Consolidated Financial Information presented in this offering memorandum is based on available information and certain assumptions that we believe are reasonable. The Unaudited Pro Forma Consolidated Financial Information is presented for illustrative purposes only and does not purport to represent what the actual results of operations would have been if the events

for which the *pro forma* adjustments were made had occurred on the dates assumed, nor does it purport to project our results of operations for any future period or our financial condition at any future date. Our future operating results may differ materially from the *pro forma* amounts set out in this Offering Memorandum due to various factors, including changes in operating results.

The accounting principles used for the preparation of the Unaudited Pro Forma Consolidated Financial Information are, unless otherwise specified, consistent with those used in the preparation of the Biostime Audited Consolidated Financial Statements, which have been prepared in accordance with IFRS. Details of the accounting policies applied are provided in the Biostime Audited Consolidated Financial Statements.

The *pro forma* financial information set forth elsewhere in this offering memorandum has not been prepared in accordance with the requirements of Regulation S-X under the U.S. Securities Exchange Act of 1934 or U.S. GAAP. Neither the adjustments nor the resulting *pro forma* financial information have been audited or reviewed in accordance with IFRS or U.S. GAAS. The Unaudited Pro Forma Consolidated Financial Information should be read in conjunction with the historical consolidated financial statements and notes thereto of Biostime and Swisse, included elsewhere in this offering memorandum and “Management’s discussion and analysis of financial condition and results of operations.”

The *pro forma* financial information has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date. The *pro forma* financial information should be read in conjunction with the Biostime Consolidated Financial Statements, the Swisse Consolidated Financial Statements and the section titled, “Unaudited Pro Forma Consolidated Financial Information” included elsewhere herein. Neither the assumption underlying the *pro forma* adjustments nor the resulting *pro forma* financial information have been audited or reviewed in accordance with any generally accepted auditing standards.

The financial data below also includes certain non-IFRS measures used to evaluate our financial performance, including Adjusted revenue, Biostime Standalone revenue, Biostime Standalone Adjusted revenue, EBITDA, Biostime Standalone EBITDA, Adjusted EBITDA, Biostime Standalone Adjusted EBITDA, net working capital, free cash flow, cash conversion rate, adjusted net capital expenditures, net borrowings, net leverage, net senior leverage, Adjusted EBITDA margin and interest coverage. These measures are not identified as accounting measures under IFRS and therefore should not be considered as alternative measures to evaluate our performance. The non-IFRS financial measures are not measurements of performance or liquidity under IFRS. Therefore, investors should not place undue reliance on this data. See “Presentation of financial and other information—Non-IFRS financial measures.”

This information is only a summary and should be read in conjunction with “Capitalization,” “Summary condensed quarterly financial information of Swisse,” “Management’s discussion and analysis of financial condition and results of operations”, our unaudited interim condensed consolidated financial statements and the notes thereto, our audited consolidated financial statements and the accompanying notes thereto appearing elsewhere in this offering memorandum, the Swisse audited consolidated financial statements and the accompanying notes thereto appearing elsewhere in this offering memorandum as well as the other financial information included in this offering memorandum.

## Biostime Consolidated Financial Information

### Summary consolidated statements of profit or loss

IFRS (in millions)	For the year ended December 31,				For the three months ended March 31,		For the 12 months ended March 31,	
	2013	2014	2015	2015	2015	2016	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB) (unaudited) (pro forma)	(RMB) (unaudited) (pro forma)	(RMB) (unaudited)	(RMB) (unaudited) (pro forma)	(US\$) (unaudited) (pro forma)
Revenue .....	4,561.3	4,731.6	4,818.6	6,456.5	1,371.6	1,469.0	6,553.9	1,011.7
Cost of sales .....	(1,586.2)	(1,804.6)	(1,834.0)	(2,438.8)	(586.9)	(522.0)	(2,373.9)	(366.4)
<b>Gross profit</b> .....	<b>2,975.1</b>	<b>2,926.9</b>	<b>2,984.6</b>	<b>4,017.7</b>	<b>784.7</b>	<b>947.0</b>	<b>4,180.0</b>	<b>645.3</b>
Other income and gains .....	106.4	128.1	144.0	147.0	32.9	181.2	295.3	45.6
Selling and distribution costs .....	(1,513.0)	(1,587.8)	(1,975.8)	(2,597.9)	(445.7)	(362.7)	(2,514.9)	(388.2)
Administrative expenses .....	(177.3)	(175.3)	(280.1)	(601.1)	(61.4)	(75.5)	(615.1)	(95.0)
Other expenses .....	(55.6)	(87.5)	(214.2)	(233.0)	(45.7)	(31.5)	(218.9)	(33.8)
Finance costs .....	(10.6)	(86.7)	(154.0)	(252.7)	(52.9)	(80.3)	(280.1)	(43.2)
Share of (losses)/profits of an associate .....	—	0.6	(0.4)	(0.4)	(0.3)	(1.1)	(1.2)	(0.2)
Fine on the violation of Anti-Monopoly Law .....	(162.9)	—	—	—	—	—	—	—
<b>Profit Before Tax</b> .....	<b>1,162.1</b>	<b>1,118.4</b>	<b>503.9</b>	<b>479.6</b>	<b>211.6</b>	<b>577.1</b>	<b>845.1</b>	<b>130.5</b>
Income tax expense .....	(341.4)	(311.5)	(210.6)	(264.7)	(79.5)	(147.8)	(333.0)	(51.4)
<b>Profit For The Year/Period</b> ...	<b>820.7</b>	<b>806.8</b>	<b>293.3</b>	<b>214.9</b>	<b>132.1</b>	<b>429.3</b>	<b>512.1</b>	<b>79.1</b>

### Summary consolidated statements of financial position data

IFRS (in millions)	As of December 31,			As of March 31,	
	2013	2014	2015	2016	2016
	(RMB) (Restated) <sup>(1)</sup>	(RMB)	(RMB)	(RMB) (unaudited)	(US\$) (unaudited)
Cash and cash equivalents .....	1,662.8	3,347.2	1,198.2	1,491.0	230.2
Total assets .....	4,641.0	6,631.2	13,831.6	13,182.2	2,035.0
Total liabilities .....	2,125.4	3,714.1	10,231.0	8,912.9	1,375.9
Non-controlling interests .....	0.0	0.0	309.1	346.1	53.4
Equity attributable to the owners of the parent .....	2,515.6	2,917.1	3,291.5	3,923.2	605.6

(1) Certain items, such as property, plant and equipment, prepaid land lease payments, goodwill, intangibles assets and the current portion of prepaid land lease payments included in prepayments, deposits and other receivables, have been restated due to the adjustments made in relation to the finalization of the purchase price allocation for the acquisition of Adimil (Changsha), which has been reflected as a change to the 2013 comparative amounts in the 2014 audited financial statements.



## Summary consolidated statements of cash flows data

IFRS (in millions)	For the year ended December 31,			For the three months ended March 31,	
	2013	2014	2015	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB) (unaudited)	(US\$) (unaudited)
Net cash flows from operating activities.....	660.5	972.2	365.7	514.7	79.5
Net cash flow flows from/(used in) investing activities.....	(80.7)	(460.4)	(4,163.8)	90.3	13.9
Net cash flow flows from/(used in) financing activities.....	(214.7)	1,171.8	2,570.5	(251.8)	(38.9)

## Other financial data

(in millions, except percentages)	For the year ended December 31,				For the three months ended March 31,		For the 12 months ended March 31,	
	2013	2014	2015	2015	2015	2016	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB) (unaudited) (pro forma)	(RMB) (unaudited) (pro forma)	(RMB) (unaudited)	(RMB) (unaudited) (pro forma)	(US\$) (unaudited) (pro forma)
Revenue .....	4,561.3	4,731.6	4,818.6	6,456.5	1,371.6	1,469.0	6,553.9	1,011.7
Adjusted Revenue <sup>(1)</sup> .....	4,561.3	4,731.6	5,133.7	6,771.6	1,463.0	1,469.0	6,777.6	1,046.3
EBITDA <sup>(2)</sup> .....	1,111.7	1,142.6	626.4	763.6	270.2	682.6	1,176.0	181.5
Adjusted EBITDA <sup>(3)</sup> .....	1,337.2	1,157.8	1,251.3	1,996.9	420.1	568.7	2,145.5	331.2
Adjusted EBITDA margin <sup>(4)</sup> .....	29.3%	24.5%	24.4%	29.5%	28.7%	38.7%	31.7%	31.7%
Free cash flow <sup>(5)</sup> .....	1,142.3	1,252.3	1,218.5	1,776.8			1,867.9	288.4
Cash conversion rate <sup>(6)</sup> .....	85%	108%	97%	89%			87%	87%
Net borrowings <sup>(7)</sup> .....							4,069	628
Net leverage <sup>(8)</sup> .....								1.9x
Net senior leverage <sup>(9)</sup> .....								0.6x
Interest coverage <sup>(10)</sup> .....								6.8x

(1) In June 2015, we introduced our new SN-2 PLUS infant formula. In anticipation of the launch we had to clear old series formula from our distribution chain since distributors and retailers had limited shelf space. In order to accelerate the sales of the existing formula, we offered one-time discounts such as “buy three get one free” and “buy one get one free” to distributors in the first three quarters of 2015. Such sales discounts did not occur in 2013 and 2014 and are not expected to recur in the future. Adjusted Revenue represents Revenue before these discounts taken to clear infant formula stock due to the introduction of our SN-2 PLUS infant formula. Since the reduction to revenue was the result of the discounts, this amount directly reduced our EBITDA. The following table sets forth, for the periods indicated, a reconciliation of Revenue to Adjusted Revenue:

(in millions)	For the year ended December 31,				For the three months ended March 31,		For the 12 months ended March 31,	
	2013	2014	2015	2015	2015	2016	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB) (unaudited) (pro forma)	(RMB) (unaudited) (pro forma)	(RMB) (unaudited)	(RMB) (unaudited) (pro forma)	(US\$) (unaudited) (pro forma)
Revenue.....	4,561.3	4,731.6	4,818.6	6,456.5	1,371.6	1,469.0	6,553.9	1,011.7
Adjustment for: One-off Biostime discounts in relation to SN-2 PLUS launch	—	—	315.1	315.1	91.4	—	223.7	34.6
Adjusted Revenue.....	4,561.3	4,731.6	5,133.7	6,771.6	1,463.0	1,469.0	6,777.6	1,046.3

- (2) EBITDA represents profit for the period plus income tax expense, finance costs, bank interest income, interest income from loans and bonds receivable, depreciation and amortization. The following table reconciles profit for the period to EBITDA for the periods indicated:

(in millions, except percentages)	For the year ended December 31,				For the three months ended March 31,		For the 12 months ended March 31,	
	2013	2014	2015	2015	2015	2016	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$)
Profit for the year/period.....	820.7	806.8	293.3	214.9	132.1	429.3	512.1	79.1
<i>Adjustment for:</i>								
Income tax expense .....	341.4	311.5	210.6	264.7	79.5	147.8	333.0	51.4
Finance costs.....	10.6	86.7	154.0	252.7	52.9	80.3	280.1	43.2
Bank interest income.....	(82.9)	(105.0)	(108.5)	(112.5)	(26.6)	(14.2)	(100.2)	(15.5)
Interest income from loans and bonds receivable.....	(4.7)	(8.1)	(10.2)	(10.2)	(2.4)	(2.8)	(10.6)	(1.6)
Depreciation and amortization.....	26.6	50.7	87.1	154.0	34.8	42.3	161.6	24.9
<b>EBITDA .....</b>	<b>1,111.7</b>	<b>1,142.6</b>	<b>626.4</b>	<b>763.6</b>	<b>270.2</b>	<b>682.6</b>	<b>1,176.0</b>	<b>181.5</b>

- (3) I. Adjusted EBITDA represents EBITDA as adjusted for certain non-cash or one-time events as described below.

The following table reconciles EBITDA to Adjusted EBITDA for the periods indicated:

(in millions)	For the year ended December 31,				For the three months ended March 31,		For the 12 months ended March 31,	
	2013	2014	2015	2015	2015	2016	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$)
EBITDA .....	1,111.7	1,142.6	626.4	763.6	270.2	682.6	1,176.0	181.5
<i>Adjustment for:</i>								
<b>Biostime</b>								
Fine <sup>(a)</sup> .....	162.9	—	—	—	—	—	—	—
Exchange gain <sup>(b)</sup> .....	—	—	(13.2)	(13.2)	—	(148.0)	(161.2)	(24.9)
Transaction costs <sup>(c)</sup> .....	—	—	64.6	64.6	—	—	64.6	10.0
Severance payments <sup>(d)</sup> .....	—	—	12.7	12.7	—	—	12.7	2.0
One-time discounts <sup>(e)</sup> .....	—	—	315.1	315.1	91.4	—	223.7	34.5
Shelf display expenses <sup>(f)</sup> .....	—	—	89.8	89.8	16.2	—	73.6	11.4
TV commercial expenses <sup>(g)</sup> .....	—	—	35.2	35.2	—	—	35.2	5.4
Other exchange losses <sup>(h)</sup> .....	—	—	106.3	106.3	23.7	—	82.6	12.7
Loss/(gain) on sale of property, plant and equipment <sup>(i)</sup> .....	(0.1)	(1.7)	4.4	0.1	—	1.7	1.8	0.3
Other non cash adjustments <sup>(j)</sup> .....	62.7	16.9	9.9	(1.2)	11.4	20.6	7.9	1.2
Total Biostime adjustments...	225.5	15.2	624.8	609.4	142.7	(125.7)	340.9	52.6
<b>Swisse</b>								
Transaction costs <sup>(k)</sup> .....	—	—	—	105.2	—	—	105.2	16.2
Loss/(gain) on sale of property, plant and equipment <sup>(l)</sup> .....	—	—	—	4.3	—	—	4.3	0.7
MISP cash bonuses <sup>(m)</sup> .....	—	—	—	473.6	—	—	473.6	73.1
Non-operating and other adjusting items <sup>(n)</sup> .....	—	—	—	8.2	—	—	8.2	1.3
Other non-cash adjustments <sup>(o)</sup> .....	—	—	—	32.6	7.3	11.8	37.3	5.8
Total Swisse adjustments .....	—	—	—	623.9	7.3	11.8	628.6	97.1
<b>Adjusted EBITDA .....</b>	<b>1,337.2</b>	<b>1,157.8</b>	<b>1,251.3</b>	<b>1,996.9</b>	<b>420.1</b>	<b>568.7</b>	<b>2,145.5</b>	<b>331.2</b>

The following items with respect to Biostime have been excluded from EBITDA:

- (a) In 2013 we were fined relating to a violation of the PRC Anti-Monopoly Law, along with several other infant formula makers in the PRC which has been fully paid, please see "Management's discussion and analysis of financial condition and results of operations — Results of Operations for the year ended December 31, 2014 compared to the year ended December 31, 2013."

- (b) For the acquisition of Swisse, we had net unrealized exchange gain of RMB13.2 million in 2015 in relation to the acquisition of Swisse and the relating bridge loan used to finance the acquisition. Our exchange gain of RMB148.0 million in the first quarter of 2016 was also the result of the bridge loan.
- (c) We incurred significant transaction costs directly related to the acquisition of Swisse, which included advisory and consulting fees paid to financial advisors, due diligence and legal fees and insurance.
- (d) The Group restructured its business into two business units in China, the Adult Nutrition and Care Business Unit and Baby Nutrition and Care Business Unit. As a result of the restructuring, severance payments totaling RMB12.7 million were paid to lay off staff.
- (e) Sales discounts in relation to the launch of SN-2 PLUS infant formula. See note (1) above.
- (f) In 2015, we updated shelf displays at retailers to replace our old logo and labels for Biostime infant formula with the new logo and labels for the SN-2 PLUS infant formula. The shelf display expenses were only incurred as a result of the launch of SN-2 PLUS infant formula and is not expected to recur in the future.
- (g) Advertising expenditures increased in 2015 to promote the new SN-2 PLUS infant formula and TV commercial fees were incurred for the launch of the new formula, which we consider to be one-off expenses. The additional advertising expenditures were calculated based on the advertising production costs for SN-2 PLUS infant formula and the increase in advertising and promotion expenditures in July and August 2015 when SN-2 PLUS infant formula was launched compared to the same period in the prior year. These were one time expenses related to the SN-2 PLUS infant formula launch and are not expected to recur in the future.
- (h) Other exchange losses arose due to the significant fluctuation of the exchange rates of the Renminbi, US dollar and Australian dollar in 2015. The extent of the exchange rate fluctuation and the resulting exchange losses in 2015 were considered to be unusual and we therefore consider them to be non-recurring.
- (i) The gain on disposal of property, plant and equipment.
- (j) Other non-cash adjustments are comprised of fair value losses on derivative financial instruments, equity-settled share options and share award expenses, impairment of trade receivables and inventory, and share of losses/(profits) of an associate.

The following items with respect to Swisse have been excluded from EBITDA:

- (k) Transaction costs in relation to the acquisition of Swisse incurred by Swisse.
- (l) The gain on sale of property, plant and equipment.
- (m) Shortly before the Swisse transaction, a long-term equity incentive plan, the Management Incentive Share Plan ("MISP") was introduced in June 2015. Under the MISP, selected management could acquire convertible shares in Swisse which in the event of an execution of a sale agreement for Swisse would convert into the right to receive cash bonuses. In connection with this plan, members of Swisse management received special bonuses in connection with the acquisition of Swisse by us.
- (n) Non-operating and other adjusting items in Swisse related to impairment charges on certain receivables due from related parties.
- (o) Other non cash adjustments comprise fair value losses on derivative financial instruments and impairments of trade receivables and inventory.

II. The following table shows the contribution of Biostime Standalone Adjusted EBITDA to our Adjusted EBITDA for the periods indicated.

(in millions)	For the year	For the three months ended		For the 12 months	
	ended	March 31,		ended March 31,	
	December 31,	2015	2015	2016	2016
	2015	2015	2016	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB)	(US\$)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(pro forma)	(pro forma)		(pro forma)	(pro forma)
Biostime Standalone Adjusted EBITDA.....	888.7	285.8	349.8	952.7	147.1
Swisse Adjusted EBITDA contribution <sup>(a)</sup> ...	1,115.8	134.3	215.3	1,196.8	184.7
Consolidation and other adjustments <sup>(b)</sup> .....	(7.5)	—	3.6	(4.0)	(0.6)
Adjusted EBITDA .....	1,996.9	420.1	568.7	2,145.5	331.2

(a) Reflects Swisse contribution to Adjusted EBITDA, as well as the Swisse related adjustments to Adjusted EBITDA. See note (3) for adjustments made to Swisse EBITDA to calculate Adjusted EBITDA.

(b) Consists of adjustments to remove unrealized profit arising from intragroup sales and purchases relating to transactions between Swisse and Biostime.

- (4) Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of Adjusted Revenue.
- (5) Free cash flow represents Adjusted EBITDA adjusted to (i) remove adjusted net capital expenditures and (ii) adjust for changes in working capital. The following table sets forth a reconciliation of Adjusted EBITDA to free cash flow for the periods indicated:

(in millions)	For the year ended December 31,				For the three months ended March 31,		For the 12 months ended March 31,	
	2013	2014	2015	2015	2015	2016	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited) (pro forma)	(unaudited) (pro forma)	(unaudited)	(unaudited) (pro forma)	(unaudited) (pro forma)
Adjusted EBITDA .....	1,337.2	1,157.8	1,251.3	1,996.9	420.1	568.7	2,145.5	331.2
<i>Adjustments for:</i>								
Adjusted net capital expenditures <sup>(a)</sup> .....	(30.7)	(54.7)	(35.4)	(48.5)	(9.8)	(33.5)	(72.2)	(11.2)
(Increase) / decrease in working capital <sup>(b)</sup> .....	(164.2)	149.2	2.6	(171.6)	(26.6)	(60.4)	(205.4)	(31.6)
<b>Free cash flow</b> .....	<b>1,142.3</b>	<b>1,252.3</b>	<b>1,218.5</b>	<b>1,776.8</b>	<b>383.7</b>	<b>474.8</b>	<b>1,867.9</b>	<b>288.4</b>

- (a) Represents payment for property, plant and equipment and payment for intangible assets less proceeds from the sale of property, plant and equipment excluding capital expenditures related to constructing our new plant in Guangzhou.
- (b) Increase/decrease in working capital represents the sum of the increase/decrease during the period indicated in inventories, trade and bills receivables, prepayments, deposits and other receivables, trade and bills payable, other payables and accruals and, with respect to Biostime, rental deposits, and with respect to Swisse, provisions and employee entitlements, after taking out the effect of impairment charges on these items, where applicable.
- (6) Cash conversion rate represents free cash flow as a percentage of Adjusted EBITDA. See notes (3) and (5) for a description of Adjusted EBITDA and Free Cash Flow.
- (7) Net borrowings represent total debt excluding cash bridge facilities, less cash and cash equivalents, as of March 31, 2016, shown on a further adjusted basis to reflect the issuance of the Notes, the refinancing of our bridge loan with our Senior Facility Agreement, repayment of certain working capital and cash bridge facilities and the repurchase of a portion of the Convertible Bonds through the Tender Offer. See "Capitalization".
- (8) Net leverage represents the ratio of our net borrowings to our Adjusted EBITDA. See notes (3) and (7) for a description of Adjusted EBITDA and net borrowings.
- (9) Net senior borrowings represent our total debt (excluding cash bridge facilities) that are (i) senior, (ii) first priority secured, or (iii) the borrowings of our subsidiaries, less cash and cash equivalents (excluding funds in the Escrow Account). On an as further adjusted basis such borrowings consist of our borrowings under the Senior Facility Agreement (see "Capitalization"). Net senior leverage represents the ratio of our net senior borrowings on an as further adjusted basis to our Adjusted EBITDA.
- (10) Interest coverage represents the ratio of Adjusted EBITDA over our coupon interest expense on our outstanding cash bridge facility and our total borrowings shown on an as further adjusted basis to reflect the issuance of the 7.25% Notes, the refinancing of our bridge loan with our Senior Facility Agreement, repayment of certain working capital facilities and the repurchase of a portion of the Convertible Bonds through the Tender Offer. For purposes of the interest on our Senior Facility Agreement, we have used the current one month LIBOR to calculate interest expense. See "Capitalization" for a description of our total borrowings.

## Biostime Standalone Financial Information

(in millions)	For the year ended December 31,			For the three months ended March 31,		For the 12 months ended March 31,	
	2013	2014	2015	2015	2016	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(US\$)
				(unaudited)	(unaudited)	(unaudited)	(unaudited)
Biostime Standalone Revenue <sup>(1)</sup> .....	4,561.3	4,731.6	3,968.7	995.7	867.8	3,840.8	592.9
Biostime Standalone Adjusted Revenue <sup>(1)</sup> .....	4,561.3	4,731.6	4,283.8	1,087.1	867.8	4,064.5	627.5
Biostime Standalone EBITDA <sup>(2)</sup> .....	1,111.7	1,142.6	279.3	143.1	475.5	611.8	94.5
Biostime Standalone Adjusted EBITDA <sup>(2)</sup> .....	1,337.2	1,157.8	888.7	285.8	349.8	952.7	147.1

(1) Biostime Standalone Revenue and Biostime Standalone Adjusted Revenue represents our revenue and Adjusted revenue excluding revenue derived from our adult nutrition and care products segment, which represents the business of Swisse.

(2) For 2013 and 2014, Biostime Standalone Adjusted EBITDA and Biostime Standalone EBITDA represents our actual Adjusted EBITDA and EBITDA, respectively. See note (3)(II) to “Biostime consolidated financial information—Other information” for a reconciliation of Biostime Standalone Adjusted EBITDA to Adjusted EBITDA for 2015, the first quarter of 2015 and 2016 and the 12 months ended March 31, 2016.

Biostime Standalone EBITDA has been calculated by reversing the adjustments made to Biostime Adjusted EBITDA which related to Biostime for 2015, the first quarter of 2015 and 2016, and the 12 months ended March 31, 2016. Please see Notes (2) and (3)(I) to “Biostime consolidated financial information—Other Information”.

## Swisse Standalone Financial Information

### Summary consolidated statements of comprehensive income

AAS (in millions)	For the year ended June 30,			For the 12 months ended March 31,	
	2013	2014	2015	2016	2016
	(A\$)	(A\$)	(A\$)	(A\$) (unaudited)	(US\$) (unaudited)
Revenue from continuing operations.....	149.7	125.6	313.1	581.7	423.8
Other Income .....	0.0	5.5	0.2	1.7	1.2
Materials, consumables and freight.....	(65.7)	(61.6)	(118.9)	(214.5)	(156.3)
Employee benefits expense.....	(16.3)	(19.1)	(26.9)	(140.8)	(102.6)
Depreciation and amortization expense.....	(2.3)	(3.1)	(3.1)	(3.4)	(2.5)
Advertising and marketing expenses.....	(45.1)	(29.7)	(26.5)	(43.0)	(31.3)
Selling and other rebates .....	(10.5)	(4.2)	(5.1)	(5.1)	(3.7)
Occupancy expenses.....	(1.2)	(1.6)	(2.2)	(4.1)	(3.0)
Administration expenses.....	(5.3)	(3.8)	(8.4)	(28.7)	(20.9)
Distribution costs .....	(4.5)	(2.7)	(5.6)	(9.2)	(6.7)
Other expenses.....	(5.1)	(5.0)	(6.4)	(9.7)	(7.1)
Finance costs .....	(2.7)	(7.7)	(7.7)	(4.7)	(3.4)
Share of profit from associates.....	0.3	0.3	—	—	—
<b>Profit/(loss) before tax.....</b>	<b>(8.5)</b>	<b>(7.2)</b>	<b>102.5</b>	<b>120.2</b>	<b>87.5</b>
Income tax (expense)/benefit.....	2.8	1.6	(28.8)	(44.1)	(32.1)
<b>Profit/(loss) from continuing operations .....</b>	<b>(5.8)</b>	<b>(5.6)</b>	<b>73.7</b>	<b>76.1</b>	<b>55.4</b>
Profit/(loss) from discontinued operations .....	(11.6)	(33.8)	—	—	—
<b>Profit/(loss) after tax .....</b>	<b>(17.3)</b>	<b>(39.4)</b>	<b>73.7</b>	<b>76.1</b>	<b>55.4</b>

### Summary consolidated statements of financial position data

AAS (in millions)	As of June 30,			As of March 31,	
	2013	2014	2015	2016	2016
	(A\$)	(A\$)	(A\$)	(A\$) (unaudited)	(US\$) (unaudited)
Cash and cash equivalents.....	0.8	14.1	57.2	102.2	74.5
Total assets .....	86.3	77.4	200.2	283.1	206.3
Total liabilities.....	96.5	123.7	179.6	282.1	205.5
Total shareholder's equity .....	(10.5)	(46.3)	20.6	1.0	0.7

## Summary consolidated statements of cash flow data

AAS (in millions)	For the year ended June 30,		
	2013	2014	2015
	(A\$)	(A\$)	(A\$)
Net cash flows from/(used in) operating activities .....	(22.1)	(25.2)	76.0
Net cash flows from/(used in) investing activities .....	(5.1)	(1.4)	(0.7)
Net cash flows from/(used in) financing activities .....	27.0	40.0	(32.2)

## Other financial data

(in millions)	For the year ended June 30,			For the 12 months ended March 31,	
	2013	2014	2015	2016	2016
	(A\$)	(A\$)	(A\$)	(A\$)	(US\$)
				(unaudited)	(unaudited)
Revenue .....	149.7	125.6	313.1	581.7	423.8
EBITDA <sup>(1)</sup> .....	(3.6)	3.3	112.6	127.0	92.5
Adjusted EBITDA <sup>(2)</sup> .....	(3.6)	3.3	115.8	260.3	189.7
Net capital expenditure <sup>(3)</sup> .....	5.1	1.4	0.7	6.5	4.7

(1) EBITDA represents profit / (loss) plus (profit) / loss from discontinued operations, income tax expense / (benefit), finance costs, interest income, depreciation and amortization. The following table reconciles profit / (loss) to EBITDA for the periods indicated:

(in millions)	For the year ended June 30,			For the 12 months ended March 31,	
	2013	2014	2015	2016	2016
	(A\$)	(A\$)	(A\$)	(A\$)	(US\$)
				(unaudited)	(unaudited)
Profit / (loss) after tax .....	(17.3)	(39.4)	73.7	76.1	55.4
<i>Adjustment for:</i>					
(Profit) / loss from discontinued operation .....	11.6	33.8	—	—	—
Income tax expense / (benefit) .....	(2.8)	(1.6)	28.8	44.1	32.1
Finance costs .....	2.7	7.7	7.7	4.7	3.4
Interest income .....	(0.1)	(0.2)	(0.7)	(1.3)	(0.9)
Depreciation and amortization .....	2.3	3.1	3.1	3.4	2.5
<b>EBITDA</b> .....	<b>(3.6)</b>	<b>3.3</b>	<b>112.6</b>	<b>127.0</b>	<b>92.5</b>

- (2) Adjusted EBITDA represents EBITDA, excluding (i) the loss / (gain) on sale of property, plant and equipment; (ii) transaction costs in relation to the acquisition of Swisse incurred by Swisse; (iii) bonuses paid to Swisse employees in connection with the acquisition of Swisse under the Swisse MISP; (iv) certain non-operating or non-recurring items in Swisse related to a noncontrolled intercompany impairment loss and (v) other non-cash adjustments. Financial results for the 12 months ended March 31, 2016 presented in US dollars may not reconcile to the Swisse results of operations presented in the “Bostime Consolidated Financial Information” due to the application of different exchange rates. An average exchange rate has been used to translate Swisse’s Financial Statements from Australian dollar to Renminbi, which is different from the spot rate which has been applied in the presentation of Swisse Standalone Financial Information. The following table reconciles EBITDA to Adjusted EBITDA for the periods indicated:

(in millions, except percentage)	For the year ended June 30,			For the 12 months ended March 31,	
	2013	2014	2015	2016	2016
	(A\$)	(A\$)	(A\$)	(A\$)	(US\$)
				(unaudited)	(unaudited)
EBITDA .....	(3.6)	3.3	112.6	127.0	92.5
<i>Adjustment for:</i>					
Transaction costs .....	—	—	—	22.3	16.2
Loss/(gain) on sale of property, plant and equipment <sup>(a)</sup> .....	—	—	—	0.9	0.7
MISP cash bonuses <sup>(a)</sup> .....	—	—	—	100.4	73.2
Non-operating and other adjusting items <sup>(a)</sup> .....	—	—	—	1.8	1.3
Other non-cash adjustments <sup>(a)</sup> .....	—	—	3.2	7.9	5.8
<b>Adjusted EBITDA .....</b>	<b>(3.6)</b>	<b>3.3</b>	<b>115.8</b>	<b>260.3</b>	<b>189.7</b>
<b>Adjusted EBITDA margin .....</b>	<b>(2.4)%</b>	<b>2.6%</b>	<b>37.0%</b>	<b>44.7%</b>	<b>44.8%</b>

(a) Please see note (3) to “Bostime Consolidated Financial Information — Other financial information” for a description of the above adjustments.

- (3) Represents payment for property, plant and equipment and payment for intangible assets less proceeds from the sale of property, plant and equipment.



## RISK FACTORS

*An investment in the Notes involves a high degree of risk. In addition to the other information in this offering memorandum, you should carefully consider the following risk factors before purchasing the Notes. The occurrence of any of the events discussed below could materially adversely affect our business, financial condition and results of operations. The risks and uncertainties described below are not the only ones we believe we are exposed to. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition or results of operations. If any one of these events occurs, the trading price of the Notes could decline and we may not be able to pay interest or principal on Notes when due, and you could lose all or part of your investment. The order in which these risks are presented is not intended to provide an indication of the likelihood of their occurrence or of their severity or significance.*

*This offering memorandum also contains forward-looking statements that are based on assumptions and estimates and are subject to risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, the risks described below and elsewhere in this offering memorandum. See “Forward-looking statements” for further information.*

### **Risks relating to our businesses and industries**

#### **Our profitability may suffer as a result of competition in the markets in which we operate.**

The markets in which we operate are intensely competitive. A number of our primary competitors have substantial financial, marketing and other resources. We compete against large global companies, which have internationally well-known brands that have been available to consumers longer than our brands. In addition, we also compete with local brand products that are generally sold at lower prices than those of our products. Competition is based on the following factors:

- brand recognition and loyalty;
- product quality and technology;
- effectiveness of marketing, promotional activity and the ability to identify and satisfy consumer preferences;
- product innovation and development;
- price; and
- distribution and availability of products.

Our ability to adequately respond to the changes in the markets in which we operate and to maintain our competitiveness and market share will be fundamental to our future success in our existing and new markets. In some markets and for some of our products, including the e-commerce market, our competitors may have greater financial and marketing resources, larger consumer bases and/or a greater breadth of product offerings than we do. If we are unable to remain competitive, our market share for certain products and services may be adversely affected and our margins could decline due to pricing pressure.

In order to protect our existing market share and to capture an increased market share, we may need to improve our brand recognition and product value propositions, as well as to increase our spending on marketing, advertising and product development and innovation. The success of marketing, advertising and product development and innovation is subject to risks, including uncertainties about trade and consumer acceptance. We may also need to adjust prices for some of our products to respond to competition and consumer pressures and to maintain our market share. In addition, we rely on

discounts and promotions to expand our distribution network and increase consumer loyalty. Competition and distribution and consumer pressures may restrict our ability to increase prices to respond to commodity cost increases. Our business will suffer if profit margins decrease, either as a result of a reduction in prices, increasing use of discounts, increasing use of product bonuses or giveaways, or increasing costs coupled with an inability to increase prices proportionally. For further information, see “Industry overview” and “Business—Competition.”

**We may fail to realize the anticipated business growth opportunities, revenue benefits, cost synergies, operational efficiencies and other benefits anticipated from, or may incur unanticipated costs associated with, the acquisition of Swisse and other existing and possible future acquisitions.**

The success of any of our past or future acquisitions, including our acquisition of an 83% shareholding in Swisse and our acquisition of Healthy Times, will depend on our ability to integrate the acquired businesses effectively. The integration of acquired businesses may be complex and expensive and present a number of risks and challenges, including:

- the diversion of management time, effort and attention from existing business operations;
- the unanticipated loss of revenue or increase in operating or other costs contrary to our projections when making the acquisition;
- the inability to realize synergies between our businesses, including across our supply chain or through cross-marketing;
- the need to adopt new platforms across multiple businesses in order to fully integrate reporting, including the adoption of a new ERP system across the Group, including Swisse;
- the challenge of developing an understanding of, and new technical skills and markets with respect to, the acquired business;
- the possible loss of key employees;
- the possible loss of consumers, distributors or suppliers;
- the assumption of debt or other liabilities of the acquired business, including litigation related to the acquired business; and
- the possible expansion into new geographical markets and segments may require us to find and cooperate with distributors and suppliers with whom we have not previously done business.

There can be no assurances that we will be able to achieve the business growth opportunities, revenue benefits, cost synergies, operational efficiencies and other benefits anticipated from the acquisition of Swisse or any other past and future acquisitions. Integrating any acquired business may result in additional unforeseen difficulties or liabilities and could impact the effectiveness of our internal controls over financial reporting. Any of the foregoing or other factors could have a material adverse effect on our business, financial condition and operating results.

**We are dependent on relationships with third-party suppliers.**

Our business depends on our ability to source high quality premium raw materials and manufactured products principally from Western Europe, including France and Denmark, as well as Australia on commercially reasonable terms. Our relationship with a supplier is generally governed by an agreed

set of terms and conditions. Our suppliers may cease selling products to us on terms acceptable to us, fail to deliver sufficient quantities of products in a timely manner, encounter financial difficulties, terminate their relationship with us and enter into agreements with our competitors or experience raw material or labor shortages or increases in raw material or labor costs.

Our suppliers may also choose to take actions to reduce their credit exposure to us, including by seeking to change their credit terms or refusing to contract with us. Agreements with our suppliers generally provide a framework for pricing, through which raw material price changes are adjusted semi-annually in accordance with market prices. As a result, we may be subject to price increases based on changes in our suppliers' businesses, cost structures, market conditions or other factors.

Our supply of products and raw materials can also be materially adversely affected by a number of other factors, including, among other things:

- increases in shipping or other transportation costs;
- reductions in the quality of goods, products or materials supplied to or from suppliers;
- manufacturing and transportation delays and interruptions, whether as a result of natural disasters, industrial action in the supply chain or other factors;
- potential economic instability in countries where our suppliers are located;
- supplier compliance with applicable laws, including labor and environmental laws;
- adverse fluctuations in currency exchange rates; and
- changes in relevant laws affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws.

Any disruption to our availability or supply of products, or any deterioration in the terms on which products are supplied to us, could restrict our ability to conduct our business and thereby materially adversely affect our business, financial condition and results of operations.

**The minority shareholders of Swisse may be entitled to require us to repurchase the remaining shares of Swisse.**

In connection with the acquisition of Swisse, we entered into a call option deed (the "Option Deed") with the holders of the 17% outstanding shares of Swisse which were not sold in the acquisition (the "Minority Shareholders"). The Minority Shareholders include (among others) Radek Sali and other members of Swisse management who are all subject to certain non-compete undertakings to protect the business of Swisse. The Option Deed provides that we have an option, subject to the satisfaction of certain conditions, to require the Minority Shareholders to exchange their shares in Swisse for an equivalent stake in Biostime Healthy Australia Holdings Pty at any time prior to the third anniversary of the acquisition (the "Roll Up Option"). Under the terms of the Senior Facility Agreement, we must exercise the Roll Up Option within six months of the drawdown under the Senior Facility Agreement. If we fail to exercise the Roll Up Option in that time, it will constitute an event of default under the Senior Facility Agreement. Any default under the Senior Facility Agreement would have a material adverse effect on our business, results of operations and financial condition.

In addition, the Option Deed contemplates that, upon completion of the exercise of the Roll-Up Option, the Minority Shareholders would have an option to require us to purchase all of the shares held by the relevant Minority Shareholder, at a fair market value determined by a third party expert, exercisable on the third, fifth, sixth, seventh and eighth anniversaries of completion of the acquisition. In April 2016, concurrently with our entry into the Senior Facility Agreement, a majority of the Minority Shareholders (representing 11.7% of the outstanding shares of Swisse) agreed to waive their

right to exercise this option on the third anniversary of completion of the Acquisition to the extent the Company does not have or cannot raise sufficient resources to satisfy the put share purchase. Thereafter, the relevant Minority Shareholders may exercise the option at the earlier of (i) the fifth anniversary of March 20, 2017; (ii) a refinancing of the Notes; or (iii) one month after the maturity date of the Notes. Nonetheless, those Minority Shareholders who have not waived their right to exercise their option may exercise that right on or about September 2018. If one or more of such non-waiving Minority Shareholders exercise their option, we would be required to purchase their Shares for cash within a specified period after such exercise. There can be no assurance that we would have the sufficient amount of cash available to purchase such Shares.

**Production and supply by our suppliers may be interrupted.**

Production and supply by our suppliers may be influenced by a number of factors that are beyond our control, including:

- changes in the environmental, climatic, economic, political or social conditions in the country where the supplier is located. Our suppliers are located in various countries, principally France, Denmark and Australia and any adverse changes in the environmental, climatic, economic, political or social conditions in any of these countries may have an adverse effect on our ability to obtain sufficient supplies of raw materials and products within required time periods and/or at reasonable prices, which may consequently have a material adverse effect on our business, financial condition and results of operations; and
- disruptions of supply or substantial increases in price. There may be unexpected disruptions of supply or increases in the prices of raw materials, among which milk being the most significant as it constitutes one of our largest costs of raw materials, for a number of reasons, such as regulatory requirements, transportation and import restrictions, failure to meet suitable quality standards and manufacturing disruptions.

In the event any of our third-party suppliers or vendors were to become unable or unwilling to continue to provide raw materials in the required volumes and quality levels or in a timely manner, we would be required to identify and obtain acceptable replacement supply sources. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, obtain alternative supply sources, or to effectively manage such events if they occur, particularly when a product is sourced from a single location, could materially adversely affect our business, financial condition and results of operations. For further information, see “Business—Suppliers and manufacturing.”

**Political instability may disrupt our supply chain, adversely affecting the availability of our products and raw materials.**

Nearly all of the baby nutrition and care products and all of the adult nutrition and care products we sell in China are imported. We source our products and ingredients from Western Europe, including France and Denmark as well as Australia. Political instability or other events resulting in the disruption of trade from these countries to China or the imposition of additional regulations relating to, or duties upon, imports could cause significant delays or interruptions in the supply of our products and ingredients or increase costs, any of which could have a material adverse effect on our business and results of operations.

Since a large proportion of our baby nutrition and care products and adult nutrition and care products as well as the high quality ingredients used to manufacture our products are supplied from France, Denmark and Australia. As a result, any disruption of trade with any of those countries would have a material adverse effect on our business and results of operations. If we sought to source our products or ingredients from other countries, those products or ingredients may be more expensive or of an inferior quality than those we are replacing, or we may not be able to replace those products or ingredients at all. Any such disruption and the costs associated with finding alternate suppliers would ultimately have an adverse effect on our results of operations and financial condition.

**Our business could be harmed if we fail to maintain cost efficiencies in the supply chain and proper inventory levels.**

We maintain significant inventory levels and any failure to control the amount of our inventory could reduce our profitability and increase losses. For example, constraints on our inventory management systems and/or processes may mean that we may end up with excess inventory. In response, we may be forced to increase our marketing promotions or price discounts. Conversely, any failure to order enough products or problems in the delivery and distribution of products could result in lost revenue. Failure to maintain appropriate inventory levels could therefore have an adverse effect on our financial condition and results of operations.

**Any major outbreak of illness or disease relating to cattle could lead to significant shortfalls in the supply of infant formulas and could cause consumers to avoid or reduce consumption of our infant formula products, resulting in substantial declines in our revenue and possible serious losses.**

A major outbreak of any illness or disease in cattle in any country from which we source milk products for our infant formula products could lead to a loss of consumer confidence in, and demand for, our infant formula products. A major outbreak of mad cow disease, bovine tuberculosis or other serious diseases in France, Denmark or the other countries from which we source milk products for our infant formula products could result in the widespread destruction of the affected cattle and consequently lead to significant shortfalls in the supply of milk products or affect the continuity and quality of the supply of infant formula products. Further outbreaks of, or concerns about, these or other diseases could create unfavorable publicity, which may discourage consumers from purchasing dairy products, including our infant formula products, or any other infant formula products associated with imported milk from affected countries. If consumers were to avoid or reduce consumption of our infant formula products, our revenue may decline substantially and we could suffer serious losses.

**Increases in raw material prices and commodity costs that we are unable to pass on to our consumers will reduce our profit margins and profitability.**

We attempt to negotiate competitive rates for the raw materials and end products from our suppliers. Any shortage in raw materials or fluctuations in world commodity prices, most significantly of milk, which constitutes one of our largest costs of our raw materials, may negatively affect the purchase price we have negotiated with our suppliers. Risks such as fluctuating exchange rates, social and political unrest, and economic volatility in the countries or regions where we import our products may negatively and materially affect our operating costs.

Commodity prices impact our business directly through the costs of raw materials used for our products (such as milk powder, probiotic powder, vegetable oils, lactose and whey protein concentrate), the cost of inputs used to manufacture and ship products (such as crude oil and energy) and the amount paid to produce or purchase packaging for our products (such as cans, pouches, cardboard and aluminum foils). There is no assurance that the costs for raw materials and other commodities will remain stable. Such commodities are susceptible to price volatility caused by conditions beyond our control, including fluctuations in commodities markets, currency fluctuations and changes in governmental agricultural programs. Any increase in the prices for raw materials and commodities may result in our offering to the market less competitive products, in particular in relation to competitors that may have greater access to less expensive sources of supplies or may effectively utilize hedging instruments to offset sudden price increases in commodities. In particular, our ability to pass on part or all of the cost increases to our consumers depends largely on market conditions, including the pricing strategies of our competitors. To sustain price competitiveness and to maintain our market share, we may decide not to increase the price of the products, despite an increase in costs, and as a result we may experience lower profitability.

**The manufacturing of many of our products is a highly exacting and complex process, and if our suppliers or we should encounter problems relating to the manufacturing process or losses of manufacturing certifications, our business may be adversely affected.**

The manufacturing of many of our products, principally by our suppliers, is a highly exacting and complex process, in part due to strict regulatory requirements. Problems may arise during the manufacturing process for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials, natural disasters, various contagious diseases and process safety issues. If problems arise during the production of a batch of products, the entire batch of products may have to be discarded. This could, among other things, lead to increased costs, supply constraints, lost revenue, damage to our brands and reputation, diversion of time and financial resources to investigate the cause and, depending on the cause, similar losses with respect to other batches of products. If problems are not discovered before the affected products are released to the market, recall and product liability costs, as well as reputational damage, may also be incurred. If any of our suppliers or we experience significant manufacturing problems, they could have a material adverse effect on our business and results of operations.

**Our business reputation and consumers' perception of our brand may be affected by real or perceived quality issues, including product recalls, product liabilities or other claims.**

One of the key competitive selling points of our products is their high quality and consumer confidence in their safety. Thus, our business is highly sensitive to consumer perception of the safety, quality, health and nutritional benefits of our products. Any contamination, spoilage or other adulteration, product misbranding or product tampering, whether real or perceived, could cause a product recall. As we offer products designed for human consumption, we are subject to product liability claims if consumption of our products is alleged to have resulted in any adverse reaction, illness or injury. We may also experience additional losses from any product recalls and suffer a decline in our business due to a loss of trust from consumers.

There is a risk that our products and processes may be contaminated due to factors that may not always be within our control. For example, infant formulas, probiotic supplements and dried baby food, as food products, are not sterilized and a substantial portion of these products are prepared and maintained according to instructions on the product label to retain their flavor and nutritional value and to avoid contamination or deterioration. Depending on the specific type of product, a risk of contamination or deterioration exists at each stage of the production process, including the purchase and delivery of raw food materials from third-party suppliers, the processing and packaging of food products and the using and handling of our products by consumers. We may be exposed to adverse public relations if any of our products causes, or is alleged to have caused, injury or illness or if we have violated, or are alleged to have violated, any safety regulations. In the event of claims or allegations that any of our products is harmful, our business may be adversely affected.

In addition, third-party manufacturers produce many of our products. We rely on these manufacturers to ensure the integrity of their ingredients. As a result, we may also be liable for product liability claims for products that we do not manufacture. Although our agreements with our third-party suppliers typically require the supplier to indemnify us to the extent of any such claims, any such indemnification is limited by its terms. Moreover, as a practical matter, any such indemnification is dependent on the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. We may be unable to obtain a full recovery from the insurer or any indemnifying third party in respect of any claims against us in connection with products manufactured by such third party. In addition, even if an incident is caused by one of our manufacturers and we are able to recover for direct damages, our business may still suffer due to the damage to our reputation.

We have been, and may be, subject to various product liability claims, including, among others, that our products include inadequate instructions for use or inadequate warnings concerning possible side effects and interactions with other substances. For further information, see “Business—Suppliers” and “Business—Legal proceedings.” Even with adequate insurance and indemnification provisions, product liability claims could significantly damage our reputation and consumer confidence in our products. We could also incur significant litigation expenses, which also could have a material adverse effect on our results of operations even if a product liability claim is unsuccessful or is not fully pursued.

**Failure to effectively maintain or promote our brands, or to grow our marketing capabilities, may adversely affect our future success.**

We believe our Biostime<sup>TM</sup> and related brands are a symbol for high quality and reliable pediatric products. Our Biostime<sup>TM</sup> and related brands distinguish us as a pediatric nutritional products supplier with high quality products which are sourced from Western European manufacturers, as opposed to other Chinese brands which primarily source their products domestically. Similarly, for our Swisse<sup>TM</sup> brand, we believe consumers perceive it as a symbol for high quality and premium multivitamin and adult nutrition supplements and products.

The willingness of consumers to purchase our products depends on our ability to continue offering innovative and value-added products to consumers. If our consumers’ perception of our products deteriorates, they may refrain from purchasing our products.

In addition, the success and lifespan of our products depend, to a significant extent, on the effectiveness of our marketing strategies. We market our products through both online and offline media. We also undertake promotional projects for special events such as the London Olympic Games in 2012 and the forthcoming Olympic Games in Rio de Janeiro in August 2016.

There is no assurance that our budget for marketing is adequate for achieving the expected marketing results. For example, television advertising rates in China have steadily increased and the promotion expense of special events such as the Olympic Games is very high. Any factors which limit our capability to market ourselves, whether due to increased costs of marketing or by regulatory restrictions, will have an adverse effect on our market share, brand name and reputation of our products, which may result in reduced demand for our products and negatively affect our business and results of operations.

Furthermore, we could be subject to claims relating to false or misleading advertising. The relevant advertising laws and regulations require advertising content to be fair and accurate, not misleading and in full compliance with applicable laws. For example, we receive complaints from time to time related to our advertising in Australia. Violation of any of these laws or regulations may result in penalties, including fines, orders to cease dissemination of advertisements, orders to publish advertisements to rectify any misleading information and even criminal liabilities. If we are found to have committed any violation of applicable advertising laws and regulations, some of the advertising activities may be discontinued, which may adversely affect our revenues, reputation and the image of our products. Moreover, government actions and civil claims may be filed against us for misleading or inaccurate advertising. We may have to spend significant resources to defend ourselves, and such claims may damage our reputation and brand image, result in reduced turnover, and negatively affect our business and results of operations.

**We may not be able to sustain our historical sales and profit margins and further manage our growth effectively.**

The infant formula and the VHMS industries in China have undergone substantial growth in recent years. However, the infant formula and the VHMS industries may experience slower growth in the future due to increased competition against alternative products, changes in purchasing behavior and increasing market saturation. We may need to spend more resources on marketing or offer greater discounts due to increased competition. For example, revenues from our infant formula product segment decreased by 13.8% for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, due in part to competition. Moreover, as our Swisse™ branded products have already established sizeable market share in the online VHMS market in China, gaining additional market share in online VHMS market will become increasingly difficult and our growth rate in the respective market may slow down. While we have experienced strong growth in the past, there is no guarantee that we will be able to achieve sustained profitable growth in the future.

**We may face difficulties as we introduce new product offerings.**

In connection with the sales and marketing of our new products, we may have to sell our existing products at a significantly discounted price, which could adversely affect our revenue. We provide discounts on our products in order to promote our products, to incentivize distributors and to accelerate sales of excess inventory, which could decrease our short-term profitability. For example, in connection with the launch of our new SN-2 PLUS infant formula in June 2015, we had to offer exceptional one-time discounts such as “buy three get one free” and “buy one get one free” to distributors in the first three quarters of 2015 in order to clear old series formula from our distribution chain as distributors and retailers had limited shelf space. We also provide bonus or free stock to certain distributors as an incentive, in our adult nutrition and care segment as well as in our other our pediatric nutritional and baby care products.

Moreover, we may face competition in new markets from other competitors, including those with more relevant technological and managerial experience, and may need to incur additional costs. Expanding our product offering may also put pressure on our managerial, marketing, technical, financial, production, operational and other resources. To manage future product growth, we may need to increase distribution capacity, enhance financing controls and hire additional skilled personnel as well as manage relationships with a greater number of consumers, regional distributors, suppliers and other third parties. In addition, we may incur additional promotional costs in connection with new product launches. For example, in connection with the launch of SN-2 PLUS infant formula, we incurred special promotional costs of RMB125.0 million (US\$19.3 million) in connection with advertising linked to the launch and replacing in-store displays. We may need to incur similar costs in the future for launches of major new products.

There can be no assurance that we will be able to successfully introduce new product offerings, that demand for these new products will grow to the extent that we expect or that these new products will provide the returns that we expect. Furthermore, we may encounter regulatory, personnel and other difficulties that increase our expenses in connection with new product offerings or delay our ability to expand our sales distribution network. For further information, see “Business—Products and suppliers” and “Regulation.”

**We may face challenges in expanding our operations.**

We sell our Swisse™ branded adult nutrition and care products internationally through PGT. We also sell our Swisse™ branded adult nutrition and care products in Australia, New Zealand and China. As we seek to expand our active sales including China we will face risks, including risks that we are unable to attract sufficient consumers or that we are unable to operate effectively.



The expansion of our business and product offering will also expose us to risks relating to staffing and managing larger operations, lack of acceptance of our product offerings, increased and conflicting regulatory compliance requirements, challenges caused by distance, language and cultural differences, exchange rate risk, tariffs and other trade barriers and political instability. Accordingly, any efforts we make to expand our operations may not be successful, which could limit our ability to grow our revenue and profitability.

**Our business is impacted by seasonality and disruptions during peak seasons may impact our operations.**

The sales of our products are subject to seasonality. For our baby nutrition and care products, we generally experience higher sales in the fourth quarter due to increased purchases from distributors in advance of Chinese New Year as well as to meet their annual sales targets since many distributors are closed for the Chinese New Year period. For our adult nutrition and care products, we generally experience higher sales in the fourth quarter as a result of sales leading up to the Christmas holidays in Australia and as a result of the “Double 11 shopping day” in China. We experience reduced sales in the first quarter due to the Chinese New Year. If we were to experience a disruption during a peak sales period, due to a problem in our supply chain, manufacturing or distribution facilities or our distribution network, it would have a disproportionate impact on our results due to the missed sales. In addition, we have not integrated and consolidated Swisse in our operations for a full year, so our ability to predict Swisse’s impact on our results once it is fully integrated may be limited. We may experience disruptions or a strain on our management during peak periods which may adversely impact our business and our ability to realize our strategy.

**Our failure to appropriately respond to changing consumer preferences and demand for new products could significantly harm our consumer relationships and product sales.**

Our business is subject to changing consumer trends and preferences, as well as improving our products to incorporate the latest scientific and technological advances. We market certain of our brands as brands that incorporate some of the most scientifically advanced technologies available on the market, which we believe is a competitive differentiator compared to our competitors. Our continued success depends in part on our ability to anticipate and respond to these changes in consumer trends and preferences, and we may not be able to respond in a timely or commercially appropriate manner to these changes in consumer trends and preferences. If we are unable to do so, our consumer relationships and product sales could be significantly harmed.

Furthermore, the nutritional supplements industry is characterized by rapid and frequent changes in demand for products and new product introductions. Our failure to accurately predict these trends in consumer preference could negatively impact consumer opinion of our product offerings. This could harm our consumer relationships and cause losses to our market share. The success of our new product offerings depends upon a number of factors, including our ability to accurately anticipate consumer needs, develop new products, successfully launch new products in a timely manner, price our products competitively, source supplies for necessary ingredients, as some of which may have a limited number of suppliers, deliver our products in sufficient volumes and in a timely manner, and differentiate our product offerings from those of our competitors.

If we do not introduce new products or make product enhancements to meet the changing needs of our consumers in a timely manner, some of our products could become obsolete, which could have a material adverse effect on our revenue and results of operations. Furthermore, other companies may gain significant competitive advantages by introducing new products to the market, delivering constant development in products and techniques and offering competitive prices. Our future growth partially depends on our ability to develop products that are more effective in meeting consumer demand.

**An adverse change in demographic, consumer and economic trends as well as a change in scientific opinion regarding our products could materially and adversely affect our business and reduce our profitability.**

Part of our strategy relies on favorable demographic, consumer and economic trends of the Chinese market, including rising household incomes, an increasing number of working mothers, an increasing number of Chinese women willing to accept our products for their infants, and a growing adoption of a health and wellness conscious lifestyle in China. If these demographic trends change in an adverse way, our business could be materially and adversely affected. In addition, it is possible that new research may result in different findings or an adverse change in scientific opinion regarding the beneficial effects or risks of our products, which could materially and adversely affect our business and results of operations.

**Our sales of our Swisse™ branded products rely on a small number of key customers, and any failure to maintain good relationships with our customers could have a negative and material impact on our business and results of operations.**

The top five customers of our Swisse™ branded products represented 64.1% of our adult nutrition and care revenue in the three months ended March 31, 2016. Certain customers of our adult nutrition and care products also distribute our products in China through e-commerce, a market through which we recently began to offer our adult nutrition and care products directly to our end-consumers, which may result in reduced e-commerce sales for certain of our customers. In addition, since 2014 we have revised our terms of trade for our adult nutrition and care products to move away from providing discounts to our products to offering bonus stock. This has contributed to a decline in the percentage of our product sales being sold through grocery stores, which were less receptive to such changes. If we are unable to maintain good relationships with our key customers or to convince our customers to adopt our existing or any new changes to our trade terms, our revenue and results of operations could be adversely affected.

**Our operations in China are dependent on our regional distributors, and any failure to maintain good relationships with our regional distributors or failure of our distributors to comply with applicable law or our distributor policies and procedures could have a negative and material impact on our business and results of operations.**

In China, we sell a significant portion of our products through regional distributors. During the year ended December 31, 2015, 8.9% of our revenues in China were generated by our top five regional distributors by revenue. In China, our regional distributors are independent contractors and, accordingly, we are not in a position to directly provide the same direction, motivation and oversight as we would if distributors were our own employees. As a result, there can be no assurance that our regional distributors will participate in our plans, accept our introduction of new products, or comply with our distributor policies and procedures. Non-compliance by our regional distributors with distribution agreements entered into between us and such regional distributors could harm the reputation of our brands among end-consumers and disrupt our sales. While we have implemented regional distributor policies and procedures designed to govern regional distributor conduct and to protect the goodwill associated with our brands and products, it can be difficult to enforce these policies and procedures because of the large number of regional distributors and their independent status. In addition, we could be liable for actions taken by regional distributors, including any violation of applicable laws. If any regional distributors violate Chinese laws or otherwise engage in unlawful practices with respect to their sales of our products, we could be required to pay damages or fines, which could negatively affect our financial condition and results of operations. In addition, violations by our regional distributors of applicable law or of our policies and procedures in dealing with consumers could reflect negatively on our products and operations and harm our reputation. For more information, see “Business—Distribution network and sales.”

**Our operations in Australia are dependent on our distribution center in Sydney, Australia and any disruption of our distribution arrangements in Australia or failure to increase capacity could have a material adverse impact on our business and results of operations.**

Our Swisse™ branded adult nutrition and care products are stored in our distribution center in Sydney prior to distribution to stores and online customers. Our adult nutrition and care business is, therefore, dependent on the continued efficient operation of our distribution center and the ability of our distribution center to continue to deliver our products to store or satisfy consumer orders placed online, including any significant or rapid increase in consumer orders. Accordingly, any disruption to our distribution center's operation as a result of fire, accident or other circumstance could have a material adverse effect on our reputation, business, financial condition and results of operations.

Additionally, we continue to invest in our existing distribution operations in Australia and we may in the future invest in new distribution centers or other operational sites. Any failure to successfully increase capacity for the storage and distribution of our products may reduce our ability to grow our adult care and nutrition business. If we are unable to realize the benefits of an improved distribution infrastructure in Australia, our business, results of operations or financial condition could be materially adversely affected.

**The success and expansion of our online sales through e-commerce platforms depends on our ability to provide quality service to our consumers and if we are not able to provide such services, our results of operations may be adversely affected.**

In the recent years, we have expanded our e-commerce presence, both through third-party platforms and our own Mama100 application through which our consumers can purchase products on their mobile devices and pick up the ordered products from a local retail store. Increasing sales through e-commerce platforms in China is one of our principal strategies, in particular with respect to our Swisse™ branded products. Our online sales of products through e-commerce platforms are subject to the following risks:

- failure of our e-commerce partners to perform their services properly and in a timely and efficient manner;
- changes in consumer willingness to purchase goods via the internet;
- increased risk of counterfeit products offered online next to our own;
- increases in software filters that may inhibit our ability to market our products through e-mail messages to our consumers and increases in consumer privacy concerns relating to the internet;
- breaches of internet security, including a third party breaching our networks and accessing personal information about our consumers, which may lead to costs to mitigate damages and a loss of consumer trust;
- failures in our internet infrastructure or the failure of systems or third parties, such as telephone or electric power services, resulting in website downtime or other problems;
- failure by us to process online consumer orders properly and on time, which may negatively impact future online and in-store purchases by such consumers;
- failure by our service providers to provide logistic operations and delivery services, which may negatively impact future online and in-store purchases by consumers;
- failure to keep up with changes in technology; and
- failure by us to provide an acceptable level of consumer service in terms of our speed and efficiency in delivering consumer orders according to market standards.

If we are not able to provide satisfactory service to our online purchasers, our results of operations may be adversely affected. In particular, although we have been using the services of certain logistics services providers in the PRC, including the provision of warehouse space, the relevant services agreements are still under negotiation and have not been entered in writing between any of our subsidiaries and such logistics services providers. If we cannot reach lease agreements with the relevant third parties in writing, it may have an adverse impact on the supply of our products.

**Counterfeit products could negatively impact our revenue, our brand reputation, business and results of operations.**

Counterfeit products, which are products without proper licenses or approvals and are fraudulently mislabeled with respect to their content and/or manufacturer may be sold in our markets. Counterfeiters may illegally manufacture and/or market products under our various brand names or those of our competitors. Counterfeit products may or may not have the same contents as their authentic counterparts. If counterfeit products illegally sold under our brands result in adverse side effects to end-users, we may be associated with negative publicity resulting from such incidents, which could have an adverse impact on our revenue, business and results of operations.

**Unauthorized use of our intellectual property rights by third parties, and the expenses incurred in protecting our intellectual property rights, may materially and adversely affect our business and competitive position.**

We regard our trademarks, domain names and other intellectual property rights as key to our competitiveness and success. We rely on the trademark, domain names, other intellectual property laws and confidentiality agreements with our employees to protect our proprietary rights. Nevertheless, these laws and agreements afford only limited protection and it can be difficult and expensive to police unauthorized use of intellectual property that we own or are entitled to use. We have taken, and will continue to take, a variety of actions to combat infringement of our intellectual property. However, the level of protection for intellectual property rights and the enforcement of the relevant laws and regulations provided under PRC law are relatively inadequate compared to those available under the legal regimes in more developed economies. Infringement of our intellectual property rights by third parties, and the expenses incurred in protecting our intellectual property rights, may materially and adversely affect our business, financial condition and results of operations.

**We may be required to defend ourselves against intellectual property claims from third parties, which could harm our business.**

Our products may be subject to third-party patent or trademark claims. Third parties may obtain or may have obtained patents or register trademarks and claim that our products infringe or have infringed their intellectual property rights. These claims could cause us to incur significant expenses in defending ourselves and if such claims are successfully asserted against us, we may be required to pay substantial damages or royalties and/or be prevented from selling our products. Any litigation regarding intellectual property could be costly and time-consuming and could divert the attention of management and key personnel from our business operations. Furthermore, as a result of an intellectual property challenge, we may be required to enter into royalty licenses or other costly agreements, and we may not be able to obtain or enter into such license agreements or otherwise on acceptable terms or at all.

**Our controlling shareholders have substantial influence over the Group and their interests may not be aligned with the interests of the Noteholders.**

Our controlling shareholders, Mr. Luo Fei and Mr. Luo Yun, through their interests in Biostime Pharmaceuticals, will have substantial influence over our business. The interests of our controlling shareholders, in certain circumstances, may conflict with your interests as holders of the Notes. For example, our controlling shareholders could cause us to incur additional indebtedness, or to sell

certain material assets, in each case as permitted under the Indenture governing the Notes. Incurring additional indebtedness would increase our debt service obligations and selling assets could reduce our ability to generate revenues, each of which could affect holders of the Notes adversely. For further information, see “Principal Shareholders.”

**Our continuing success depends on our ability to retain our senior management and key personnel.**

Our success depends on the experience and skills of our current officers, management and key employees. In particular, our senior management has significant experience in the sale and production of pediatric as well as adult nutritional products. Members of the senior management of Swisse, including Swisse’s Chief Executive Officer Radek Sali are also minority shareholders of Swisse and are all subject to certain non-compete undertakings to protect the business of Swisse. The loss of any of these key personnel could adversely affect our ability to sustain and grow our business.

There is no assurance that we will be able to hire additional qualified employees to strengthen our management team or integrate new management into our existing operations in order to keep pace with the proposed growth of our business. We may not be able to attract or retain suitably qualified personnel. Failure to attract and retain additional qualified personnel may hinder our ability to grow our business, which could materially and adversely affect our business, financial condition and results of operations. For further information, see “Management.”

**Our business could be harmed by a failure of the information technology and administrative systems.**

We rely on our information technology and administrative systems, in particular our ERP system (a system which supports our operations and administration), membership points accumulation system and logistics system, to effectively manage our business data, communications, supply chain, order entry and fulfillment and other business processes. Failure of the information technology or administrative systems could disrupt our business and result in transaction errors, processing inefficiencies and the loss of sales and consumers. We also may face difficulty implementing new systems to integrate our operations, including a new ERP system and a new CRM system for the adult care and nutrition business. In addition, our information technology and administrative systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, security breaches and viruses. Any such damage or interruption could have a material adverse effect on our business and prevent us from paying our product suppliers, raw material suppliers or employees, receiving payments from our consumers, the loss of consumer information or performing other information technology or administrative services required by our business on a timely basis. For further information, see “Business—Information technology.”

**We have limited insurance coverage which may not be sufficient to cover all of our potential losses.**

We only obtain limited insurance coverage. As a result, we may have to pay out of our resources for any uninsured financial and other losses, damages and liabilities, including those caused by fire, severe climate and weather, disease, civil strife, strikes, natural disasters, terrorist incidents, industrial accidents or other causes. While we have product liability insurance, public liability insurance, property all-risk insurance, and cargo transportation insurance, which we believe to be adequate and in line with industry norms in the relevant markets in which we operate, significant damage to any of our manufacturing and distribution facilities could result in substantial costs to us. In addition, not all of our suppliers and distributors have adequate insurance, which may result in their inability to pay claims we have against them. Losses incurred, payments we are required to make or reputational damage we suffer may have a material adverse effect on our business, financial condition and results of operations to the extent that such losses or payments are not insured or the insured amount is not adequate to compensate the losses. For further information, see “Business—Insurance.”

**We may need to write down goodwill, which would adversely affect our financial results.**

As of March 31, 2016, 39.4% of our total assets constituted goodwill and 22.6% of our total assets constituted intangible assets, largely as a result of the acquisition of Swisse on September 30, 2015. Both goodwill and intangible assets are subject to an impairment test, at least annually or upon the occurrence of significant events or changes in circumstances that indicate an impairment has occurred. An adverse development in our business as a result of market conditions, change in consumer preferences or other reasons, may require us to recognize impairment charges and write-off all or a part of the carrying amount of our goodwill and intangible assets. A write-off of all or a part of our goodwill or intangible assets would adversely affect our financial results.

**We are subject to numerous government regulations in China, and it can be costly to comply with current and future regulatory requirements.**

We are subject to various laws and regulations in China concerning environmental protection and in relation to the manufacturing, packaging, storage, distribution, sales, import and labeling of our products, including the Food Safety Law of the PRC (中華人民共和國食品安全法), which was promulgated on September 28, 2009, and amended on April 24, 2015, the Regulations for the Implementation of the Food Safety Law of the PRC (中華人民共和國食品安全法實施條例), which was promulgated on July 20, 2009 and amended on February 6, 2016, the Measures on the Administration of Healthy Food (保健食品管理辦法), promulgated by the former Ministry of Health (now reorganized as the National Health and Family Planning Committee (“NHFPC”)) on March 15, 1996 which became effective on June 1, 1996, the Measures on the Registration of Healthy Food (experimental) (保健食品註冊管理辦法(試行)) promulgated by the SFDA (now renamed as CFDA) on April 30, 2005, which became effective on July 1, 2005, the Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products (乳品質量安全監督管理條例) promulgated by the State Council on October 9, 2008 and became effective on the same day, and other relevant rules and regulations issued by the PRC governmental authorities.

The manner and extent to which the industry in which we operate is regulated is evolving. Changes in existing laws or new interpretations of such laws may have a significant impact on our methods and costs of doing business. In addition, we are required to obtain approvals from Chinese government authorities regarding the contents of advertisements relating to our products before they can be published. If the relevant Chinese government authorities require us to set our retail prices at undesirable prices or significantly limit our ability to advertise our products, our business could be materially and adversely affected.

We have currently obtained all material registrations, licenses and permits which are required for us to operate our business in China. If the regulations regarding these licenses and permits are changed, or if we fail to renew our current licenses or obtain approvals for our current operations, it may be materially burdensome for us to obtain or renew these licenses and permits or they may be otherwise unavailable, and our business could be materially affected.

**We are required to comply with environmental laws applicable to our operations.**

We are required to comply with environmental laws in China, Australia and elsewhere that are applicable to our operations. Failure to comply with such environmental laws may result in penalties that could materially and adversely affect our business, financial condition and results of operations. As at the date of this offering memorandum, we believe that we are in compliance with all applicable environmental laws and regulations in all material respects.

**We are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints both in China and Australia and other markets, and our failure to comply with these legal requirements could lead to the imposition of significant penalties or claims, which could harm our financial condition and results of operations.**

In China, Australia and other markets in which we operate, the formulation, manufacturing, packaging, labeling, distribution, advertising, importation, exportation, licensing, sale and storage of our products, telecommunication services, franchising and certain other activities are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar legal requirements. There can be no assurance that we are in compliance with all of these regulations. Our failure to comply with these regulations or new regulations could disrupt sales of our products, or lead to the imposition of significant penalties or claims and could negatively impact our business.

Guangzhou Mama100 E-commerce Limited (“Mama100 E-commerce”), our variable interest entity in the PRC, operates an e-commerce platform for online trading between third-party suppliers and buyers, and such activity might be deemed as “online data processing and transactions processing services” under the PRC law which may require a Value-added Telecommunication Services Permit covering such business activities.

In addition, the adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance costs or discontinuation of product sales and may negatively impact the marketing of our products, resulting in significant loss of sales revenues. For further information, see “Regulation.”

**Ongoing data security and privacy protection compliance requirements could increase costs, and any significant data breach or breach of privacy laws could harm our business, financial condition or results of operations.**

Our business requires the appropriate and secure utilization of consumer and other sensitive information. We cannot be certain that advances in criminal capabilities (including cyber-attacks or cyber intrusions over the internet, malware, computer viruses and the like) will not compromise or breach the technology protecting the networks that access and store sensitive information.

In China, we are required to comply with the relevant privacy laws and regulations, including the General Principles of the Civil Law of the PRC (中華人民共和國民法通則), the Tort Law of the PRC (中華人民共和國侵權責任法) and the Decision on Enforcing the Protection of Cyber Information of the Standing Committee of the National People’s Congress of the PRC (全國人民代表大會常務委員會關於加強網絡信息保護的決定). In Australia, we are required to comply with the Australian Privacy Principles under the Privacy Act 1988 (Cth) of Australia. Under these laws and regulations we are required to take reasonable steps to protect personal information that we hold from misuse, interference and loss, as well as unauthorized access, modification or disclosure. We use consumer data collected from our Mama100 membership program for marketing purposes. Although we believe our current use of this information is in compliance with applicable laws and regulations, any change in such laws and regulations or any further interpretation could affect our ability to use consumer data and subject us to liability as a result of our use of such data.

Any breach of our networks or theft of consumer information could diminish consumer trust in our products and system, reduce the effectiveness of our CRM systems and harm our reputation and negatively impact our results of operations.

**We are exposed to interest rate fluctuations.**

With respect to the floating interest rate instruments, we are subject to the cash flow interest rate risk, and for the fixed interest rate instruments, we are subject to fair value interest rate risk. In September 2015, we financed the A\$1,449.9 million (US\$1,056.4 million) total purchase price consideration for the Swisse acquisition through a combination of a drawing under the US\$450 million bridge loan facility, drawings under cash bridge facilities, available cash on balance sheet (including a portion of the cash proceeds from the 2014 issuance of the Convertible Bond) and the issuance of shares of the Company. On April 27, 2016, we repaid the US\$450 million bridge loan with drawings under the Senior Facility Agreement and cash on hand. Currently, we have a significantly higher amount of debt in relation to cash. As such, we are exposed to fluctuations in interest rates.

**Fluctuations in currency exchange rates could have a material adverse effect on our financial condition and results of operations.**

We are exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the Renminbi and to a lesser extent the Australian dollar. We purchase supplies and pay other costs, including interest, in a number of currencies, the most material of which are transactions denominated in Euro. A significant change in the value of the Renminbi against the Euro, to the extent we are unable to protect against currency risk, could have a material adverse effect on our financial condition and results of operations.

In addition, the translation of foreign currency assets and liabilities on our balance sheet could, to the extent it is not offset, have a material adverse effect on our financial condition and results of operations. For the three months ended March 31, 2016, 3.8% of our sales were denominated in currencies other than the functional currencies of our operating subsidiaries while 39.4% of our purchases were denominated in currencies other than these companies' functional currencies.

Following the entry into the Senior Facility Agreement and the offering of the Notes, we are required to enter into foreign exchange or interest rate hedging agreements in respect of our US dollar-denominated liabilities under the Senior Facility Agreement or the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. If we were unable to provide such collateral, it could constitute a default under such agreements. There can be no assurance that our hedging practices will effectively protect our business against currency risk. To the extent we are unable to effectively hedge or offset these currency risks, they could have a material adverse effect on our financial performance.

**Risks relating to conducting business in China**

**A substantial number of our assets are located in China and a substantial portion of our revenue is derived from our operations in China. Accordingly, an economic slowdown in China could have a materially adverse impact on our business, financial condition, results of operations and prospects.**

A substantial portion of our operations are conducted in China and a significant portion of our revenue is generated from our business activities in China. Our results of operations have been and will continue to be affected by growth of the markets in which we operate in China and the Chinese economy as a whole. Although the Chinese economy has grown significantly in recent years, the rate of growth has declined and the Chinese economy may not be able to sustain the same growth rate in the future. Adverse economic conditions, including economic instability, and a corresponding reduction in disposable income and consumer confidence may result in consumers reducing their use of our products or otherwise modifying their behavior in ways that could have a negative impact on our business. A slowdown in overall economic growth, a credit or liquidity crisis resulting from bad loans in the banking sector, an economic downturn or recession or other adverse economic developments in China could reduce the demand for our products and adversely affect our business, financial condition and results of operations.

**Changes in China's economic, political or social conditions or government policies could have an adverse effect on our business.**

The Chinese economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, uniformity in the implementation and enforcement of laws, regulation of foreign trade, control over capital investment and allocation of resources.



While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven both geographically and across different sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide allocation of its economic resources. Although these measures could benefit the Chinese economy overall, they could nevertheless have a negative effect on our business and results of operations. For example, our financial condition and results of operations could be adversely affected by increased government control over capital investments or changes in tax regulations that are applicable to us.

In addition, many of the economic reforms carried out by the Chinese government are experimental and are expected to be refined and improved over time. Other political, economic and social factors could also lead to further adjustments of the reform measures. This refining and adjustment process could have an unpredictable impact on our operations and business development. Furthermore, our business, financial condition and results of operations could be adversely affected by:

- changes in Chinese political, economic and social conditions;
- changes in policies of the Chinese government, including changes in policies aimed at strengthening the safety and quality of pediatric products;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures that may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- reduction in tariff protection and other import restrictions.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures that emphasize the utilization of market forces for economic reform, reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial percentage of productive assets in China is still owned by the Chinese government. The continued control of these assets and other aspects of the national economy by the Chinese government could have a materially adverse impact on our business. The Chinese government-owned or controlled businesses could enter the market as direct competitors in our industry. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over Chinese economic growth through the allocation of resources, control of foreign currency-denominated payments, establishment of monetary policy and provision of preferential treatment to particular industries or companies. In particular, the Chinese government could decide to more closely regulate the areas relevant to our business, which could impose additional regulatory costs and burdens on us.

**The PRC legal system has inherent uncertainties that could have a materially adverse impact on our business operations.**

Our business and operations are primarily conducted in the PRC and governed principally by the PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited value as precedents. Since 1979, PRC legislative bodies have promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, the PRC has not developed a fully integrated legal system and the array of new laws and regulations may not be sufficient to cover all aspects of economic activities in the PRC. Because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of PRC laws and regulations involve substantial uncertainties and can be inconsistent.

Even where adequate laws exist in the PRC, the enforcement of existing laws or contracts (with respect to, inter alia, our establishment, corporate structure and operation) may be uncertain or sporadic and there is no guarantee that regulators will interpret or implement the laws in a way consistent with our understanding of the laws, and it may be difficult to obtain swift and equitable enforcement of a judgment by a court. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be made aware of our violation of these policies and rules until long after they have occurred. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

**There are uncertainties with respect to PRC laws and regulations on cross border e-commerce, compliance with which may be time-consuming and costly.**

We launched our online shop and entered into contracts to sell our Swisse<sup>TM</sup> branded adult nutrition and care products on cross border e-commerce platforms (including Tmall.HK). PRC laws and regulatory actions governing “cross-border e-commerce” are evolving quickly. The PRC governmental authorities have recently promulgated several new laws and regulations on cross border e-commerce, which require, inter alia, that starting from May 11, 2017, health food imported through cross border e-commerce should be subject to the same CFDA registration and filing requirements as those that are imported through the offline general trade model. See “Regulation—Cross border e-commerce”. We believe the majority of our Swisse<sup>TM</sup> branded adult nutrition and care products are normal food under PRC laws and thus will not be required to be registered or filed as health food with the CFDA and our current method of importing our Swisse<sup>TM</sup> branded adult nutrition and care products into China is in compliance with applicable laws and regulations of PRC. However, these regulations were just recently promulgated and it remains uncertain how they will be interpreted and implemented in practice. Moreover, the classification of our food products as normal food is subject to the determination by relevant PRC governmental authorities and uncertainties remain with respect to their interpretation of the applicable laws and regulations, we cannot assure you that the government authorities of different localities take the same view as ours or will not change their views in the future. By classification of our products as normal food, we cannot claim health efficiency on its Chinese labels. Registration or filing of our food products as health food with the CFDA could be time-consuming and costly, which could have a material adverse effect on our business, results of operation and financial condition.

**There are uncertainties with respect to PRC laws and regulations on the registration of the infant formula products, compliance with which may be time-consuming and costly.**

According to the Food Safety Law, the formula of both domestic and imported infant milk formula products must be registered with the CFDA. See “Regulation—Regulation on infant milk formula and food and dairy products”. On September 2, 2015, the CFDA published the draft Administrative Measures for the Formula Registration of Infant Milk Formula Powder (嬰幼兒配方乳粉產品配方註冊管理辦法) for public comments, pursuant to which, the formula of domestic infant milk formula products should satisfy certain technical and quality standards and should be registered with the CFDA. The CFDA has not published the corresponding formula registration rules for imported infant milk formula products. If in the future we are unable to comply with the relevant rules on the registration of formula of infant milk formula products, our revenue and results of operations could be adversely affected.

**Chinese regulations relating to the establishment of offshore special purpose vehicles by PRC residents could adversely affect our business operations.**

On July 4, 2014, the Circular on Related Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment and Financing and in Round-trip Investment via Special Purpose Companies (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular No. 37”) was promulgated by the State Administration of Foreign Exchange (國家外匯管理局) (“SAFE”), which rescinded the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) issued by SAFE on November 1, 2005. Subject to Circular No. 37, PRC residents, individuals or institutions are required to register with the Bureau of Foreign Exchange Administration before they invest in a special purpose vehicle (the “SPV”) with legitimate assets or equity interests both inside and outside the PRC. In addition, any PRC resident that is a shareholder of an offshore SPV is required to amend its SAFE registration in a timely manner after any major changes are made to the offshore SPV, such as an addition or removal of a major PRC Resident shareholder, changes to the name or term of operation of the SPV, any increase or decrease of capital, stock right assignment or exchange, or merger or division. According to the procedural guidelines attached to Circular No. 37, scope of review for SPVs has been changed to “the domestic individual resident is only required to register the SPV directly established or controlled (first level).” Failure to comply with the registration procedures set forth in Circular No. 37 could result in restrictions being imposed on the subsequent foreign exchange activities of the relevant PRC residents, including remittance of dividends and profits from relevant PRC subsidiaries to their offshore shareholder(s).

Beneficial shareholders of our business who are defined as domestic residents under SAFE Circular No. 75 (namely, Mr. Luo Fei, Mr. Luo Yun, Mr. Wu Xiong, Mr. Chen Fufang and Ms. Kong Qingjuan) had registered their investment in Biostime Guangzhou, Biostime Health and BMcare Guangzhou with the SAFE Guangdong branch, and on March 20, 2014, such beneficial shareholders amended their registration per the relevant changes made to the offshore SPV. The beneficial shareholders have each set up family trusts, respectively, and transferred the equity interest in offshore SPA to such family trusts; therefore, the issued capital of the SPV is now held by the trustee of each family trust. Under Circular No. 75 and Circular No. 37, such transfer may require registration with SAFE Guangdong branch. Based on our consultation with an official at SAFE Guangdong branch, SAFE Guangdong branch currently does not in practice accept such registration application for the family trust arrangements. However, failure to register our family trust arrangements could still constitute a violation of Circular No. 37, which may cause restrictions on the subsequent foreign exchange activities of our PRC subsidiaries, including remittance of dividends and (the “New Shares”) profits from relevant PRC subsidiaries to their offshore shareholder(s).

Moreover, we may not be fully informed of the identities of all of our future beneficial shareholders who are PRC residents, and we do not have control over our future shareholders. As such, we cannot ensure that our beneficial shareholders who are PRC residents will fully comply with the regulations of SAFE. Any failure by our PRC resident shareholders to register with SAFE or update SAFE’s records, or the failure of future shareholders who are PRC residents to comply with registration requirements, could result in penalties, including the prohibition of payment to offshore parents of the proceeds generated from capital reductions, share transfers or liquidations of our PRC subsidiaries. These penalties could have a materially adverse effect on our ownership structure, acquisition strategy, business operations, our ability to make dividend payments to shareholders, to repay inter-company loans and our ability to satisfy our obligations under the Notes.

**Failure to comply with PRC labor laws and regulations regarding employee protections such as obtaining a social security certificate or setting up housing fund accounts could subject us to fines and other legal or administrative sanctions.**

The Labor Contract Law of the People’s Republic of China (《中華人民共和國勞動合同法》, the “Labour Contract Law”) promulgated by the Standing Committee of the National People’s Congress

(全國人民代表大會常務委員會) (“Standing Committee of NPC”) on June 29, 2007 and amended on December 28, 2012, and the Implementing Regulations of the Labor Contract Law of the People’s Republic of China (《中華人民共和國勞動合同法實施條例》) promulgated by the State Council of the People’s Republic of China (國務院) (“State Council”) on September 18, 2008, set out specific provisions with respect to the execution, terms and the termination of employment contracts and the rights and obligations of employees and employers.

Under the Labor Contract Law, our PRC subsidiaries may not be able to efficiently terminate employment contracts without cause. In addition, our PRC subsidiaries are also required to make severance payments to employees upon the expiration of their employment contracts unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract under circumstances in which the conditions offered by the subsidiary are the same as or better than those stipulated in the current contract. The amount of severance payment is calculated based on the monthly wage of the employee multiplied by the number of full years that the employee was employed by our PRC subsidiary. However, if the employee’s monthly wage is three times greater than the average monthly wage in the relevant district or locality, severance payment is based on a monthly wage equal to three times the average monthly wage and the number of years it is multiplied by is capped at 12 years.

Our business in China is required to contribute to a number of social security funds, including funds for pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance, maternity insurance and a housing accumulation fund on the behalf of our employees. We are also required to obtain social security certificates (社會保險登記證) and set up housing fund accounts (住房公積金賬戶) for our employees.

Under the PRC law, an employer is required to pay its employees’ social insurance contributions in the city where such employer is registered. Domiciles of certain employees of our PRC subsidiaries are different from the registered office of the relevant PRC subsidiary. Some of our PRC subsidiaries, upon their employees’ request, have paid the employees’ required social insurance contributions on their behalf to the relevant authorities at the employees’ domiciles which may be considered as a violation of the PRC law. Also under the PRC law, employers may not cut salaries of their employees on the basis of the employer’s payment of social insurance contributions paid on behalf of the employees as it results in underpayment of the social insurance contributions. Our PRC subsidiaries have deducted the social insurance payables (including the portion to be contributed by the employees) from the base salary amount of their employees in violation of the PRC law. The relevant municipal PRC authority may order our PRC subsidiaries that have engaged in such activities to pay premiums or make up the shortfall within a prescribed time limit, and impose a late payment fee equal to 0.05% of the outstanding amount of the social insurance contribution on a daily basis. Failure to comply with such order may cause our PRC subsidiaries be subject to a fine in an amount of up to three times the outstanding amount.

In addition to the above, if our business and subsidiaries in China fail to comply with any other relevant labor laws and regulations, we could also be exposed to penalties or be required to pay damages to employees. For example, if any of our PRC subsidiaries engaging in manufacture fails to comply with the relevant laws on prevention and treatment of occupational diseases, then such subsidiary may be subject to fine and other administrative penalties, and also, any employees who are deemed to suffer from occupational diseases may have rights to seek compensation from the relevant PRC subsidiaries. Compliance with the relevant labor laws and regulations could substantially increase our labor costs. Our business in China cannot ensure that any employment disputes or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could adversely affect our business, financial condition or results of operations. In particular, an increase in labor costs in China could increase our production costs in the future and we might not be able to pass these increases on to our consumers due to competitive pricing pressures.

**Our dividend income from our foreign-invested PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate.**

Distributions made by PRC companies to their offshore parents are generally subject to a 10% withholding tax under the EIT Law. Pursuant to the EIT Law and the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), the withholding tax rate on dividends paid by our PRC subsidiary to our Hong Kong subsidiary would generally be reduced to 5%, *provided* that our Hong Kong subsidiary is the beneficial owner of the PRC-sourced income and we have obtained the approval of the competent tax authority. On October 27, 2009, the State Administration of Taxation issued the Notice on How to Understand and Determine the Beneficial Owners in a Tax Agreement (國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知), also known as Circular 601, which provides guidance for determining whether a resident of a contracting state is the “beneficial owner” of an item of income under China’s tax treaties and similar arrangements. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities and an agent or a conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for these benefits. For this purpose, a conduit company is a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. We have been recognized as a Hong Kong tax resident since 2013 and thus qualify as a “beneficial owner” to enjoy the preferential rate of 5%. However, we cannot assure you that we can continue to be regarded as a “beneficial owner” for the purposes of such dividend payments. If we are not able to enjoy preferential tax treatment at historical levels in the future, our ability to pay our obligations under the Notes would be adversely impacted.

**Our business could be deemed to be a PRC resident enterprise under the EIT Law. As a result, we could be subject to PRC Taxation on our worldwide income.**

Under the EIT Law, enterprises established under the laws of jurisdictions outside China with their “de facto management bodies” located within the PRC could be considered to be PRC resident enterprises for tax purposes. The EIT Rules interpret “de facto management body” as a body that exercises substantial management or control over the business, personnel, finances and property of a business. We have not been informed by any PRC tax authorities that we or any of our offshore subsidiaries are treated as a resident enterprise for PRC tax purposes as of the date of this offering memorandum. However, PRC tax authorities could make such a determination in the future, and if considered a resident enterprise for PRC tax purposes, our company would be subjected to unfavorable tax treatment.

If our business in the PRC is deemed to be a resident enterprise, our global income could be subject to PRC enterprise income tax at the rate of 25%, which could have a materially adverse effect on our financial condition and results of operations. Dividend income we receive from our PRC subsidiaries may remain exempt from PRC enterprise income tax because the EIT Law and the EIT Rules generally provide that dividends received by a PRC resident enterprise from its directly-invested entity that is also a PRC resident enterprise will not be subject to enterprise income tax. However, as uncertainty remains as to how the EIT Law and the EIT Rules will be interpreted and implemented in the future, we cannot ensure that our business will be eligible for such PRC enterprise income tax exemptions or reductions.

**Interest payable by us to our foreign investors and gains on the sale of our Notes may become subject to taxation under PRC tax laws.**

Under the EIT Law, if our business is deemed to be a resident enterprise in the PRC, PRC withholding tax at the rate of 10% could be applicable to any interest payable by us to investors that are non-resident enterprises if such non-resident enterprise investors do not have a place of business in China or if, despite the existence of such place of business in China, relevant income from the business is not effectively connected to the place of business in China.

Any gain realized on the transfer of the Notes by non-resident enterprise investors could be subject to a 10% PRC tax if our business is deemed to be a PRC resident enterprise and such gain is regarded as income derived from sources within China.

Because PRC resident enterprises are required under the EIT Law to withhold PRC income tax on interest payable to Noteholders that are non-resident enterprises, our business could be required to pay any such additional amounts as would result in receipt by a holder of Notes of such amounts as would have been received by the holder had no such withholding been required.

Moreover, as the PRC government has fully implemented the Value Added Tax (“VAT”) policy starting from May 1, 2016, interest income derived from China should be subject to a VAT at the rate of 6%. It is uncertain, however, if we are deemed as a PRC resident enterprise, whether the interest paid by us to the non-resident enterprises would also be imposed on VAT. A requirement to pay additional amounts could increase the cost of servicing interest payments on the Notes and could have a materially adverse effect on our ability to pay interest on, and repay the principal amount of, our Notes, as well as our profitability and cash flow. Additionally, if an investor is required to pay PRC income tax on the transfer of our Notes, the value of the investment in our Notes could be materially impacted. It is unclear whether holders of our Notes would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas if our business is considered a PRC resident enterprise.

**Inflation in China could negatively affect our profitability and growth.**

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in our costs, our business could be adversely affected. In order to control inflation, in the past the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such austere policies can lead to a slowing of economic growth and could have a materially adverse effect on our business and prospects. In addition, the PRC government could conclude that the prices of our infant formula products or our other products are too high and could institute price controls that would limit our ability to set prices for our own products. Such price controls could adversely affect our results of operations.

**The PRC national economy and economies in different regions of the PRC could be adversely affected by natural disasters, acts of God, or the occurrence of an epidemic.**

Our business in the PRC is subject to general economic and social conditions in the PRC, particularly in regions where our operations are located. Natural disasters, epidemics and other acts of God which are beyond our control could adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including certain cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome (“SARS”), H5N1 avian flu, H7N9 avian flu or the human swine flu, also known as Influenza A (H1N1). Past occurrences of epidemics, depending on their scale, have also caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as H5N1 avian flu, H7N9 avian flu or the human swine flu, especially in the cities where we have operations, could result in material disruptions to our business operations, which in turn could have a materially adverse effect on our financial condition and results of operations.

**Restrictions by the PRC government on foreign exchange could limit our future liquidity.**

At present, the Renminbi is not freely convertible to other foreign currencies, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under current PRC laws and regulations, payment of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior

approval from SAFE but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions.

Our source of funds from China consists primarily of dividend payments, and repayment of intercompany loans by our subsidiaries in China denominated in Renminbi. We cannot ensure that we will be able to meet all of our foreign currency obligations or to remit profits out of China. If our subsidiaries are unable to obtain SAFE approval to repay loans to us, or if changes to relevant regulations place restrictions on the ability of our subsidiaries to remit dividend payments to us, our liquidity and ability to satisfy our third-party payment obligations, as well as our ability to meet obligations under the Notes, could be adversely affected.

**Tax authorities in China have increased scrutiny over transfers of equity interests in PRC resident enterprises by non-resident enterprises, which could negatively impact our business and our ability to conduct mergers, acquisitions or other investments.**

On February 3, 2015, SAT issued the Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“Circular No. 7”). This regulation repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises (《關於加強非居民企業股權轉讓企業所得稅管理的通佈》) (“Circular No. 698”) and certain rules clarifying Circular No. 698. Circular No. 698 was issued by the PRC State Administration of Taxation on December 10, 2009. Circular No. 7 provides comprehensive guidelines relating to indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“PRC Taxable Assets”). For example, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is believed by the tax authorities to have no reasonable commercial purpose other than to evade enterprise income tax, Circular No. 7 allows the tax authorities to reclassify this indirect transfer of PRC Taxable Assets into a direct transfer and impose on the non-resident enterprise a 10 rate of PRC enterprise income tax. Circular No. 7 exempts this tax in situations: (i) where a non-resident enterprise derives income from an indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company in the public market; and (ii) where a non-resident enterprise transfers PRC Taxable Assets that it directly holds and an applicable tax treaty or arrangement exempts this transfer from PRC enterprise income tax. It remains unclear whether any exemptions under Circular No. 7 will be applicable to any future mergers, acquisitions or other investments that we may make outside China involving PRC Taxable Assets or to transfers of our shares by our shareholders. If Chinese tax authorities impose PRC enterprise income taxes on these activities, our ability to expand our business or seek financing through these transactions could be adversely affected.

**It could be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against us or our management.**

A significant portion of our operating subsidiaries are incorporated in the PRC, and a significant portion of our assets are located within the PRC. Additionally, a substantial number of our senior management reside in the PRC and are PRC nationals. As a result, it could be difficult for Noteholders to effect service of process upon us or members of our management inside mainland China. Furthermore, the PRC does not currently have treaties providing for the reciprocal recognition or enforcement of judgments of courts located in the United States, the United Kingdom, Singapore, Japan and most other western countries. An Arrangement between China and the Hong Kong Special Administrative Region on Reciprocal Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to By the Parties Concerned was signed on July

14, 2006, and came into effect on August 1, 2008. However, there are many restrictions on such an arrangement. As a result, it might not be possible for Noteholders to effect service of process upon our PRC subsidiaries pursuant to the authority of non-PRC courts, and the recognition and enforcement in the PRC of judgments of courts outside the PRC could be difficult or impossible.

**Movement in the exchange rate of the Renminbi could adversely affect the financial condition and results of operations of our business.**

Although a substantial portion of our revenue is generated in China and is denominated in Renminbi, we are required to convert RMB to foreign currency for satisfaction of our obligations under the Notes and other payments, including to our suppliers and payments of dividends, if any, to holders of our shares. The value of the Renminbi against other foreign currencies is subject to changes in the PRC government's policies and international economic and political developments. In the past, the PRC utilized the unified floating exchange rate system under which the conversion of the Renminbi into foreign currencies, including Hong Kong and US dollars, had been based on rates set by the PBOC which had generally been stable. However, the PRC government reformed the exchange rate regime on July 21, 2005, by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies, rather than relying on a link to the US dollar. As a result, the Renminbi appreciated against the Hong Kong and US dollar by approximately 2.0% on the same date. On September 23, 2005, the PRC government widened the daily trading band for the Renminbi against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. Additionally, on May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of RMB against the US dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. The floating band was further widened to 1.0% on April 16, 2012, and 2% on March 17, 2014, respectively. These changes in currency policy resulted in RMB appreciating against the US dollar and the HK dollar by approximately 30.2% between July 21, 2005 and June 30, 2012, respectively.

Recently, on August 11, 2015, the PBOC reformed the quotation mechanism of the central parity of RMB against the US dollar to enhance Renminbi exchange rate flexibility. The Renminbi may be revalued further against the US dollar or other currencies, or may be permitted to enter into a full or limited free float, which could result in an appreciation or depreciation in the value of the Renminbi against the US dollar or other currencies. It is uncertain if the exchange rates of the Hong Kong and US dollar against the Renminbi will further fluctuate.

Any appreciation of the Renminbi could subject us to increased competition from imported products. Furthermore, because our business purchases a significant proportion of products and raw materials from overseas suppliers, any depreciation of the Renminbi could result in an increase of the cost of importing these products and raw materials, and if we are unable to pass on the increased cost to our regional distributors by selling products at higher prices, our results of operations could be adversely affected. In addition, since our revenues and profits are denominated in Renminbi, any depreciation of the Renminbi could have a materially adverse effect on our cash flow, earnings and financial position and our ability to satisfy our obligations under the Notes.

**Risks relating to our indebtedness**

**We have a substantial amount of indebtedness and our debt service obligations under the Notes may restrict our ability to fund our operations.**

We have a substantial amount of indebtedness and, following the Offering, we will have significant debt service obligations, including under the Senior Facility Agreement and the Notes. We cannot guarantee that we will be able to generate sufficient cash flow from operations to service our debt obligations on an ongoing basis. As of March 31, 2016, on a further adjusted basis, after giving effect to the issuance of the Notes and the use of proceeds therefrom, as described under "Use of proceeds" and "Capitalization" our total borrowings (excluding cash bridge facilities) would have amounted to RMB6,614 million (US\$1,021 million).



The size of our indebtedness relative to our profitability following the issuance of the Notes could have important consequences to holders of the Notes offered hereby, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Notes and our other liabilities;
- increasing our vulnerability to, and reducing our flexibility to respond to, a downturn in our business or general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow, and limiting the ability to obtain additional financing to, fund working capital, capital expenditures, acquisitions, joint ventures, or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industry in which we operate;
- placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged; and
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing.

Therefore, our flexibility in planning for, or reacting to, changes in our business, the competitive environment, the general economic conditions and the industry in which we operate may be limited. Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes, and would therefore have potentially harmful consequences for the development of our business and the implementation of our strategic plans.

**Despite our current debt levels, we will be able to incur substantially more debt, which could further exacerbate the risks described in this section.**

We have the right to incur substantial additional debt in the future. Although the Senior Facility Agreement contains, and the Indenture will contain, restrictions on the incurrence of additional debt, these restrictions will be subject to a number of important qualifications and exceptions. Such exceptions and qualifications may allow us to, among other things, incur additional indebtedness, pledge assets to secure certain indebtedness, make certain investments and/or sell assets, and therefore we may become significantly leveraged, sustain losses on our investments and/or lose revenue streams, any of which could materially and adversely affect our ability to satisfy our obligations under the Notes and other indebtedness.

Any debt that we incur at a non-guarantor subsidiary level, which will include debt at our PRC subsidiaries, would be structurally senior to the Notes. Additionally, we could raise additional debt that could be secured by assets that do not secure the Notes or could mature prior to the Notes, which may reduce or dilute your recovery in the event of foreclosure on such assets.

For further information regarding our substantial leverage and for more information about our outstanding indebtedness, see also “Capitalization,” “Management’s discussion and analysis of financial condition and results of operations” and “Description of certain financing arrangements.”

**Our cash flow and capital resources may not be sufficient for future debt service and other obligations.**

Our ability to make debt service payments under the Notes offered hereby, the Senior Facility Agreement and other indebtedness, or to refinance any such indebtedness, will depend on our future

operating performance and our ability to generate sufficient cash, which, to a certain extent, is subject to the success of our business strategy as well as factors that are not within our control, including general economic, financial, competitive, market, legislative, regulatory and other factors. See “Risk factors—Risks relating to our businesses and industries.”

We cannot assure you that our business will generate sufficient cash flows from operations, that currently anticipated revenue growth, cost savings and operating improvements will be realized or that future debt and equity financing will be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes, or to fund our other liquidity needs or meet our capital expenditure requirements. See “Management’s discussion and analysis of financial condition and results of operations.”

In addition, prior to the repayment in full of the Notes, we will be required to refinance or repay certain other debt, including the debt under our Senior Facility Agreement, which has semi-annual amortization payments and matures in 2019. If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditure;
- sell assets;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

The type, timing and terms of any future financing, restructuring, asset sales or other capital raising transactions will depend on our cash needs and the prevailing conditions in the financial markets. We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In such an event, we may not have sufficient assets to repay all of our debt.

Any failure to make payments on the Notes or the Senior Facility Agreement on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Senior Facility Agreement and the Notes and the Indenture, will limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business, financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of can be sold or that, if sold, the timing of such sale and the amount of proceeds realized from such sale will be acceptable. If we are unsuccessful in any of these efforts, we may not have sufficient cash to meet our obligations.

**Restrictive covenants may have an adverse impact on our ability to fund future operations and capital needs.**

We are subject to restrictive debt covenants that may limit our ability to conduct our business to pursue business opportunities and activities. The Senior Facility Agreement contains financial covenants that require us to maintain specified net leverage and interest coverage ratios.

The Indenture and the Senior Facility Agreement will restrict, among other things, our ability to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on our Capital Stock or purchase or redeem Capital Stock;

- make investments or other restricted payments;
- issue or sell Capital Stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- consolidate, merge, or sell all or substantially all of our assets.

All of these limitations will be subject to significant exceptions and qualifications. See "Description of the Notes—Certain Covenants." Despite these exceptions and qualifications, the covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

In addition, our ability to comply with these covenants and restrictions may be affected by events beyond our control. These include prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the terms of the Senior Facility Agreement, and the relevant lenders could elect to declare the debt, together with accrued and unpaid interest and other fees, if any, immediately due and payable and proceed against any collateral securing that debt. This could also result in an event of default under the Indenture. If the debt under the Senior Facility Agreement or the Notes or any other material financing arrangement that we enter into were to be accelerated, our assets might be insufficient to repay the Notes in full and our other debt. Borrowings under other debt instruments that contain cross-acceleration or cross-default provisions may also be accelerated or become payable on demand. In these circumstances, our assets may not be sufficient to repay in full that indebtedness and our other indebtedness then outstanding, including the Notes. See "Description of certain financing arrangements."

**Increase in floating rates of interest may increase our costs and reduce our cash flow.**

The drawings under the Senior Facility Agreement will bear interest at a floating rate of interest per annum equal to LIBOR plus certain mandatory costs and an initial margin of 3.75% per annum. These interest rates could rise significantly in the future. Although we are required to enter into certain hedging arrangements designed to fix a portion of these rates and may enter into additional interest hedging arrangements, there can be no assurance that hedging will be available or continue to be available on commercially reasonable terms. To the extent that interest rates or any drawings were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

**Our ability to service the Notes will be restricted by our other debt within certain of our subsidiaries.**

In the past, certain of our PRC subsidiaries have incurred significant levels of working capital debt and cash collateralized debt, and such subsidiaries will be permitted to continue to do so in the future under the Senior Facility Agreement and the Notes. Such indebtedness will be effectively senior to the Notes, both structurally and with respect to any security with respect to any assets in such subsidiaries

or any assets securing such debt. In addition, such indebtedness may impose certain constraints on our PRC subsidiaries, including the need to retain large cash balances in order to collateralize any line of credits. Such constraints may make it harder to distribute cash out of our PRC subsidiaries in order to service payments on the Notes.

**If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause repayment of our debt to be accelerated.**

If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or in our current or future debt obligations and other agreements, including the terms of the Senior Facility Agreement, there could be a default under the terms of these agreements. In the event of such default, the holders of the relevant debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture and the Senior Facility Agreement, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under our other debt agreements, including the Indenture. If any of these events were to occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

#### **Risks relating to the Notes, the Subsidiary Guarantees and the Collateral**

**We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities and obligations of our subsidiaries that do not guarantee the Notes.**

We are a holding company with limited business operations other than the equity interest which we hold in our subsidiaries. We conduct most of our operations through our subsidiaries. The Notes will not be guaranteed by certain of our subsidiaries, including all of our PRC subsidiaries. Our PRC subsidiaries generate a significant portion of our revenues, EBITDA and cash flow from operations. See “Description of the Notes—The Subsidiary Guarantees” for a list of the Subsidiary Guarantors. Additionally, most of the initial Subsidiary Guarantors are holding companies that do not have revenue-generating operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees will depend upon the receipt of principal and interest payments on intercompany loans and distributions of dividends from operating subsidiaries. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

The amounts of payments, dividends and other distributions available to us will depend on the profitability and cash flows of our subsidiaries as well as the ability of our subsidiaries to declare dividends or make other distributions under applicable law. Our subsidiaries may not be able to, or may not be permitted under applicable law or certain contractual arrangements (including under the Senior Facilities Agreement, subject to certain exceptions) to, make distributions, make payments on, or otherwise advance upstream loans to us to make payments in respect of our debt, including the Notes.

In addition, our subsidiaries have no obligation to make payments to us with respect to the Notes (other than their obligations under the Subsidiary Guarantees). While the Indenture will limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments, these limitations are subject to significant qualifications and exceptions. For example, the shareholders arrangements in respect of Swisse<sup>TM</sup> presently impose significant limitations on the payment of dividends and other distributions. In addition, the ability of our subsidiaries to dividend or otherwise distribute funds to us will be subject to the requirement to

have sufficient retained earnings available for distribution. Furthermore, when any non wholly-owned subsidiary provides funds indirectly to us in the form of a dividend, a pro rata dividend must also be paid to the subsidiary's other equity holders. We indirectly own 83% of the Capital Stock of Swisse, so any dividends paid by such company must also be paid to its minority shareholders. The Indenture for the Notes also permits the Company's ownership level in the Swisse group to be reduced from its current 83% ownership interest to a simple majority ownership interest, *provided* that certain conditions are met. If our ownership interest in Swisse is further reduced from 83%, the amount of any dividends that would be paid to other equity holders would proportionally increase, and thus not be available to service the obligations under the Notes. Therefore, there can be no assurance that the dividend and distribution capacity of our subsidiaries will be adequate to fund distributions in amounts and at times sufficient for us to pay our obligations as they become due under the Notes.

In addition, the ability of our PRC subsidiaries to pay dividends and other amounts to us may be subject to applicable laws and restrictions on the payment of dividends and other amounts contained in financing or other agreements. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS and US GAAP. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Any dividends paid from our PRC subsidiaries would also be subject to withholding tax. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions.

Claims against subsidiaries that are not Subsidiary Guarantors for payment under the Notes will be effectively subordinated to all existing and future obligations of those subsidiaries that are not Subsidiary Guarantors (including obligations of our subsidiaries that are not Subsidiary Guarantors under guarantees issued in connection with our business, contingent obligations and trade payables), and all claims of creditors of our subsidiaries that are not Subsidiary Guarantors will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. Our subsidiaries that are not Subsidiary Guarantors generated 62.8% of our revenue and 47.7% of our Adjusted EBITDA for the six months ended March 31, 2016 and represented 23.6% of our total assets as of March 31, 2016.

The Subsidiary Guarantees provided by those Subsidiary Guarantors that are Swisse subsidiaries and their holding companies are limited to an aggregate amount of US\$450 million. This overall limit is also applicable to the guarantees and other obligations of such companies under the US\$450 million Senior Facility Agreement, which obligations are secured and rank senior to the senior subordinated guarantees of the Subsidiary Guarantors of the Notes. In addition, in the event of a Qualifying SWG IPO or Qualifying SWG Private Sale, the Subsidiary Guarantees of the Swisse subsidiaries and their holding companies of the Notes will automatically release.

The Notes and the Indenture, as well as our other indebtedness, do not fully restrict the ability of our subsidiaries to issue certain categories of indebtedness and guarantees in the ordinary course of business. While we are subject to covenants that may restrict the ability of our subsidiaries to incur additional debt, these covenants have a number of exceptions.

**Our first-lien secured creditors or the secured creditors of any Subsidiary Guarantor would have priority as to our assets or the assets of such Subsidiary Guarantor securing the related obligations over claims of holders of the Notes.**

The Subsidiary Guarantees will constitute senior subordinated obligations and will rank *pari passu* in right of payment with all other existing and future senior subordinated indebtedness and subordinated in right of payment to all senior indebtedness of the Subsidiary Guarantors. The Notes will be issued as a senior obligation of the Company and will have a second-ranking floating charge over our assets (other than assets located in the PRC or the shares of subsidiaries). The Notes will be subordinated

to any first-priority security interest over our assets and effectively subordinated to the Subsidiary Guarantors' secured obligations, including the obligations under the Senior Facility Agreement. Under our Senior Facility Agreement, pursuant to which the lenders thereunder made available to us a US\$450 million loan, the indebtedness under the Senior Facility Agreement is secured by fixed and floating charges (in respect of the Company, a floating charge only) over all present and future assets of the Company and the Subsidiary Guarantors (other than those guarantors incorporated in the PRC and certain Swisse Group entities) and assignments over the Company's and the Subsidiary Guarantors' (other than those guarantors incorporated in the PRC and certain Swisse Group entities) rights to their material contracts and insurance policies.

The Notes will also be secured by a charge on the Escrow Account. The security for the Notes will be shared, on a *pari passu* basis, with the Convertible Bonds. In addition, the limitation on liens covenant that will be included in the Indenture is subject to various exceptions as set forth under "Certain Covenants—Limitation on Liens" and the definitions of "Permitted Collateral Liens" and "Permitted Liens" under the caption "Description of the Notes."

As of March 31, 2016, on a further adjusted basis, after giving effect to the Offering and the use of the proceeds therefrom, we would have had first-priority secured Indebtedness of RMB3,085 million (US\$476 million). In a bankruptcy or similar proceeding, the holder of a first-ranking security interest with respect to any of our assets that secure the Notes or with respect to any assets of the Subsidiary Guarantors would be entitled to have the proceeds of such assets applied to the payment of such holder's claim before the remaining proceeds, if any, are applied to the claims of the holders of the Notes. We or the Subsidiary Guarantors may, subject to the terms of the Indenture, pledge additional collateral in the future.

**The Notes are secured by a second ranking security interest over the assets of the Company, and the lenders under the Senior Facility Agreement and certain hedging counterparties are entitled to remedies available to secured lenders and hedging counterparties, which give them priority over the holders of the Notes to collect amounts due to them.**

The Notes are secured by a second-ranking security interest over the assets of the Company (excluding Capital Stock of subsidiaries and assets located in the PRC). The obligations under the Senior Facility Agreement are secured by a first ranking security interest over the assets of the Company. Furthermore, the Indenture will permit us to incur additional debt that can be secured by liens on such assets, as well as on the collateral that ranks senior to, or equally with, the liens on the collateral that secure the Notes as well as additional security interests. If we become insolvent or are liquidated, or if payment under the Senior Facility Agreement or in respect of any other secured indebtedness is accelerated, the lenders under the Senior Facility Agreement, certain hedging counterparties or holders of other secured indebtedness will, subject to the terms of the Intercreditor Agreement, be entitled to exercise the remedies available to secured lenders and hedging counterparties under applicable law (in addition to any remedies that may be available under documents pertaining to the Senior Facility Agreement, any hedging obligations or other senior debt).

Upon the occurrence of an event of default under the Senior Facility Agreement, the senior lenders and agent, acting through the Security Agent, may be able to prohibit the payment of the Notes and guarantees under the subordination provisions contained in the Intercreditor Agreement. Any enforcement by the holders of the Notes of the second-ranking security interest over the assets of the Company would also be subject to the subordination provisions contained in the Intercreditor Agreement. In addition, the second ranking security over the assets securing the Notes may be released in certain circumstances without any action by the Trustee or the holders of the Notes. See "Description of the Notes." In addition, the value of the collateral securing the Notes may be difficult to realize or not be sufficient to satisfy the obligations under the Notes.

**Under the terms of the Intercreditor Agreement, holders of the Notes may not control certain decisions regarding the Escrowed Property and other collateral that secures the Notes.**

The Notes and the Convertible Bonds will each be secured by a first-priority security interest in the Escrowed Property (which is initially comprised of the escrowed net proceeds from the issuance of the Notes) and a second-priority security interest in the assets of the Company (excluding Capital Stock of subsidiaries and assets located in the PRC).

Under the Intercreditor Agreement, the Security Agent will act with respect to the Escrowed Property only at the direction of a simple majority of more than 50% of the outstanding *pari passu* obligations under the Notes and the Convertible Notes. Upon their issuance, the Notes may not constitute an actual (or effective) majority of the outstanding *pari passu* obligations under the Notes and the Convertible Notes. The holders of the Notes will not have separate rights to enforce the Escrowed Property. As a result, the holders of the Notes may not be able to instruct the Security Agent, force a foreclosure on the Escrowed Property or otherwise pursue the remedies of a secured party under the Escrow Charge.

In addition to the subordination provisions and other limitations under the Intercreditor Agreement with respect to the enforcement of the second-ranking security interest in the assets of the Company, any enforcement of such collateral by holders of the Notes is likewise subject to the requirement that the Security Agent will only act at the direction of a simple majority of more than 50% of the outstanding *pari passu* obligations under the Notes and the Convertible Notes.

Disputes may occur between the holders of the Notes and the Convertible Bonds as to the appropriate manner of pursuing enforcement remedies and strategies with respect to the Collateral. The holders of the Convertible Bonds may have interests that are different from interest of holders of the Notes and they may elect to pursue (or not pursue) remedies under the security documents in respect of the Collateral at a time when it would otherwise be disadvantageous for the holders of the Notes. The Convertible Bonds may remain outstanding (partially or in full) until their maturity in 2019.

**The Subsidiary Guarantees of the Notes will be subordinated to our existing and future senior debt.**

The Subsidiary Guarantees of the Notes will be the senior subordinated obligations of each Subsidiary Guarantor and will:

- be contractually subordinated in right of payment to all of such Subsidiary Guarantor's existing and future senior indebtedness, including under the Senior Facilities Agreement and certain hedging obligations;
- rank equal in right of payment to all of such Subsidiary Guarantor's existing and future senior subordinated indebtedness;
- be effectively subordinated to all existing and future secured indebtedness of such Subsidiary Guarantor that is secured by assets that do not secure its guarantees (including its borrowings or guarantee under the Senior Facilities Agreement), in each case, to the extent of the value of the assets securing such indebtedness; and
- be senior in right of payment to any of such Subsidiary Guarantor's future indebtedness expressly subordinated to its Subsidiary Guarantee.

In addition, the subordination provisions of the Intercreditor Agreement provide that no enforcement action with respect to the Subsidiary Guarantees (or any future Subsidiary Guarantees, if any) may be taken until (i) an event of default on the Notes has occurred and remains continuing, (ii) a notice of the occurrence of such event of default (a "Default Notice") has been served by the Trustee on the

Security Agent and the creditor representatives with respect to, among others, the Senior Facility Agreement, (iii) the relevant event of default is continuing at the end of a standstill period and (iv) the lapse of a standstill period beginning on the date on which such Default Notice is served and ending on the earlier of (subject to certain limited exceptions): (a) any enforcement action being taken with respect to a Subsidiary Guarantor on behalf of the creditors in respect of the Senior Facility Agreement or any other permitted senior secured facilities agreement (*provided* that the Trustee and holders of the Notes will be limited to taking the same enforcement action against the same member of the group in relation to such Subsidiary Guarantor); (b) the occurrence of an insolvency event with respect to any Subsidiary Guarantor (in which case enforcement action can only be taken against such Subsidiary Guarantor); (c) the expiry of a period of 179 days from the date the Default Notice is served; (d) the expiry of any other standstill period that was outstanding as at the date the relevant Default Notice was served (other than as a result of a cure, waiver or other permitted remedy); (e) the date of an event of default resulting from failure to pay principal, interest or any other amount of Notes at the final maturity date of the Notes and (f) the receipt of the consent of majority senior creditors whose debt ranks senior to the Notes. See “Description of Certain Financing Arrangements—Intercreditor Agreement.”

Upon any distribution to the creditors of a Subsidiary Guarantor in a liquidation, administration, bankruptcy, moratorium of payments, dissolution or other winding-up of such Subsidiary Guarantor, the holders of indebtedness of such Subsidiary Guarantor ranking senior in right of payment to the Notes will be entitled to be paid in full before any payment may be made with respect to the Subsidiary Guarantor’s guarantee of the Notes. As a result, holders of the Notes may receive less, ratably, than the holders of debt of the Subsidiary Guarantors ranking senior in right of payment to the Notes, including the lenders under the Senior Facility, certain hedging counterparties and other indebtedness that is allowed to rank *pari passu* with them, or if lenders of such senior debt or hedging counterparties are not paid in full, may not recover any amount at all. See “Description of Certain Financing Arrangements—Intercreditor Agreement.”

**The Intercreditor Agreement provides that in certain circumstances payments in respect of the Notes may be blocked.**

Prior to the discharge of the liabilities under the Senior Facility and certain other senior indebtedness, none of the Subsidiary Guarantors may make payments in respect of the Notes (other than payments by the Company of liabilities in respect of the Notes) without the consent of the creditor representatives in respect of the Senior Facility and any other indebtedness that is allowed to rank *pari passu* with such Senior Facility except as permitted under the Intercreditor Agreement. The payments which are permitted under the Intercreditor Agreement without such consent include (among others) scheduled interest payments, costs, commissions, taxes, consent fees and expenses incurred in respect of (or reasonably incidental to) the Notes and the Indenture (including in relation to any reporting or listing requirement), Trustee and Security Agent fees and expenses (each such payment, a “Permitted Payment”).

If we default on our payments under or in respect of:

- the Senior Facility Agreement; and/or
- certain other specified senior secured debt,

(each a “Senior Secured Payment Default”) the group’s ability to make Permitted Payments (other than payments by the Company of liabilities in respect of the Notes) will be automatically suspended.

In addition, if an event of default (other than a Senior Secured Payment Default) has occurred and is continuing in respect of the Senior Facility or certain other specified indebtedness that is allowed to rank *pari passu* with such Senior Facility (including certain hedging obligations), creditor representatives in respect of the Senior Facility and such other indebtedness that is allowed to rank



*pari passu* with such Senior Facility may deliver a notice to us, the Security Agent and the Trustee (and the creditor representative of such other indebtedness that is allowed to rank *pari passu* with the Notes under the terms of those finance documents) suspending the group's ability to make Permitted Payments (other than payments by the Company of liabilities in respect of the Notes) for a period of up to 179 days (such notice a "Senior Debt Payment Blockage Notice").

If a Senior Secured Payment Default occurs and/or for so long as a Senior Debt Payment Blockage Notice is outstanding, the Group's ability to make payments in respect of the Notes will be limited to payments by the Company of liabilities in respect of the Notes and any other payments to which the creditor representatives in respect of the Senior Facility and any other indebtedness that is allowed to rank *pari passu* with such Senior Facility give their prior consent. In such circumstances we cannot assure you that we will be able to obtain such consent or, in the absence of such consent, be able to meet our payment obligations in respect of the Notes. See "Description of Certain Financing Arrangements—Intercreditor Agreement."

**There are circumstances other than repayment or discharge of the Notes under which the Subsidiary Guarantees or the collateral securing the Notes will be released, without your consent or the consent of the Trustee.**

Under various circumstances, the Subsidiary Guarantees and the collateral securing the Notes will be released, including, without limitation:

- as described under "Description of the Notes—Amendments and Waiver";
- in the case of collateral (other than the Escrowed Property), in connection with any transaction permitted under "Description of the Notes—Merger, Consolidation or Sale of All of Substantially All Assets" or upon a disposition not prohibited by the provisions described under "Description of the Notes—Certain Covenants—Asset Sales";
- in the case of the Subsidiary Guarantees of the SWG IPO Entity or any of its Subsidiaries that are Subsidiary Guarantors, upon the consummation of a Qualifying SWG IPO or a Qualifying SWG Private Sale, as provided under "Description of the Notes—Release of the Subsidiary Guarantees";
- upon payment in full of principal, interest and all other obligations of the Notes or defeasance or discharge of the Notes, as provided under "Description of the Notes—Defeasance"; and
- in accordance with the Intercreditor Agreement or any Intercreditor Agreement.

Unless consented to by the requisite holders of the Notes (and other *pari passu* creditors), the Intercreditor Agreement provides that the Security Agent shall not, in an enforcement scenario, exercise its rights to release the Subsidiary Guarantees or security interests in the collateral shared with the lenders under the Senior Facility Agreement and hedging counterparties, unless the relevant sale or disposal is made:

- for proceeds in cash (or substantially in cash);
- to the extent there is a release of Subsidiary Guarantees or security granted for the benefit of the holders of Notes, simultaneously with the unconditional release of the indebtedness of the disposed entities (or unconditional transfer to the purchaser of the relevant Group member), including the creditors under the Senior Facility; and
- pursuant to a competitive sale process or if a fairness opinion has been obtained from an independent, internationally recognized financial adviser selected by the Security Agent.

**We may be unable to obtain and remit foreign exchange in China.**

Our ability to satisfy our obligations under the Notes depends significantly upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us. Our PRC subsidiaries receive substantially all of their revenues in Renminbi. Our PRC subsidiaries must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval, registration or filing before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid). Pursuant to the EIT Law and the EIT Rules, which both became effective in January 1, 2008, if we are deemed a “non-resident enterprise,” dividends distributed to us by our PRC subsidiaries and interest payments made to us by our PRC subsidiaries (to the extent permitted by law) are subject to a 10% withholding tax (which may be reduced to 5% as we are a Hong Kong resident enterprise). Prior to making such interest payments, the relevant PRC subsidiary must also present evidence of payment of 10% withholding tax. If any such PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency, including the failure of SAFE to approve the registration of the relevant intercompany loans or to approve the payments under such loans, the PRC subsidiary will be unable to pay us dividends or interest and principal, when due, on the relevant intercompany loans, which may affect our ability to satisfy our obligations under the Notes.

**We may be unable to repay the Notes at maturity.**

At maturity, the entire outstanding principal amount of the Notes, together with accrued and unpaid interest, will become due and payable. We may not have the funds to fulfill these obligations or the ability to refinance these obligations. If the maturity date occurs at a time when other arrangements prohibit us from repaying the Notes, we would try to obtain waivers of such prohibitions from the lenders and holders under those arrangements, or we could attempt to refinance the borrowings that contain the restrictions. In these circumstances, if we cannot obtain such waivers or refinance these borrowings, we would be unable to repay the Notes.

**The ratings assigned to the Notes may be lowered or withdrawn in the future.**

We expect the Notes to be assigned a provisional rating of BB- by Standard and Poor’s Ratings Services and (P)Ba3 by Moody’s Investors Service. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. Additionally, other nationally recognized statistical ratings organizations may issue an unsolicited rating. If any such unsolicited ratings are issued, we cannot assure you that they will not be different from those ratings assigned by Moody’s Investors Service or Standard and Poor’s Ratings Services. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes or the issuance of different unsolicited ratings with respect of the Notes may adversely affect the market price of the Notes.

In Australia, credit ratings are for distribution only to a person who: (i) is not a “retail client” within the meaning of section 761G of the Australian Corporations Act and is also as sophisticated investor, professional investor or other investor in respect of whom disclosure is not required under Parts 6D.2 or 7.9 of the Australian Corporations Act; and (ii) is not otherwise permitted to receive credit ratings in accordance with applicable law in any jurisdiction in which the person may be located.

**A trading market for the Notes may not develop.**

The Notes are a new issue of securities for which there is currently no trading market. The Notes will not be designated for trading on the PORTAL Market of the Financial Industry Regulatory Authority, Inc. Although approval-in-principle has been received for the listing and quotation of the Notes on the SGX-ST, we cannot assure you that we will be able to obtain or maintain such listing on the SGX-ST, or that a liquid trading market will develop. We have been advised that the Initial Purchaser intends to make a market in the Notes, but the Initial Purchaser is not obligated to do so and may discontinue such market making activity at any time without notice. We cannot predict whether an active trading market for the Notes will develop or be sustained.

Even if an active trading market were to develop, the Notes could trade at prices that may be lower than the initial offering price. Future trading prices of the Notes will depend on many factors, including, but not limited to:

- prevailing interest rates and interest rate volatility;
- the market for similar securities;
- our operating and financial results;
- the publication of earnings estimates or other research reports and speculation in the press or the investment community;
- the market price of the Notes; or
- changes in our industry and competition; and general market and economic conditions.

Accordingly, Noteholders may not be able to sell their Notes at an attractive price or at all, and may incur losses on their investments.

**The Notes may not be a suitable investment for all investors.**

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this offering memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolio. A potential investor should not invest in the Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

**The liquidity and price of the Notes following the offering may be volatile.**

The price and trading volume of the Notes may be highly volatile. Changes in our revenue, earnings and cash flow and proposals of new investments, strategic alliances or acquisitions, interest rates, changes in our industry, government regulations applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. We cannot assure you that these developments will not occur in the future.

**There may be less publicly available information about us than is available in certain other jurisdictions.**

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. Furthermore, we will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions such as the United States.

In addition, the financial information in this offering memorandum has been prepared in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions, or other generally accepted accounting principles, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between IFRS and other generally accepted accounting principles. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between IFRS and other generally accepted accounting principles and how those differences might affect the financial information contained in this offering memorandum.

**The terms of the Notes permit us to make investments in Unrestricted Subsidiaries, joint ventures in which we may hold a minority interest and other third parties.**

We may from time to time make minority investments in Unrestricted Subsidiaries, joint ventures or other third parties (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures or third parties may or may not be Restricted Subsidiaries under the Indenture. Although the Indenture restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries, minority joint ventures or third parties, these restrictions are subject to a number of important exceptions and qualifications, including with respect to related parties. See the "Limitation on Restricted Payments" covenant and the definition of "Permitted Investments" in "Description of the Notes" contained in this offering memorandum. Upon completion of the Offering and issuance of the Notes, all of our subsidiaries will be Restricted Subsidiaries and we will not have any Unrestricted Subsidiaries.

**Certain transactions that constitute “connected transactions” under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) will not be subject to the “Limitation on transactions with shareholders and affiliates” covenant in the Indenture.**

Our shares are listed on the SEHK and we are required to comply with the Listing Rules, which provide, among other things, that any transaction between a listed company or any of our subsidiaries, on the one hand, and a “connected person” of such listed company, on the other hand, is a “connected transaction” that, if the value of such transaction exceeds the applicable *de minimis* thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of “connected person” to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of “connected person” also captures “associates,” which include, among others, (a) any subsidiary of such “connected person,” (b) any holding company of such “connected person” and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

The “Limitation on Transactions with Shareholders and Affiliates” covenant contained in the Indenture only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (a) any holder (or any Affiliate of such holder) of 10% or more of any class of our Capital Stock or (b) any Affiliate of the Company involving aggregate value in excess of US\$1.0 million on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, may not be captured by such covenant, even though they may be connected transactions under the Listing Rules and subject to any requirements under the Listing Rules are subject to the independent shareholders’ requirement under the Listing Rules. As a result, if such transactions are not captured by the covenant, we will not be required by the terms of the Indenture governing the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers’ certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

**Legal investment considerations may restrict certain investments.**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor in the Notes should consult its legal advisors to determine whether and to what extent: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

**Securities law restrictions on the resale of the Notes may impact Noteholders’ ability to sell the Notes.**

The Notes have not been registered under the Securities Act, any US state securities laws or the securities laws of any other jurisdiction. Unless and until they are registered, the Notes may not be offered, sold or resold except pursuant to an exemption from registration under the Securities Act and applicable US state laws or in a transaction not subject to such laws. The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act and inside the United States to qualified institutional buyers in reliance on Rule 144A. The Company is not required to register the Notes under the terms of the Notes and therefore future resales of the Notes may only be made pursuant to an exemption from registration under the Securities Act and applicable state laws or in a transaction not subject to such laws. See “Transfer restrictions.”

**Enforcing your rights as a holder of the Notes or under the Guarantees or the Collateral across multiple jurisdictions may be difficult.**

The Notes will be issued by the Company, which is incorporated under the laws of the Cayman Islands, and guaranteed by the initial Subsidiary Guarantors, which are incorporated under the laws of the Cayman Islands, the British Virgin Islands, Hong Kong and Australia. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions and in the jurisdiction of organization of any future Subsidiary Guarantor of the Notes. Your rights under the Notes, the Guarantees and the Collateral granted will thus be subject to the laws of several jurisdictions, and you may not be able to enforce your rights effectively in multiple bankruptcy, insolvency and other similar proceedings. Moreover, such proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights.

In addition, the bankruptcy, insolvency, administrative and other laws of the respective Subsidiary Guarantors' jurisdictions of incorporation may be materially different from, or in conflict with, one another and those of the United States in certain areas, including creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes, the Subsidiary Guarantees and the Collateral.

**The insolvency laws of the Cayman Islands and other local insolvency laws may differ from those of any other jurisdiction with which holders of the Notes are familiar.**

As we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us, even if brought in other jurisdictions, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law in other jurisdictions. We conduct a substantive amount of our business operations through PRC-incorporated entities in China. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of other jurisdictions with which the holders of the Notes are familiar. For further information see "Limitations on validity and enforceability of the guarantees and security interests and certain insolvency law considerations."

**Australian insolvency laws may impair the enforcement of remedies under the Notes.**

Insolvency proceedings in relation to our Australian subsidiaries (including our Australian Subsidiary Guarantors of the Notes) will be governed by Australian insolvency laws, including but not limited to, the insolvency regime set out in the Australian Corporations Act. Australian insolvency laws differ from the insolvency laws of the United States and certain other jurisdictions.

In particular, the voluntary administration procedure under Chapter 5 of the Corporations Act provides for potential reorganization of an insolvent company pursuant to a deed of company arrangement, which differs significantly from Chapter 11 of the US Bankruptcy Code. Accordingly, if our Australian subsidiaries (including our Australian Subsidiary Guarantors of the Notes) were to become insolvent, the treatment and ranking of holders of the Notes, their other creditors and shareholders under Australian insolvency law may be different from the treatment and ranking of those parties if the insolvency proceedings were subject to the bankruptcy laws of the United States or certain other jurisdictions. For further information see "Limitations on validity and enforceability of the guarantees and security interests and certain insolvency law considerations."

**The ability to claim under any Note Guarantee following the insolvency of a Subsidiary Guarantor incorporated in Australia may be materially adversely affected by Australian insolvency laws.**

Certain Subsidiary Guarantors are organized under the laws of Australia and, therefore, insolvency proceedings with respect to such Subsidiary Guarantors would likely proceed under, and be governed by, Australian insolvency law, including, but not limited to, the Australian Corporations Act.

Under Australian insolvency law, if an order to wind up were made against any of our Australian Subsidiary Guarantor and a liquidator was appointed, the liquidator would have the power, among other things, to investigate the validity of past transactions, including guarantees given in relation to the obligations of others, and may seek various court orders, including orders for the repayment of money and to void certain transactions entered into prior to the winding up of the relevant Australian Subsidiary Guarantor. Such transactions may include, without limitation, transactions entered into within specified periods prior to the winding up that a court considers uncommercial or transactions entered into within specified periods prior to the winding up that had the effect of preferring a creditor or creditors or otherwise defeating, delaying or interfering with the rights of other creditors.

Furthermore, laws in the nature of fraudulent conveyance laws, equitable subordination principles and other similar provisions and principles have been enacted or exist for the protection of creditors in Australia under which a Subsidiary Guarantee may be set aside, subordinated or otherwise avoided, including as a result of the application of laws in relation to the duties of directors to act in good faith and for proper purposes.

To the extent that any of our Australian Subsidiary Guarantees are voided or otherwise held to be voidable or unenforceable, any direct claims against a Guarantor could be lost or limited, and the payments previously received from that the Australian Subsidiary Guarantor under such Subsidiary Guarantee may be required to be returned. For further information see “Limitations on validity and enforceability of the guarantees and security interests and certain insolvency law considerations.”

**We may not be able to repurchase the Notes upon a Change of Control Triggering Event.**

Upon the occurrence of a Change of Control Triggering Event, we will be required to offer to repurchase all outstanding Notes at 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. If a Change of Control Triggering Event occurs, we may not have sufficient funds at that time to pay the purchase price for all tendered Notes, particularly if that Change of Control Triggering Event triggers a similar repurchase requirement for, or results in the acceleration of, any of our other debt, or if any other of our then existing contractual obligations would require us to make such required repurchases. Any debt agreements we enter into in the future may contain similar provisions.

The Change of Control provision contained in the Indenture may not necessarily afford investors in the Notes protection in the event of certain important corporate events, including reorganization, restructuring, merger or other similar transaction involving us that may adversely affect holders of the Notes, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a “Change of Control” as defined in the Indenture. Except as described under “Description of the notes—Change of control triggering event,” the Indenture does not contain provisions that require us to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of “Change of Control” contained in the Indenture includes a disposition of all or substantially all of the assets of the Company and its restricted subsidiaries taken as a whole to any person other than one or more “Permitted Holders” as defined in the Indenture. Although there is a limited body of case law interpreting the phrase “all or substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “all or substantially all” of the assets of the Company and its restricted subsidiaries taken as a whole.

**Noteholders may be subject to tax.**

Prospective investors of the Notes are advised to consult their own tax advisors concerning the overall tax consequences of the purchase, ownership or disposition of the Notes. See “Tax considerations” for a discussion of tax consequences in certain jurisdictions.

**The Notes will initially be held in book-entry form, and therefore, you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.**

The Notes will initially only be issued in global certificated form and held through DTC and its participants, including Euroclear and Clearstream. Interests in the global notes will trade in book-entry form only, and the Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes. The custodian for DTC will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the paying agent, which will make payments to DTC. Thereafter, these payments will be credited to accounts of participants (including Euroclear and Clearstream) that hold book-entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the custodian for DTC, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of DTC, Euroclear and Clearstream, and if you are not a participant in DTC, Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC, Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis. Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through DTC, Euroclear and Clearstream. The procedures to be implemented through DTC, Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.



## **USE OF PROCEEDS**

The gross proceeds from the Offering will be US\$400 million. The net proceeds from the Offering, after deducting the underwriting discount and certain expenses related to the Tender Offer will be deposited into the Escrow Account. Approximately US\$250 million of the net proceeds are expected to be released from the Escrow Account to repurchase Convertible Bonds tendered in the Tender Offer and pay certain fees related to the Tender Offer. The remaining net proceeds in the Escrow Account will be released from time to time in whole or in part (as applicable) in connection with any mandatory or optional redemption, repayment or repurchase of the Company's Convertible Bonds.

## CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents, non-current time deposits, pledged time deposits and capitalization as of March 31, 2016, (i) on an actual basis, (ii) as adjusted to give effect to the repayment of the Bridge Loan with the drawings under the Senior Facility Agreement on April 27, 2016 and the total or partial repayment of certain working capital and cash bridge facilities post-March 31, 2016, and (iii) as further adjusted to give effect to the offering of the Notes and the application of a portion of the net proceeds therefrom towards the repurchase of a portion of the outstanding Convertible Bonds through the Tender Offer, as described under “Use of Proceeds”. The as adjusted and as further adjusted information below is illustrative and does purport to be indicative of our cash and cash equivalents and capitalization following the completion of the offering of the Notes.

The following table should be read in conjunction with “Summary consolidated financial and other data,” “Use of proceeds,” “Management’s discussion and analysis of financial condition and results of operations” and the financial statements and notes thereto included elsewhere in this offering memorandum.

(in millions)	As of March 31, 2016					
	Actual		As adjusted <sup>(1)</sup>		As further adjusted <sup>(2)</sup>	
	(RMB)	(US\$)	(RMB)	(US\$)	(RMB)	(US\$)
<b>Cash and cash equivalents<sup>(3)</sup></b> .....	(1,491)	(230)	(1,624)	(251)	(2,545)	(393)
<b>Non-current time deposits</b> .....	(17)	(3)	(17)	(3)	(17)	(3)
<b>Pledged time deposits</b> .....	(973)	(150)	(188)	(29)	(188)	(29)
<b>Short-term borrowings:</b>						
Swisse Acquisition Secured Bridge Loan <sup>(4)</sup> .....	2,915	450	—	—	—	—
CCB Secured Bank Loan <sup>(5)</sup> .....	430	66	170	26	170	26
HSBC Secured Bank Loan <sup>(5)</sup> .....	162	25	—	—	—	—
Société Générale Secured Bank Loan <sup>(5)</sup> .....	194	30	—	—	—	—
Convertible Bonds <sup>(6)</sup> .....	2,670	412	2,670	412	1,108	171
HSBC Unsecured Facility <sup>(5)</sup> .....	37	6	—	—	—	—
<b>Long-term borrowings:</b>						
Senior Secured Term Loan <sup>(7)</sup> .....	—	—	2,915	450	2,915	450
Notes <sup>(8)</sup> .....	—	—	—	—	2,591	400
<b>Total borrowings<sup>(9)</sup></b> .....	5,621	868	5,585	862	6,614	1,021
<b>Total net borrowings<sup>(10)</sup></b> .....	4,130	638	3,961	611	4,069	628
<b>Total Equity<sup>(11)</sup></b> .....	4,269	659	4,269	659	4,269	659
<b>Total Capitalization<sup>(12)</sup></b> .....	9,891	1,527	9,854	1,521	10,883	1,680

(1) As adjusted reflects the repayment of the Bridge Loan with the drawings under the Senior Facility Agreement on April 27, 2016 and the repayment of RMB653 million (US\$100.8 million) of working capital facilities and cash bridge facilities with cash on balance sheet (including pledged cash deposits) post-March 31, 2016 (but excludes the effect of any fees and expenses related to such transactions).

(2) As further adjusted represents the gross proceeds from the issuance of the Notes, after deducting the underwriting fee and certain expenses related to the Tender Offer (but excluding any other expenses related to the Tender Offer and the Notes offering), and application of the proceeds therefrom to repurchase a portion of the Convertible Bonds through the Tender Offer. Payment for the Convertible Bonds accepted in the Tender Offer will amount to RMB1,622 million (US\$250 million). Cash and cash equivalents have not been adjusted for other movements subsequent to March 31, 2016, including changes in working capital, other than to reflect the effects of the release of pledged time deposits upon repayment of certain working capital and cash bridge facilities described in note (1) above, or for certain fees and expenses related to the Notes offering, the Tender Offer and the refinancing of the Bridge Loan with drawings under our Senior Facility Agreement. Therefore, the amount of cash and cash equivalents presented in this table and the actual amount of cash and cash equivalents as of the issuance date of the Notes may be different.

- (3) Represents cash and bank balances and current time deposits. On an as further adjusted basis, cash and cash equivalents also includes the funds in the Escrow Account.
- (4) Represents the US\$450 million equivalent Bridge Loan, which was used, together with other cash resources, to fund the Acquisition in September 2015 which is shown gross of issuance discount and amortized issuance costs.
- (5) Represents (i) our working capital facilities with HSBC and (ii) our secured CCB, SocGen and HSBC cash bridge facilities.
- (6) Represents liability component as of March 31, 2016 of the HK\$3,100 million of Zero Coupon Convertible Bonds due 2019 of the Company, and adjusted for the corresponding carrying amount as of March 31, 2016 for the Convertible Bonds to be repurchased in connection with the Tender Offer. The holders of the Convertible Bonds have the right to require the Company to repurchase their Convertible Bonds, in whole or in part, on February 20, 2017, at a specified repurchase price. See “Description of certain financing arrangements—Convertible Bonds”.
- (7) Represents the US\$450 million floating rate secured term loan under our Senior Facility Agreement. See “Description of Certain Financing Arrangements”.
- (8) Represents the US\$400 million aggregate principal amount of Notes offered hereby, gross of amortized issuance costs.
- (9) Represents short-term borrowings and long-term borrowings, excluding cash bridge facilities.
- (10) Represents total borrowings less cash and cash equivalents.
- (11) Represents equity attributable to owners of the Company. Assumes no adjustment to total equity.
- (12) Represents total borrowings plus total equity.

# UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

## Introduction

The unaudited pro forma consolidated financial information of Biostime for the year ended December 31, 2015, the three months ended March 31, 2015 and the twelve months ended March 31, 2016, has been prepared to represent the pro forma effects of the acquisition by the Group of 83% of the share capital of Swisse, and the financing related thereto (the “Acquisition”).

On September 17, 2015, one of Biostime’s indirect wholly-owned subsidiaries agreed to acquire an 83% shareholding in Swisse. The Acquisition was completed on September 30, 2015, with Swisse becoming an indirect subsidiary of the Company. The results of Swisse have been included in our consolidated financial results from September 30, 2015 and thus our results from 2015 include one quarter of Swisse from October 1, 2015 to December 31, 2015. The total purchase consideration for the acquisition of the 83% shareholding in Swisse was A\$1,449.9 million (US\$1,056.4 million) in cash (funded through a mix of the Group’s internal cash and the Bridge Loan (as defined below)). This acquisition consideration was paid in cash except for A\$50 million, which was paid by way of issuance of 20,513,085 shares of Biostime to the sellers at an issue price of HKD13.5 (US\$1.7) each, representing approximately 3.4% of the existing shares of Biostime. On September 17, 2015, we entered into a facility agreement which provided US\$450 million of bridge financing for the Acquisition (the “Bridge Loan”).

The unaudited pro forma consolidated financial information includes (a) the unaudited pro forma consolidated statement of profit or loss for the year ended December 31, 2015, (b) the unaudited pro forma consolidated statement of profit or loss for the three months ended March 31, 2015, and (c) the unaudited pro forma consolidated statement of profit or loss for the 12 months ended March 31, 2016, with the related explanatory notes thereto (together the “Unaudited Pro Forma Consolidated Financial Information”).

The Unaudited Pro Forma Consolidated Financial Information addresses a hypothetical situation for illustrative purposes only, of the main potential impacts that may derive from the Acquisition and, therefore, does not represent the actual financial results of operations of the Group. In particular, as pro forma information is prepared to illustrate retrospectively the effects of transactions, as of earlier dates using reasonable assumptions, there are limitations that are inherent to the nature of pro forma information; hence, had the Acquisition taken place on the dates assumed below, the actual effects would not necessarily have been the same as those presented in the Unaudited Pro Forma Consolidated Financial Information.

Finally, it should be noted that the Unaudited Pro Forma Consolidated Financial Information does not attempt to predict or estimate the future results of the Group and should not be used for this purpose.

The Unaudited Pro Forma Consolidated Financial Information should be read together with:

- the audited consolidated financial statements of the Biostime Group as of and for the years ended December 31, 2015, 2014 and 2013 (“Biostime Audited Consolidated Financial Statements”);
- the unaudited interim condensed consolidated financial statements of Biostime Group as of and for the three months ended March 31, 2016 (“Unaudited Interim Condensed Consolidated Financial Statements”);
- the audited consolidated financial statements of Swisse and its subsidiaries as of and for the years ended June 30, 2015, 2014 and 2013;

- the unaudited interim condensed consolidated statements of comprehensive income of Swisse for the three months ended March 31, 2015, June 30, 2015, September 30, 2015 and March 31, 2016; and
- the audited interim condensed consolidated statement of comprehensive income of Swisse for the three months ended December 31, 2015.

The Unaudited Pro Forma Consolidated Financial Information has been prepared on a voluntary basis for inclusion in this offering memorandum which has been prepared in connection with Biostime's proposed issuance of senior notes to qualified institutional buyers as defined in Rule 144A under the U.S. Securities Act of 1933, as amended ("Rule 144A") in reliance on Rule 144A and (ii) to non-US persons outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act of 1933, as amended.

### **Pro forma assumptions**

The purpose of the preparation of the Unaudited Pro Forma Consolidated Financial Information is to simulate, using accounting principles that are consistent with those used in relation to the preparation of the Group's published historical consolidated financial statements, the main effects of the Acquisition on the results of operations of the Group, in accordance with the below assumptions:

- With regard to the unaudited pro forma consolidated statements of profit or loss for the year ended December 31, 2015, the three months ended March 31, 2015 and the 12 months ended March 31, 2016 it is assumed that the Acquisition had taken place at January 1, 2015 in order to show the effects of the Acquisition on the entire reporting periods.
- Biostime's historical audited consolidated financial statements as of and for the year ended December 31, 2015 includes several expenses related to the acquisition of Swisse. This includes transaction costs of RMB64.6 million (US\$10.0 million) and an exchange gain of RMB13.2 million (US\$2.0 million). These expenses have not been adjusted in our pro forma results of operations to be shown as of an earlier date.
- Following the Acquisition, we incurred severance costs of RMB12.7 million (US\$2.0 million) in relation to the restructuring of our business which has been included in our audited consolidated financial statements as of and for the year ended December 31, 2015. These expenses have not been adjusted in our pro forma results of operations to be shown as of an earlier date.
- Prior to the completion of the acquisition, Swisse incurred transaction costs related to the acquisition of A\$22.3 million (US\$16.2 million) and expenses related to bonus payments to employees as a result of the acquisition of A\$100.3 million (US\$73.1 million). These expenses are reflected in Swisse's historical consolidated financial statements as of and for the year ended June 30, 2015 and the three months ended September 30, 2015. These expenses have not been adjusted in our pro forma results of operations to be shown as of an earlier date.
- As the Bridge Loan was drawn as of September 30, 2015, the total amount of the related costs of RMB64.6 million (US\$10.0 million) related to the financing of the Acquisition was already reflected in Biostime's historical audited consolidated financial statements as of December 31, 2015. For the purposes of the pro forma adjustments, costs that relate to the financing under the Bridge Loan are recognized as expenses in accordance with IAS 39. These expenses have not been adjusted in our pro forma results of operations to be shown as of an earlier date.
- We have assumed an interest rate of 3.1031% under our Bridge Loan for the entire periods shown below (the actual rate as of March 28, 2016, the end of the most recent full interest period). Our Bridge Loan contained provisions for the interest rate thereon to increase if not repaid

after a period of six months. We refinanced our Bridge Loan on April 27, 2016 so we have not shown the increase in interest for the Bridge Loan as if it were outstanding for a full year period in the pro forma results of operations for the year ended December 31, 2015 or the 12 months ended March 31, 2016.

- We have not adjusted income tax expense to account for the adjustment to income tax that would have been incurred if the Acquisition had occurred as of January 1, 2015.

### Basis of preparation

The Unaudited Pro Forma Consolidated Financial Information is prepared on the basis of the historical financial information derived from the financial statements and information detailed above, adjusted to reflect the effects of the Acquisition.

The accounting principles used for the preparation of the Unaudited Pro Forma Consolidated Financial Information are, unless otherwise specified, consistent with those used in the preparation of the Biostime Unaudited Interim Condensed Consolidated Financial Statements, which have been prepared in accordance with IFRS. A detail of the accounting policies applied is provided in the Biostime Audited Consolidated Financial Statements.

Swisse prepares its consolidated financial statements in accordance with Australian Accounting Standards as adopted by the Australian Accounting Standards Board, which conform with IFRS.

### Pro forma consolidated financial information

This section presents the unaudited pro forma consolidated statements of profit or loss for the year ended December 31, 2015, the three months ended March 31, 2016 and the 12 months ended March 31, 2016.

#### Unaudited pro forma consolidated statement of profit or loss for the year ended December 31, 2015

The following table presents the pro forma adjustments made in order to show the main potential effects of the Acquisition on the Biostime Group's consolidated statement of profit or loss for the year ended December 31, 2015.

(in millions)	Pro Forma Adjustments			
	Biostime Group Historical <sup>(1)</sup> (RMB)	Swisse (nine months) <sup>(2)</sup> (RMB)	Acquisition and related financing adjustments (RMB)	Biostime Group Pro Forma (RMB)
Revenue .....	4,818.6	1,637.9		6,456.5
Cost of sales.....	(1,834.0)	(604.8)		(2,438.8)
<b>Gross profit</b> .....	2,984.6	1,033.1		4,017.7
Other income and gains .....	144.0	3.0		147.0
Selling and distribution costs.....	(1,975.8)	(569.1)	(53.0) <sup>(3)</sup>	(2,597.9)
Administrative expenses .....	(280.1)	(318.4)	(2.6) <sup>(3)</sup>	(601.1)
Other expenses .....	(214.2)	(18.8)		(233.0)
Finance costs .....	(154.0)	(32.0)	(66.7) <sup>(4)</sup>	(252.7)
Share of losses of an associate .....	(0.4)	0.0		(0.4)
<b>Profit/(loss) Before Tax</b> .....	503.9	97.8	(122.3)	479.6
Income tax expense .....	(210.6)	(54.1)		(264.7)
<b>Profit/(loss) For The Year</b> .....	293.3	43.7	(122.3)	214.9

## Unaudited pro forma consolidated statement of profit or loss for the three months ended March 31, 2015

The following table presents the pro forma adjustments made in order to show the main potential effects of the Acquisition on the Biostime Group's consolidated statement of profit or loss for the three months ended March 31, 2015.

(in millions)	Pro Forma Adjustments			
	Biostime Group	Swisse (three	Acquisition	Biostime Group
	Historical	months) <sup>(2)</sup>	and related	Pro Forma
	(RMB)	(RMB)	financing	(RMB)
			adjustments	
			(RMB)	
Revenue.....	995.7	375.9		1,371.6
Cost of sales.....	(428.8)	(158.1)		(586.9)
<b>Gross profit</b> .....	566.9	217.8		784.7
Other income and gains.....	32.1	0.8		32.9
Selling and distribution costs.....	(362.7)	(65.3)	(17.7) <sup>(5)</sup>	(445.7)
Administrative expenses.....	(34.5)	(26.0)	(0.9) <sup>(5)</sup>	(61.4)
Other expenses.....	(42.8)	(2.9)		(45.7)
Finance costs.....	(22.7)	(8.3)	(21.9) <sup>(4)</sup>	(52.9)
Share of losses of an associate.....	(0.3)	0.0		(0.3)
<b>Profit/(loss) Before Tax</b> .....	136.2	116.1	(40.5)	211.6
Income tax expense.....	(44.9)	(34.6)		(79.5)
<b>Profit/(loss) For The Period</b> .....	91.3	81.5	(40.5)	132.1

## Unaudited pro forma consolidated statement of profit or loss for the 12 months ended March 31, 2016

The following table presents the pro forma adjustments made in order to show the main potential effects of the Acquisition on the Biostime Group's consolidated statement of profit or loss for the 12 months ended March 31, 2016.

(in millions)	Pro Forma Adjustments			
	Biostime Group	Swisse (six	Acquisition	Biostime Group
	Historical <sup>(1)(6)</sup>	months) <sup>(2)</sup>	and related	Pro Forma
	(RMB)	(RMB)	financing	(RMB)
			adjustments <sup>(4)</sup>	
			(RMB)	
Revenue.....	5,291.9	1,262.0		6,553.9
Cost of sales.....	(1,927.2)	(446.7)		(2,373.9)
<b>Gross profit</b> .....	3,364.7	815.3		4,180.0
Other income and gains.....	293.1	2.2		295.3
Selling and distribution costs.....	(1,975.8)	(503.8)	(35.3) <sup>(7)</sup>	(2,514.9)
Administrative expenses.....	(321.1)	(292.3)	(1.7) <sup>(7)</sup>	(615.1)
Other expenses.....	(202.9)	(16.0)		(218.9)
Finance costs.....	(211.6)	(23.7)	(44.8) <sup>(4)</sup>	(280.1)
Share of losses of an associate.....	(1.2)	0.0		(1.2)
<b>Profit/(loss) Before Tax</b> .....	944.8	(18.3)	(81.8)	845.1
Income tax (expense)/credit.....	(313.5)	(19.5)		(333.0)
<b>Profit/(loss) For The Period</b> .....	631.3	(37.8)	(81.8)	512.1

## NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following notes include a description of the pro forma adjustments made for the Unaudited Pro Forma Consolidated Financial Information.

- (1) The historical financial statements for Biostime for the year ended December 31, 2015 include the results of operations of Swisse for the three months after September 30, 2015 following the Acquisition. The historical financial statements for Biostime for the 12 months ended March 31, 2016 include the results of operations of Swisse for the six months after September 30, 2015 following the Acquisition.
- (2) The financial statements of Swisse have been translated from Australian dollars, the reporting currency of Swisse, to RMB, the reporting currency of Biostime, as set forth below at a rate of RMB4.7197 = A\$1.00, being the exchange rate as of December 31, 2015 for the purpose of preparing the unaudited pro forma consolidated financial information. The nine months ended September 30, 2015, the three months ended March 31, 2015 and the six months ended September 30, 2015 for Swisse, below, represent the Swisse financial statements above for the unaudited pro forma consolidated statements of profit or loss for the year ended December 31, 2015, the three months ended March 31, 2015 and the 12 months ended March 31, 2016, respectively.

(in millions)	Nine months ended September 30, 2015		Three months ended March 31, 2015		Six months ended September 30, 2015	
	(A\$)	(RMB)	(A\$)	(RMB)	(A\$)	(RMB)
Revenue.....	347.1	1,637.9	79.7	375.9	267.4	1,262.0
Cost of sales.....	(128.2)	(604.8)	(33.5)	(158.1)	(94.7)	(446.7)
<b>Gross profit</b> .....	<b>218.9</b>	<b>1,033.1</b>	<b>46.2</b>	<b>217.8</b>	<b>172.7</b>	<b>815.3</b>
Other income and gains.....	0.6	3.0	0.1	0.8	0.5	2.2
Selling and distribution costs.....	(120.6)	(569.1)	(13.9)	(65.3)	(106.7)	(503.8)
Administrative expenses.....	(67.4)	(318.4)	(5.5)	(26.0)	(61.9)	(292.3)
Other expenses.....	(4.0)	(18.8)	(0.6)	(2.9)	(3.4)	(16.0)
Finance costs.....	(6.8)	(32.0)	(1.8)	(8.3)	(5.0)	(23.7)
Share of losses of an associate....	0.0	0.0	0.0	0.0	0.0	0.0
<b>Profit/(loss) Before Tax</b> .....	<b>20.7</b>	<b>97.8</b>	<b>24.5</b>	<b>116.1</b>	<b>(3.8)</b>	<b>(18.3)</b>
Income tax expense.....	(11.4)	(54.1)	(7.3)	(34.6)	(4.1)	(19.5)
<b>Profit/(loss) For The Period</b> .....	<b>9.3</b>	<b>43.7</b>	<b>17.2</b>	<b>81.5</b>	<b>(7.9)</b>	<b>(37.8)</b>

- (3) The adjustments to our selling and distribution costs and administrative expenses represent the amortization of intangible assets of Swisse (including trademarks and brand name, consumer relationships, a royalty agreement and unpatented product formula) which are calculated based on fair values of these assets as of the date of the Acquisition, for the nine months ended September 30, 2015.
- (4) Represents interest on our Bridge Loan assuming the Acquisition occurred on January 1, 2015. Such interest is calculated at an assumed rate of 3.1031%, (the actual rate as of March 28, 2016, the end of the most recent full interest period) without any step up in interest as a result from the Bridge Loan being outstanding for more than six months.
- (5) The adjustments to our selling and distribution costs and administrative expenses represent the amortization of intangible assets of Swisse (including trademarks and brand name, consumer relationships, a royalty agreement and unpatented product formula) which are calculated based on fair values of these assets as of the date of the Acquisition, for the three months ended March 31, 2015.
- (6) The Biostime results of operations for the 12 months ended March 31, 2016 represent our results of operations for the year ended December 31, 2015 plus our results of operations for the three months ended March 31, 2016 less our results of operations for the three months ended March 31, 2015.
- (7) The adjustments to our selling and distribution costs and administrative expenses represent the amortization of intangible assets of Swisse (including trademarks and brand name, consumer relationships, a royalty agreement and unpatented product formula) which are calculated based on fair values of these assets as of the date of the Acquisition, for the six months from April 1, 2015 to September 30, 2015.



## SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

*The following tables set forth our selected historical consolidated financial information as of and for the dates and periods indicated as well as certain other financial and operating data.*

*The selected historical financial data as of and for the three months ended March 31, 2016 has been derived from the Biostime Unaudited Interim Condensed Consolidated Financial Statements. The Biostime Unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with IFRS and are included elsewhere in this offering memorandum. The selected historical financial data of Biostime included in this offering memorandum as of and for the years ended December 31, 2013, 2014 and 2015 has been derived from the Biostime Audited Consolidated Financial Statements. The Biostime Audited Consolidated Financial Statements have been prepared in accordance with IFRS and are included elsewhere in this offering memorandum. The results of Swisse have been included in our consolidated financial results from September 30, 2015 and thus our results from 2015 include one quarter of Swisse.*

*The selected financial information for the 12 months ended March 31, 2016 for Biostime is calculated by taking Biostime's consolidated statements of profit or loss for the three months ended March 31, 2016 and adding it to the difference between Biostime's statements of profit or loss for the full year ended December 31, 2015 and the three months ended March 31, 2015.*

*The selected historical financial data of Swisse included in this offering memorandum as of and for the years ended June 30, 2013, 2014 and 2015 has been derived from the Swisse Consolidated Financial Statements. The Swisse Consolidated Financial Statements have been prepared in accordance with AAS and are included elsewhere in this offering memorandum.*

*The results of operations for prior years are not necessarily indicative of the results to be expected for the full fiscal year or any future period. Interim financial results are not necessarily indicative of results for the full financial year or any future reporting period.*

*The selected financial information for the 12 months ended March 31, 2016 for Swisse is calculated by adding Swisse's interim condensed consolidated statements of comprehensive income for the three months ended June 30, 2015, September 30, 2015, December 31, 2015 and March 31, 2016. Please see "Summary condensed quarterly financial information of Swisse."*

*We have prepared unaudited pro forma consolidated financial information which comprises pro forma consolidated statements of profit or loss for the year ended December 31, 2015, the three months ended March 31, 2015 and the 12 months ended March 31, 2016, and related explanatory notes (the "Unaudited Pro Forma Consolidated Financial Information").*

*The Unaudited Pro Forma Consolidated Financial Information has been prepared to simulate the main effects of the acquisition of Swisse on Biostime's consolidated statements of profit or loss as if they had taken place on January 1, 2015. The consolidated pro forma financial information included in this offering memorandum for the year ended December 31, 2015, the three months ended March 31, 2015 and the 12 months ended March 31, 2016 has been derived from the Unaudited Pro Forma Consolidated Financial Information. The explanatory notes to the Unaudited Pro Forma Consolidated Financial Information include an explanation of the basis of preparation.*

*The Unaudited Pro Forma Consolidated Financial Information presented in this offering memorandum is based on available information and certain assumptions that we believe are reasonable. The Unaudited Pro Forma Consolidated Financial Information is presented for illustrative purposes only and does not purport to represent what the actual results of operations would have been if the events for which the pro forma adjustments were made had occurred on the dates assumed, nor does it purport to project our results of operations for any future period or our financial condition at any future date. Our future operating results may differ materially from the pro forma amounts set out in this Offering Memorandum due to various factors, including changes in operating results.*

*The accounting principles used for the preparation of the Unaudited Pro Forma Consolidated Financial Information are, unless otherwise specified, consistent with those used in the preparation of the Biostime Audited Consolidated Financial Statements, which have been prepared in accordance with IFRS. Details of the accounting policies applied are provided in the Biostime Audited Consolidated Financial Statements.*

*The pro forma financial information set forth elsewhere in this offering memorandum has not been prepared in accordance with the requirements of Regulation S-X under the US Securities Exchange Act of 1934 or US GAAP. Neither the adjustments nor the resulting pro forma financial information have been audited or reviewed in accordance with IFRS or US GAAS. The Unaudited Pro Forma Consolidated Financial Information should be read in conjunction with the historical consolidated financial statements and notes thereto of Biostime and Swisse, included elsewhere in this offering memorandum and “Management’s discussion and analysis of financial condition and results of operations.”*

*The pro forma financial information has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date. The pro forma financial information should be read in conjunction with the Biostime Consolidated Financial Statements, the Swisse Consolidated Financial Statements and the section titled, “Unaudited Pro Forma Consolidated Financial Information” included elsewhere herein. Neither the assumption underlying the pro forma adjustments nor the resulting pro forma financial information have been audited or reviewed in accordance with any generally accepted auditing standards.*

*This information is only a summary and should be read in conjunction with “Capitalization,” “Summary condensed quarterly financial information of Swisse,” “Management’s discussion and analysis of financial condition and results of operations”, our unaudited interim condensed consolidated financial statements and the notes thereto, our audited consolidated financial statements and the accompanying notes thereto appearing elsewhere in this offering memorandum, the Swisse audited consolidated financial statements and the accompanying notes thereto appearing elsewhere in this offering memorandum as well as the other financial information included in this offering memorandum.*

## Biostime Consolidated Financial Information

### Selected consolidated statements of profit or loss

IFRS (in millions)	For the year ended December 31,				For the three months ended March 31,		For the 12 months ended March 31,	
	2013	2014	2015	2015	2015	2016	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB) (unaudited) (pro forma)	(RMB) (unaudited) (pro forma)	(RMB) (unaudited)	(RMB) (unaudited) (pro forma)	(US\$) (unaudited) (pro forma)
Revenue .....	4,561.3	4,731.6	4,818.6	6,456.5	1,371.6	1,469.0	6,553.9	1,011.7
Cost of sales .....	(1,586.2)	(1,804.6)	(1,834.0)	(2,438.8)	(586.9)	(522.0)	(2,373.9)	(366.4)
<b>Gross profit</b> .....	<b>2,975.1</b>	<b>2,926.9</b>	<b>2,984.6</b>	<b>4,017.7</b>	<b>784.7</b>	<b>947.0</b>	<b>4,180.0</b>	<b>645.3</b>
Other income and gains .....	106.4	128.1	144.0	147.0	32.9	181.2	295.3	45.6
Selling and distribution costs .....	(1,513.0)	(1,587.8)	(1,975.8)	(2,597.9)	(445.7)	(362.7)	(2,514.9)	(388.2)
Administrative expenses .....	(177.3)	(175.3)	(280.1)	(601.1)	(61.4)	(75.5)	(615.1)	(95.0)
Other expenses .....	(55.6)	(87.5)	(214.2)	(233.0)	(45.7)	(31.5)	(218.9)	(33.8)
Finance costs .....	(10.6)	(86.7)	(154.0)	(252.7)	(52.9)	(80.3)	(280.1)	(43.2)
Share of (losses)/profits of an associate .....	—	0.6	(0.4)	(0.4)	(0.3)	(1.1)	(1.2)	(0.2)
Fine on the violation of Anti-Monopoly Law .....	(162.9)	—	—	—	—	—	—	—
<b>Profit Before Tax</b> .....	<b>1,162.1</b>	<b>1,118.4</b>	<b>503.9</b>	<b>479.6</b>	<b>211.6</b>	<b>577.1</b>	<b>845.1</b>	<b>130.5</b>
Income tax expense .....	(341.4)	(311.5)	(210.6)	(264.7)	(79.5)	(147.8)	(333.0)	(51.4)
<b>Profit For The Year/Period</b> ...	<b>820.7</b>	<b>806.8</b>	<b>293.3</b>	<b>214.9</b>	<b>132.1</b>	<b>429.3</b>	<b>512.1</b>	<b>79.1</b>

### Selected consolidated statements of financial position data

IFRS (in millions)	As of December 31,			As of March 31,	
	2013	2014	2015	2016	2016
	(RMB) (Restated) <sup>(1)</sup>	(RMB)	(RMB)	(RMB) (unaudited)	(US\$) (unaudited)
Cash and cash equivalents .....	1,662.8	3,347.2	1,198.2	1,491.0	230.2
Total assets .....	4,641.0	6,631.2	13,831.6	13,182.2	2,035.0
Total liabilities .....	2,125.4	3,714.1	10,231.0	8,912.9	1,375.9
Non-controlling interests .....	0.0	0.0	309.1	346.1	53.4
Equity attributable to the owners of the parent .....	2,515.6	2,917.1	3,291.5	3,923.2	605.6

(1) Certain items, such as property, plant and equipment, prepaid land lease payments, goodwill, intangibles assets and the current portion of prepaid land lease payments included in prepayments, deposits and other receivables, have been restated due to the adjustments made in relation to the finalization of the purchase price allocation for the acquisition of Adimil (Changsha), which has been reflected as a change to the 2013 comparative amounts in the 2014 audited financial statements.

## Selected consolidated statements of cash flows data

IFRS (in millions)	For the year ended December 31,			For the three months ended March 31,	
	2013	2014	2015	2016	2016
	(RMB)	(RMB)	(RMB)	(RMB) (unaudited)	(US) (unaudited)
Net cash flows from operating activities.....	660.5	972.2	365.7	514.7	79.5
Net cash flow flows from/(used in) investing activities.....	(80.7)	(460.4)	(4,163.8)	90.3	13.9
Net cash flow flows from/(used in) financing activities .....	(214.7)	1,171.8	2,570.5	(251.8)	(38.9)

## Swisse Financial Information

### Selected consolidated statements of comprehensive income

AAS (in millions)	For the year ended June 30,			For the 12 months ended March 31,	
	2013	2014	2015	2016	2016
	(A\$)	(A\$)	(A\$)	(A\$) (unaudited)	(US\$) (unaudited)
Revenue from continuing operations.....	149.7	125.6	313.1	581.7	423.8
Other Income .....	0.0	5.5	0.2	1.7	1.2
Materials, consumables and freight.....	(65.7)	(61.6)	(118.9)	(214.5)	(156.3)
Employee benefits expense.....	(16.3)	(19.1)	(26.9)	(140.8)	(102.6)
Depreciation and amortization expense.....	(2.3)	(3.1)	(3.1)	(3.4)	(2.5)
Advertising and marketing expenses.....	(45.1)	(29.7)	(26.5)	(43.0)	(31.3)
Selling and other rebates .....	(10.5)	(4.2)	(5.1)	(5.1)	(3.7)
Occupancy expenses.....	(1.2)	(1.6)	(2.2)	(4.1)	(3.0)
Administration expenses.....	(5.3)	(3.8)	(8.4)	(28.7)	(20.9)
Distribution costs .....	(4.5)	(2.7)	(5.6)	(9.2)	(6.7)
Other expenses.....	(5.1)	(5.0)	(6.4)	(9.7)	(7.1)
Finance costs .....	(2.7)	(7.7)	(7.7)	(4.7)	(3.4)
Share of profit from associates.....	0.3	0.3	—	—	—
<b>Profit/(loss) before tax.....</b>	<b>(8.5)</b>	<b>(7.2)</b>	<b>102.5</b>	<b>120.2</b>	<b>87.5</b>
Income tax (expense)/benefit.....	2.8	1.6	(28.8)	(44.1)	(32.1)
<b>Profit/(loss) from continuing operations .....</b>	<b>(5.8)</b>	<b>(5.6)</b>	<b>73.7</b>	<b>76.1</b>	<b>55.4</b>
Profit/(loss) from discontinued operations .....	(11.6)	(33.8)	—	—	—
<b>Profit/(loss) after tax .....</b>	<b>(17.3)</b>	<b>(39.4)</b>	<b>73.7</b>	<b>76.1</b>	<b>55.4</b>

## Selected consolidated statements of financial position data

AAS (in millions)	As of June 30,			As of March 31,	
	2013	2014	2015	2016	2016
	(A\$)	(A\$)	(A\$)	(A\$)	(US\$)
Cash and cash equivalents.....	0.8	14.1	57.2	102.2	74.5
Total assets.....	86.3	77.4	200.2	283.1	206.3
Total liabilities.....	96.5	123.7	179.6	282.1	205.5
Total shareholder's equity.....	(10.5)	(46.3)	20.6	1.0	0.7

## Selected consolidated statements of cash flow data

AAS (in millions)	For the year ended June 30,		
	2013	2014	2015
	(A\$)	(A\$)	(A\$)
Net cash flows from/(used in) operating activities.....	(22.1)	(25.2)	76.0
Net cash flows from/(used in) investing activities.....	(5.1)	(1.4)	(0.7)
Net cash flows from/(used in) financing activities.....	27.0	40.0	(32.2)

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with the consolidated financial information for Biostime and Swisse together with the accompanying notes included elsewhere in this offering memorandum. The consolidated financial statements of Biostime were prepared in accordance with IFRS. The consolidated financial statements of Swisse were prepared in accordance with AAS and comply with IFRS as issued by the IASB.*

*On September 30, 2015, we acquired an 83% shareholding in Swisse, which represents our adult nutrition and care products segment commencing with the Acquisition. For further information, see "The Swisse Shareholders' Agreement." The results of Swisse have been included in our consolidated financial results from September 30, 2015 and thus our results from 2015 include one quarter of Swisse from October 1, 2015 to December 31, 2015, but not in any prior comparable periods. Unless otherwise indicated below, all financial information discussed below is not presented on pro forma basis.*

*This section includes forward-looking statements that involve risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. All statements, other than statements of historical facts, included in this section that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses we made in light of experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. For a discussion of some of those risks and uncertainties, refer to the sections titled "Forward-looking statements" and "Risk factors."*

### **Overview**

We are an all-round nutrition and care provider for the entire family, providing high-end pediatric and adult nutrition and care products through our established brands in China, Australia and internationally.

Our product offering is divided into three broad segments: (i) formulas for infants and children under seven years old as well as for expectant and nursing mothers; (ii) adult nutrition and care products; and (iii) probiotic and other pediatric supplements, dried baby foods and baby care products. Biostime™ and ADiMIL™ are the two principal brands under which we currently sell our infant formula products, probiotic supplements and dried baby food products in China. We currently sell our adult nutrition and care products, under our Swisse™ brand, in Australia and New Zealand, as well as in several other international markets, most significantly in China. We acquired our adult nutrition and care products business when we purchased 83% of Swisse on September 30, 2015. For further information, see "The Swisse Shareholders' Agreement". For the 12 months ended March 31, 2016, on a *pro forma* basis we generated revenue and gross profit of RMB6,553.9 million (US\$1,011.7 million) and RMB4,180.0 million (US\$645.3 million), respectively.

### **Key factors affecting our results of operations**

We believe that the following factors, among others, have had and will continue to have a material effect on our results of operations and financial condition. As many of these factors are beyond our control and a number of these factors have historically been volatile, past performance will not necessarily be indicative of future performance and it is difficult to predict future performance with any degree of certainty. In addition, important factors that could cause our actual results of operations or financial condition to differ materially from those expressed or implied below include, but are not limited to, factors indicated in this offering memorandum under the section titled "Risk factors."

### ***Consumer demand for our products in China***

We derive the majority of our revenue from the sale of our products to consumers in China. Revenue from the direct sale of our products to consumers in China constituted 100%, 100% and 82.5% of our total revenue for the years ended December 31, 2013, 2014 and 2015, respectively. The foregoing numbers only include results of our Swisse operations for the fourth quarter of 2015, after the Acquisition. For the first quarter of 2016, our revenue from direct sales in China constituted 59.7% of our total revenue. In addition, we believe that a portion of our revenue in the first quarter of 2016 was driven by passive sales of Swisse<sup>TM</sup> branded products into China, which are active sales that originated outside of China of products that are subsequently sold into China by consumers. Our results of operations and financial condition are therefore affected by developments in China that affect Chinese consumer spending on our products.

General factors that have affected consumer spending in China on our products include urbanization, population growth, rising incomes, significant growth and development of the consumer market, including e-commerce, growing competition and the entry of foreign brands, and the increasing consumer preference for higher quality, safer and branded products. A significant change in any or all of these factors is likely to impact our revenue and results of operations. Furthermore, because consumer demand for our products in China is affected by a variety of different and unpredictable factors, we cannot provide any assurance that our revenue will not experience volatility as our business adjusts to changes in the economic climate in China.

Given that infant formula products have been our primary product offering, changes impacting the infant formula products market can have a particularly significant impact on our results of operations. For example, due to rising consumer affluence in China, infant formula products have become more affordable to Chinese consumers, resulting in the rapid growth of the overall market for infant formula in China. We believe that further growth in demand will help drive sales for well-positioned infant formula companies in China and that we are well positioned to capture such growth based on our superior product proposition, such as our SN-2 PLUS infant formula which we launched in June 2015, our focused marketing strategy, our brand names and our sales, marketing and distribution infrastructure.

### ***Competition and market position***

Competition within the markets in which we operate is strong. While the pediatric nutritional and baby care products market in China is expected to grow significantly due to continued increase in consumer spending and recent revisions to the Chinese one-child policy, we face significant competition from domestic and multinational competitors. A small number of multinational players enjoy a significant market share in China, particularly in the more affluent major urban areas, due to a preference for branded goods deemed to be associated with higher quality among Chinese consumers. In addition, competition from Chinese competitors has become more intense in recent years. Similarly, within the adult nutrition and care product market in Australia and New Zealand, we face significant competition from domestic and multinational competitors.

In order to successfully compete in our markets, we focus on developing and marketing premium products for both the pediatric nutrition and baby care products market in China as well as the adult nutrition and care products market in Australia and New Zealand, as well as competing on price for our mid-to-high tier pediatric nutrition and care products. A significant portion of the products that we offer are clinically tested and researched, and we believe that we generally offer our consumers a superior product proposition. For example, within our infant formula segment we launched in June 2015 our SN-2 PLUS infant formula under our Biostime<sup>TM</sup> brand. We believe that launching products like SN-2 PLUS infant formula is key to being able to retain a competitive advantage and maintain our brand position as a provider of products with superior quality that have been carefully developed based on scientific findings. Such products typically require significant development periods and costs, as well as substantial marketing and promotion costs to launch. For example, SN-2 PLUS infant formula was developed over a period of three years, and we incurred RMB125.0 million (US\$19.3

million) in marketing and promotion costs related to the launch. For the year ended December 31, 2015, we incurred an additional RMB315.1 million (US\$48.6 million) of exceptional costs through providing discounts on our previous infant formula products which SN-2 PLUS infant formula replaced. For further information, see “Business—Products and suppliers.”

By leveraging our superior product proposition, our focused marketing strategy, our brand names and our sales and marketing and distribution infrastructure, we have been able to successfully compete and grow our market share within the premium pediatric nutritional and baby care products market in China as well as the adult nutrition and care product market in Australia and New Zealand. Moreover, we expect to increasingly market our adult nutrition and care products into China through cross-border e-commerce platforms (as well as passive sales into China) and, through our agreement with PGT, we expect to generate increased sales of our adult nutrition and care products in a number of international locations including Singapore, the United Kingdom and Italy. For further information, see “Business—Distribution network and sales—Adult nutrition and care products.”

### ***Sales of our products are subject to seasonality due to consumer behavior***

The sales of our products are subject to seasonality due to consumer behavior. For our baby nutrition and care products, we generally experience higher sales in the fourth quarter due to increased purchases from distributors that seek to increase their inventory levels in advance of Chinese New Year as well as to meet their annual sales targets, since many distributors are closed for the Chinese New Year period. For our adult nutrition and care products, we generally experience higher sales in the fourth quarter as a result of sales leading up to the Christmas holidays in Australia and as a result of the “Double 11 shopping day” in China. We generally experience reduced sales in the first quarter due to the Chinese New Year. As a result, we can experience fluctuations in our product inventory levels and revenue during the course of the year.

### ***Brand investment and reputation***

As our products occupy the premium segments of the pediatric nutrition and baby care products market in China and the adult nutrition and care product market in Australia and New Zealand, developing and maintaining the reputation of our brands and preserving customer loyalty to our brands while attracting new consumers to our brands are key elements of our strategy.

For the year ended December 31, 2015, our marketing and promotion expenses which we consider to be investments in building our brands, was RMB1,039.9 million (US\$160.5 million) or 21.6% of our revenue, which was relatively higher than previous years due to the launch of our SN-2 PLUS infant formula. Investment in our brands consists of consumer marketing, digital advertising, brand ambassador fees, educational initiatives and other similar marketing activities. In addition to investment in our brands, we undertake further support of our brands, such as product development and innovation, clinical trials and investment in product safety and quality.

Investment in our brands is a key component of reinforcing the relevance of our products and maximizing the benefit of our research and development efforts by educating consumers. Over the long term, investment levels in our brands underpin the performance of our business and contribute to maintaining retail sales and premium pricing. As we continue to develop our products and launch new products, investment in our brands is required to support the launch of new products or extensions or updates of existing products and, as a result, will be higher in periods in which such products are released. In addition, our marketing expenses also increase due to special events, such as our promotional activities associated with the Olympic Games in Rio de Janeiro in August 2016.

In China, rising consumer wealth has contributed to greater demand by consumers in China for higher-priced and premium branded products with perceived quality advantages associated with such products. Accordingly, we believe that our baby nutrition and care products as well as our adult nutrition and care products with a reputation for quality and safety should be able to command higher average selling prices than those of our competitors whose products do not possess the same



degree of brand recognition and perceived reputation for quality and safety as our products. Conversely, any decrease in consumer perceptions of quality and safety could adversely impact such producers' brand reputation and sales, even if the perception is from misinformation or disinformation. Moreover, an incident or incidents calling into question the quality and safety of any particular product could trigger wider negative perception of the decrease in the quality and safety of the products of producers generally, thereby affecting the market generally. For example, within the infant formula product segment, the melamine contamination incident in 2008 resulted in a significant reduction in the sales of a number of major dairy product companies in China. If an adverse incident involving any of our products should occur in the future, especially if our management fails to respond to such incident in a timely and effective manner, the reputation of our brands could be severely damaged, which could adversely affect our results of operations.

### ***Product discounts***

We ordinarily provide discounts in order to promote our products and to incentivize distributors. We also provide bonus or free stock to certain distributors as an incentive in our adult nutrition and care product segment as well as in our pediatric nutritional and baby care products segment.

Typically, we provide distributors discounts of approximately 15-20% in our pediatric nutritional and baby care products, and for accounting purposes recognize revenue on a net basis excluding such discounts. For certain products, such as our ADiMIL™ branded infant formula, our discounts are higher due to the competitive pressures for those products. Generally, the mid-tier infant formula market, in which our ADiMIL™ brand competes, tends to be more price sensitive compared to the premium-tier market. We have also seen certain competitors in the premium segment provide price discounts. However, in the premium and super-premium tier infant formula markets, we focus on product quality to differentiate our products, rather than price discounts or other incentives. In contrast to our normal business practices, we offered exceptional one-time discounts in the first nine months of 2015 in order to clear our prior-series formula from our entire supply chain to allow for the introduction of our new SN-2 PLUS infant formula. We were unable to launch our SN-2 PLUS infant formula alongside the existing product, as our distribution chain (distributors and retailers) had limited shelf-space capacity for duplication of SKUs.

In our pediatric nutritional and baby care products, in addition to discounts, we also utilize other promotional activities. These include offering free stock as part of cross-selling with different types of product to allow consumers to try our other products. In addition, we pay for promotions that benefit our distributors as a method of incentivizing them and increasing sales.

In our adult nutrition and care products segment, we provide certain retailers discounts based on volume or other factors. We have changed our terms of trade in this segment so as to reduce product discounting and instead utilize bonus stock as a distribution incentive in order to promote retail sales. This has increased over the past three years with our move away from the grocery channel towards the pharmacy channel, which we believe to be a growing market for our products with higher margins.

### ***Product mix and pricing***

The mix of products that we offer our consumers and their relative appeal to our consumers has a significant impact on our revenue, gross profit and gross profit margin and EBITDA and EBITDA margin. We regularly evaluate our product offerings in terms of their quality offering, branding, price point and consumer appeal.

Our average selling price for our infant formula products has declined due to the introduction since 2013 of our lower-priced ADiMIL™ branded product, which we introduced to offer a more diversified mix of products. The inflow of cheaper products on the market through e-commerce sites and price discounting of products as more historically non-premium infant formula producers enter the premium market has also increased competition and led to price pressure, particularly for our ADiMIL™

branded product line. In addition, we made the decision to increase discounts over time to create greater price differentiation between the ADiMIL™ and Biostime™ branded infant formula products in order to avoid cannibalization and ensure that our Biostime™ branded infant formula retains its super-premium market status.

We introduced a 5% price reduction in mid-2013 as a proactive response to the NDRC's investigation into alleged monopolistic price practices in the infant formula industry. In July 2015, we implemented a 4% increase in price on all of our infant formula products, other than our domestic ADiMIL™ product line, after we decided to assume certain product marketing costs that had previously been the responsibility of our distributors. However, apart from these specific developments, our average selling price has been relatively stable in the super-premium tier.

For our adult care and nutrition products, we have experienced increases in our average selling prices due to shifts in channel mix towards the higher-margin pharmacy channel as well as a product mix shift towards larger quantity and more expensive product packaging. We expect that sales of our infant formula products and, to an increasing degree, our adult care and nutrition products, will make the largest contributions to our EBITDA in the foreseeable future. We plan to continue to invest in these product segments in order to implement our strategy to maintain and strengthen our market position, EBITDA and EBITDA margin.

Product mix affects margins, as different products may provide different margins depending on the market at a particular point in time. For example, we realize higher margins on our super-premium tier infant formula products and our probiotics products than other product segments. To meet market demand at different points of time, we may adjust the product mix within our product range, which could have an impact on our margins. For further information, see “Business—Products and suppliers.”

### *Supply chain*

Our results of operations and financial condition are affected by the effectiveness of our product and raw material supply chain. As we rely on a significant portion of our products and raw materials to be supplied from Western Europe, the speed, efficiency and effectiveness of our supply chain can impact our costs of sales, distribution costs and administrative expenses. For example, due to unanticipated increases in demand in China for our adult nutrition and care products, sales of our Swisse™ branded products grew faster than our suppliers could produce certain key supplies, leading to constraints on our sales during 2014. We have also experienced supply constraints for certain products as a result of unforeseen events, such as a fire at the facility of our supplier of krill oil leading us to temporarily cease selling this product. In addition, in 2015, the sales of our baby care products and dried baby food and nutrition supplements segments declined due to supply interruptions while ramping up production at new manufacturing facilities for certain products. We have taken steps to reduce our reliance on key suppliers and add latency in our supply network to absorb growth in the future.

Furthermore, our market position and the significant retail sales that we generate can also provide us with buying power with many of our suppliers and enable us to achieve operational and cost efficiencies across our supply chain. In order to provide greater efficiency and effectiveness of our supply chain, we have made selective minority acquisitions of, and investments in, some of our suppliers. For example, in order to ensure consistent supply of infant formula from ISM, one of our suppliers in France, we acquired a 20% shareholding of ISM for €2.5 million (US\$2.7 million) in July 2013 and we have loaned €17.5 million (US\$19.0 million) to ISM to fund their construction of a new infant formula manufacturing facility in France, which was completed in 2015. In addition, in 2012, we loaned DKK81.5 million (US\$11.9 million) to Arla Foods Amba, our infant formula supplier in Denmark, to fund the construction of a new infant formula manufacturing facility in Denmark, which was completed in 2013. For further information, see “Business—Suppliers and manufacturing.”

### ***Currency exposure***

The majority of our revenues are in Renminbi, with a smaller portion in Australian dollars. We source a significant portion of our products from businesses that operate primarily within Western Europe. In sourcing our products from suppliers in Western Europe, we have significant exposure to the value of the Euro relative to the Renminbi. In addition, we have significant US dollar denominated indebtedness, including US\$450 million under our Senior Facility Agreement, and our US dollar denominated debt will increase significantly upon issuance of the Notes. We are required to pay interest and make amortization payments on such indebtedness in US dollars. Consequently, our financial results have been, and in the future will be, subject to currency translation effects resulting from fluctuations in exchange rates, primarily the Renminbi/Euro and Renminbi/US dollar exchange rates, as further described in “—Quantitative and qualitative disclosures about market risks—Foreign currency risk.”

### ***Inventory management***

Our results of operations can be affected by our inventory management processes. We take ownership of significant amounts of products each year. We track order levels and product commitments together with the sales of products and amend order quantities as appropriate and where relevant, if possible. Where certain product lines experience a slower rate of sale than that desired, we may apply discounts and/or increase marketing and promotions. For example, when our new SN-2 PLUS infant formula was launched in June 2015, we were unable to sell it alongside our existing product, as distributors and retailers did not have the shelf space to allow for additional products. As a result, we had to resort to exceptional discounting to clear our original infant formula stock from both our inventory and our distribution channels. For further information see “— Product discounts” and “Business—Inventory management and logistics.”

### ***Operational efficiencies***

Our business performance is affected by the operational efficiency of our activities and our ability to manage and contain costs. The largest elements of our expenses are the raw material costs of our products, promotional costs and employee costs.

We consolidated our pediatric nutritional and baby care products into a single business unit in the fourth quarter of 2015 and our Swisse<sup>TM</sup> branded products in China in a separate business unit, following the acquisition of Swisse. These reorganizations resulted in headcount reductions, and we expect to realize cost savings going forward due to the sharing of resources across these operations.

The per unit costs of producing a significant number of our products is affected by the Chinese, Australian and global markets. For example, our infant formula products are subject to the supply and price volatility of milk powder, whey powder and other raw materials, including certain clinically researched raw materials such as the structured lipid that we use in our SN-2 PLUS infant formula. Milk constituted one of the largest portions of our cost of sales in 2015. Any increases in the price of milk powder, whey powder or other significant raw materials would negatively impact our gross profit margins if we are not able to offset such price increases through increases in our selling price or changes to our product mix.

### ***Discontinued operations***

On June 30, 2014, operations of the Swisse business in the United States were discontinued. This discontinuation of operations has resulted in Swisse’s business operations in the United States being presented as discontinued operations in Swisse’s Audited Consolidated Financial Statements. In addition, in our presentation of EBITDA for Swisse, we have removed one-time costs related to the discontinuation of Swisse’s business in the United States.

## ***Regulation***

Our business is subject to, and significantly affected by, laws and regulations in China and Australia, and to a lesser extent in other countries around the world. In China, the regulations governing our products have been evolving and the regulatory framework can be uncertain due to limited guidance. These regulatory frameworks can have a significant impact on our results of operations. For further information on our regulatory environment and the related risks that we face, see “Regulation” and “Risk Factors—Risks relating to our business and industries” and “—Risks relating to conducting business in China.”

## ***Channel mix***

Our results of operations are affected by the mix of product sales across our channels. We believe that we are able to maximize sales by engaging with our consumers across multiple channels, including our in-store (through supermarkets, retail stores, mother and baby stores and pharmacies), website (including e-commerce platforms), mobile and tablet applications and our consumer membership services channels. Our margins can be higher in certain sales channels, leading to a change in margins as a result of changes in channel mix. For example, since 2014 Swisse has focused increasingly on the higher-margin pharmacy channel, which presently represents the majority of our sales in the adult nutrition and care products segment, and reduced focus on the relatively lower-margin grocery channel.

E-commerce sales are also positively impacted by the presence of our products in stores, because we believe consumers are generally more likely to make online purchases if they have had the opportunity to view the product in-store. We believe the growth of our e-commerce platform will have a positive impact on in-store sales of our products by increasing footfall and generating cross-selling opportunities. Typically, our gross profit margins in the e-commerce channel are higher but our promotional costs are also higher in connection with these sales. For further information, see “Business—Distribution network and sales.”

## **Key factors affecting the comparability of our results of operation**

### ***Swisse and Healthy Times acquisitions***

During the periods under review we acquired an 83% shareholding in Swisse on September 30, 2015, as well as a 100% shareholding in Healthy Times on July 1, 2015.

Swisse represents our adult nutrition and care business and is principally engaged in research, development, marketing and distribution of vitamins, health supplements, skin care and sports nutrition products in Australia and New Zealand. The total purchase consideration for the acquisition of the 83% shareholding was A\$1,449.9 million (US\$1,056.4 million). For further information, see “The Swisse Shareholders’ Agreement.” Healthy Times is a company based in the United States and is principally engaged in the manufacture and sale of premium organic baby foods and baby care products. The consideration that we paid for the acquisition of Healthy Times was US\$10.4 million (RMB67.4 million).

## **Explanation of key income statement items**

### ***Revenue***

Revenue represents products sold, after allowances for returns, rebates and trade discounts (net of value-added tax and other sales taxes). We recognize revenue when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably from the sale of products, when the significant risks and rewards of ownership have been transferred to the buyer, *provided* that we maintain neither managerial involvement to the degree usually associated with ownership nor effective control over the products sold.

Our revenue is primarily generated from our product segments, consisting of (i) infant formula products, (ii) adult nutrition and care products, and (iii) other pediatric products which consists of probiotic supplements, dried baby food and nutrition supplements and baby care products. Our infant formula products, probiotic supplements, dried baby food and nutrition supplements and baby care products collectively represent our baby nutrition and care products, which are undertaken by our Biostime operations, and our adult nutrition and care products, which are undertaken by our Swisse operations. For further information, see “Business—Products and suppliers.”

Our revenue is also generated from the membership points from our consumers. Upon collecting a minimum number of membership points, our loyalty program’s members are able to redeem membership points for our products undertaken by Biostime operations. Our consideration received or receivable generated from the products sold is allocated between the points earned by the consumers and other components of the sales. The recognition of the amount allocated to the membership points earned by the consumer from our sales is deferred until the membership points are redeemed or the membership points are expired. As of March 31, 2016, the balance of the deferred income from our sales attributable to the points earned by the members of our customer loyalty program was RMB45.7 million (US\$7.1 million).

### ***Cost of sales***

Cost of sales consists primarily of direct costs incurred to manufacture and package our products, the value of the products sold, as well as stock write-offs and foreign exchange fluctuations related to our purchasing of products. The costs of materials, including the costs of raw materials, finished products and packaging materials, were the main components of our cost of sales, representing 95.8%, 95.0%, 95.0% and 93.8%, respectively, of our total cost of sales in each of the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016.

As an incentive to distributors of our adult nutrition and care products, we provide bonus stock as a free unit per unit purchased. We do not recognize revenue on such stock, but the cost of the units is included within cost of sales.

### ***Gross profit***

Gross profit is equal to revenue less cost of sales. Gross profit margin is equal to gross profit divided by revenue.

### ***Other income and gains***

Other income and gains consist primarily of interest from our interest-bearing bank deposits (including time deposit accounts), interest from loans and bonds, PRC government fiscal subsidies (provided on a discretionary basis and determined by a number of criteria), net foreign exchange gains and the net invoiced value of royalties under our international distribution agreement.

### ***Selling and Distribution Costs***

Selling and distribution costs includes costs relating to promotional activities as well as brand building and other marketing campaigns through commercial advertisements in television and print as well as online through search engines, online sales platforms, video websites and online parenting forums. In addition, it includes staff costs and office expenses such as salaries and benefits for our sales and marketing personnel, travel expenses and rent expenses relating to our regional offices.

A significant component of our selling and distribution costs is the costs of promotional materials and service fees paid to sales personnel who provide services relating to the sales and promotion of our products, other than stage one infant formula, in selected pharmacies and retail sales organizations (including baby specialty stores and supermarkets) where a Mama100 Members’ Zone is maintained. These sales personnel are provided to us through third-party agencies and they are paid fixed

compensation and commission based on their sales. It is our policy that each sales promoter should make true representations as to the function and features of our products. False claims or representations by such sales promoters could lead to termination of the person's qualification as our sales promoter and payment of indemnities for any economic loss caused to us. As of December 31, 2013, 2014 and 2015 and March 31, 2016, a total of 8,176, 6,533, 5,501 and 5,032 sales promoters, respectively, were providing such promotional services for our products. For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the service fees paid to such sales promoters were RMB238.4 million (US\$36.8 million), RMB278.2 million (US\$42.9 million), RMB267.1 million (US\$41.2 million) and RMB51.2 million (US\$7.9 million), respectively.

The reduction in sales promoters is due in part to our improved efficiency as a result of the introduction of our Mama100 mobile application.

#### ***Administrative expenses***

Administrative expenses include salaries and benefits for our administrative and management staff, office expenses and rental, travel expenses for our staff, as well as expenses related to third-party professionals such as consultants, auditors, lawyers and tax advisors, along with other office-related and miscellaneous expenses.

#### ***Other expenses***

Other expenses primarily consist of research and development ("R&D") costs, net foreign exchange losses and fair-value losses on derivative financial instruments. Research costs are expensed as incurred. Product development expenditures which do not meet the criteria for capitalization are expensed as incurred. R&D costs include the costs of proprietary R&D efforts, as well as costs incurred in connection with third-party collaboration efforts and market research conducted for product development and improvement.

#### ***Finance costs***

Finance costs include interest accrued on all indebtedness, including non-cash interest expenses.

#### ***Income tax expense***

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which we and our subsidiaries are domiciled and operate. Our operations in mainland China are currently taxed at a rate of 25% of taxable profits. Our tax in Australia is currently assessed at 30% of taxable profits. Hong Kong currently taxes 16.5% of the assessable profits arising in Hong Kong.

## Our results of operations

The following table sets forth, for the periods indicated, certain items derived from our consolidated statements of profit or loss and other comprehensive income contained in our Biostime Consolidated Financial Statements.

### Summary consolidated statements of profit or loss

IFRS (in millions, except percentages)	For the year ended December 31,						For the three months ended March 31,			
	2013		2014		2015		2015		2016	
	Amount (RMB)	Percentage of total revenue (%)	Amount (RMB)	Percentage of total revenue (%)	Amount (RMB)	Percentage of total revenue (%)	Amount (RMB) (unaudited)	Percentage of total revenue (%) (unaudited)	Amount (RMB) (unaudited)	Percentage of total revenue (%)
Revenue.....	4,561.3	100.0%	4,731.6	100.0%	4,818.6	100.0%	995.7	100.0%	1,469.0	100.0%
Cost of sales.....	(1,586.2)	(34.8)%	(1,804.6)	(38.1)%	(1,834.0)	(38.1)%	(428.8)	(43.1)%	(522.0)	(35.5)%
<b>Gross profit.....</b>	<b>2,975.1</b>	<b>65.2%</b>	<b>2,926.9</b>	<b>61.9%</b>	<b>2,984.6</b>	<b>61.9%</b>	<b>566.9</b>	<b>56.9%</b>	<b>947.0</b>	<b>64.5%</b>
Other income and gains .....	106.4	2.3%	128.1	2.7%	144.0	3.0%	32.1	3.2%	181.2	12.3%
Selling and distribution costs .....	(1,513.0)	(33.2)%	(1,587.8)	(33.6)%	(1,975.8)	(41.0)%	(362.7)	(36.4)%	(362.7)	(24.7)%
Administrative expenses.....	(177.3)	(3.9)%	(175.3)	(3.7)%	(280.1)	(5.8)%	(34.5)	(3.5)%	(75.5)	(5.1)%
Other expenses .....	(55.6)	(1.2)%	(87.5)	(1.8)%	(214.2)	(4.4)%	(42.8)	(4.3)%	(31.5)	(2.1)%
Finance costs .....	(10.6)	(0.2)%	(86.7)	(1.8)%	(154.0)	(3.2)%	(22.7)	(2.3)%	(80.3)	(5.5)%
Share of (losses)/profits of an associate ..	—	0.0%	0.6	0.0%	(0.4)	0.0%	(0.3)	0.0%	(1.1)	0.1%
Fine on the violation of Anti-Monopoly Law .....	(162.9)	(3.6)%	—	—	—	—	—	—	—	—
<b>Profit Before Tax.....</b>	<b>1,162.1</b>	<b>25.5%</b>	<b>1,118.4</b>	<b>23.6%</b>	<b>503.9</b>	<b>10.5%</b>	<b>136.2</b>	<b>13.7%</b>	<b>577.1</b>	<b>39.3%</b>
Income tax expense ..	(341.4)	(7.5)%	(311.5)	(6.6)%	(210.6)	(4.4)%	(44.9)	(4.5)%	(147.8)	(10.1)%
<b>Profit for the year/period.....</b>	<b>820.7</b>	<b>18.0%</b>	<b>806.8</b>	<b>17.1%</b>	<b>293.3</b>	<b>6.1%</b>	<b>91.3</b>	<b>9.2%</b>	<b>429.3</b>	<b>29.2%</b>

**Results of operations for the three months ended March 31, 2016 compared to the three months ended March 31, 2015**

*Revenue*

The following table provides a product segment breakdown of our revenue for the three months ended March 31, 2016 and 2015.

(in millions, except percentages)	For the three months ended March 31,			
	2015		2016	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(RMB) (unaudited)	(%)	(RMB) (unaudited)	(%)
Infant formula products .....	855.4	85.9%	737.6	50.2%
Adult nutrition and care products .....	—	—	601.2	40.9%
Other pediatric products .....	140.3	14.1%	130.3	8.9%
<b>Total</b> .....	<b>995.7</b>	<b>100%</b>	<b>1,469.0</b>	<b>100%</b>

*Infant formula products*

(in millions, except percentages)	For the three months ended March 31,				Change (%)
	2015		2016		
	(RMB) (unaudited)	(US\$) (unaudited)	(RMB) (unaudited)	(US\$) (unaudited)	
Revenue .....	855.4	132.1	737.6	113.9	(13.8)%
Cost of sales .....	(357.8)	(55.2)	(242.2)	(37.4)	(32.3)%
Gross profit .....	497.6	76.8	495.3	76.5	(0.5)%
Gross profit margin .....		58.2%		67.2%	

Revenue within the infant formula products segment decreased by RMB117.8 million (US\$18.2 million) in the three months ended March 31, 2016 compared to the prior corresponding period. This decrease was primarily attributable to the decline in volume and average selling prices for our ADiMIL™ branded products as a result of increased competition in the mid-tier segment. Both our Biostime™ and ADiMIL™ branded products experienced declines in volume as a result of distributors reducing their inventory holding levels in anticipation of upcoming regulatory changes which are expected to reduce the number of products on the market. This was partially offset by an increase in the average selling prices of Biostime™ branded products.

Gross profit within the infant formula products segment decreased by RMB2.3 million (US\$0.4 million), driven by the decrease in revenue which was partially offset by an increase in gross profit margin resulting from lower milk prices, higher average selling prices for our Biostime™ branded products and a relatively higher proportion of sales from our higher-margin Biostime™ branded products.



### Adult nutrition and care products

Since we acquired Swisse in September 2015, our revenues for the three months ended March 31, 2015 do not include Swisse revenues. The below discussion provides a comparison of our adult nutrition and care products segment revenues and gross profit for the three months ended March 31, 2016, which comprises the Swisse business, with the Swisse revenues and gross profit for the three months ended March 31, 2015.

(in millions, except percentages)	For the three months ended March 31,				Change (%)
	2015		2016		
	(RMB) Swisse <sup>(1)</sup> (unaudited)	(US\$) Swisse <sup>(1)</sup> (unaudited)	(RMB) (unaudited)	(US\$) (unaudited)	
Revenue.....	375.9	58.1	601.2	92.8	59.9%
Cost of sales .....	(158.1)	(24.4)	(235.2)	(36.3)	48.8%
Gross profit .....	217.8	33.6	366.0	56.5	68.1%
Gross profit margin .....		57.9%		60.9%	

(1) Swisse was consolidated into Biostime from the closing of the Acquisition on September 30, 2015. The Swisse results from prior to the Acquisition were included for comparison purposes.

Revenue within the adult nutrition and care products segment increased by RMB225.3 million (US\$34.7 million) in the three months ended March 31, 2016 compared to Swisse revenue for the three months ended March 31, 2015. This increase was primarily attributable to increased sales volumes linked to the continued growth in underlying demand for Swisse products in China. Gross profit within the Swisse business increased by RMB148.2 million (US\$22.9 million) as a result of increased demand from Chinese consumers.

Gross profit margin increased in the period from 57.9% to 60.9%, as a result of the increase in the average selling prices of products, driven by our improved discounting strategy associated with the shift in our channel mix towards the pharmacy channel which has generated higher gross profit margins, and improved supply terms as a result of scale benefits.

### Other pediatric products

(in millions, except percentages)	For the three months ended March 31,				Change (%)
	2015		2016		
	(RMB) (unaudited)	(US\$) (unaudited)	(RMB) (unaudited)	(US\$) (unaudited)	
Revenue.....	140.3	21.7	130.3	20.1	(7.1)%
Cost of sales .....	(71.0)	(11.0)	(44.5)	(6.9)	(37.3)%
Gross profit .....	69.3	10.7	85.7	13.2	23.8%
Gross profit margin.....		49.4%		65.8%	

Revenue from other pediatric products decreased by RMB10.0 million (US\$1.5 million) in the three months ended March 31, 2016 compared to the prior-year period. This was primarily the result of a decrease in sales of our baby care products of 45.5% to RMB16.9 million (US\$2.6 million) for the

three months ended March 31, 2016 from RMB30.8 million (US\$4.8 million) for the three months ended March 31, 2015, due to intense competition from lower-cost imported diapers through e-commerce channels. Revenue within the probiotics supplements segment increased by 11.8% to RMB93.2 million (US\$14.4 million) for the three months ended March 31, 2016 from RMB83.3 million (US\$12.9 million) for the three months ended March 31, 2015, as a result of increased retail sales due to cross-selling activities within our infant formula products segment.

A reduction in discounts of our baby food products resulted in improved gross profit margin from 23.0% to 45.5%. Our gross profit margin on other pediatric products increased as a result of the 32.8% increase in gross profit from probiotic supplement products. This was driven by the cessation of cross selling discounts, which we had offered in 2015.

#### *Other income and gains*

Our other income and gains was RMB181.2 million (US\$28.0 million), or RMB174.6 million (US\$27.0 million) excluding Swisse, for the three months ended March 31, 2016 compared to RMB32.1 million (US\$5.1 million) for the three months ended March 31, 2015. This increase was primarily attributable to a net foreign exchange gain of RMB159.7 million (US\$24.7 million) associated with the drawn indebtedness under our Bridge Loan, which we entered into in connection with the Acquisition. This was partially offset by a decline in interest income from bank accounts.

#### *Selling and distribution costs*

	For the three months ended March 31,				Change (%)
	2015		2016		
	(RMB) (unaudited)	(US\$) (unaudited)	(RMB) (unaudited)	(US\$) (unaudited)	
(in millions, except percentages)					
Staff costs and office expenses .	202.1	31.2	187.6	29.0	(7.2)%
Advertising and promotional expenses.....	122.0	18.8	109.2	16.8	(10.6)%
Others .....	38.6	6.0	66.0	10.2	71.0%
Selling and Distribution Costs ..	362.7	56.0	362.7	56.0	0%

Our selling and distribution costs decreased by RMB119.9 million (US\$18.4 million), or a reduction of 32.8% excluding Swisse, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 and remained stable including Swisse due to the inclusion of Swisse costs. This decrease was primarily attributable to a decrease in costs in our pediatric nutrition and care products segment for advertising and promotion due to a different timing allocation of marketing efforts and also a reduction in our headcount as a result of our reorganization in the last quarter of 2015 following our acquisition of Swisse. Swisse selling and distribution costs increased 82.7% to RMB119.9 million (US\$18.4 million) as a result of continued investment in brand-building initiatives to drive market share. Swisse selling and distribution costs as a percentage of revenue increased from 17.4% to 19.7%.

### *Administrative expenses*

Our administrative expenses increased to RMB75.5 million (US\$11.6 million), or to RMB45.3 million (US\$7.0 million) excluding Swisse, for the three months ended March 31, 2016 compared to RMB34.5 million (US\$5.3 million) for the three months ended March 31, 2015. Our administrative expenses excluding Swisse increased 31.3% due to amortization expenses resulting from share options granted to employees on December 29, 2015. Swisse administrative expenses increased by 16.4% due to the increase in headcount as a result of the increased operating scale caused by its recent growth.

### *Other expenses*

Our other expenses decreased to RMB31.5 million (US\$4.9 million) for the three months ended March 31, 2016 from RMB42.8 million (US\$6.6 million), or RMB25.4 million (US\$3.9 million) excluding Swisse, for the three months ended March 31, 2015. This decrease was primarily attributable to a net foreign exchange loss recorded in the first quarter of 2015 as a result of foreign currency translation effects.

### *Finance costs*

Our finance costs increased to RMB80.3 million (US\$12.4 million), which was the same excluding Swisse, for the three months ended March 31, 2016 from RMB22.7 million (US\$3.5 million) for the three months ended March 31, 2015. This increase was primarily attributable to an increase in interest expense in relation to our Bridge Loan entered into in connection with the Acquisition.

### *Income tax expense*

Our income tax expense increased to RMB147.8 million (US\$22.8 million), or RMB78.9 million (US\$12.2 million) excluding Swisse, for the three months ended March 31, 2016 from RMB44.9 million (US\$6.9 million) for the three months ended March 31, 2015. This increase was primarily attributable to the increase in our profits before tax as a result of the acquisition of Swisse, which was partially offset by a decrease in our effective tax rate from 33.0% to 25.6% due to the reduction in the effective tax rate excluding Swisse from 33.0% to 21.5% as a result of the non-taxable income generated by certain foreign exchange gains in 2016.

### *Profit for the period*

Our profit for the period increased to RMB429.3 million (US\$66.3 million), or RMB288.2 million (US\$44.5 million) excluding Swisse, for the three months ended March 31, 2016 from RMB91.3 million (US\$14.5 million) for the three months ended March 31, 2015. This increase was primarily attributable to the increase in our revenue and gross profit from our adult nutrition and care products segment, the increase in income from foreign currency effects and the reduction in our effective tax rate. Excluding the net exchange gain of RMB159.7 million (US\$24.7 million), our profit for the period increased to RMB269.6 million (US\$41.6 million), or RMB128.5 million (US\$19.8 million) excluding Swisse, for the three months ended March 31, 2016.

### *EBITDA, Adjusted EBITDA and Adjusted EBITDA margin*

Our EBITDA increased to RMB682.6 million (US\$105.4 million) for the three months ended March 31, 2016 from RMB143.2 million (US\$22.1 million) for the three months ended March 31, 2015. This increase was primarily attributable to Swisse, which made a contribution of RMB215.3 million (US\$33.2 million) in the three months ended March 31, 2016. Our Adjusted EBITDA and Adjusted EBITDA margin (relative to adjusted revenue) increased to RMB568.7 million (US\$87.8 million) and 38.7%, respectively, for the three months ended March 31, 2016 from RMB285.8 million (US\$44.1

million) and 26.3%, respectively, for the three months ended March 31, 2015. The increase in Adjusted EBITDA margin was driven primarily by the increase in our sales and gross profits from our adult nutrition and care products as well as a moderate increase in pediatric nutrition and care products after removing the effect of exceptional discounts in 2015.

*Biostime Standalone Adjusted EBITDA and Biostime Standalone Adjusted EBITDA margin*

Biostime Standalone Adjusted EBITDA increased by 22.4%, from RMB285.8 million (US\$44.1 million) in the three months ended March 31, 2015 to RMB349.8 million (US\$54.0 million) in the three months ended March 31, 2016. The increase in Biostime Standalone Adjusted EBITDA, as well as the increase in Biostime Standalone Adjusted EBITDA margin (relative to Biostime Standalone Adjusted Revenue), from 26.3% in the three months ended March 31, 2015 to 40.3% in the three months ended March 31, 2016, was the result of the reduction in our selling and distribution costs and increased margin from the sales of our infant formula products, which were partly offset by the decline in revenue from our infant formula products.

**Results of operations for the year ended December 31, 2015 compared to the year ended December 31, 2014**

The results of Swisse have been included in our consolidated financial results from September 30, 2015 and thus our results from 2015 include one quarter of Swisse from October 1, 2015 to December 31, 2015.

*Revenue*

The following table sets forth, for the periods indicated, a segment breakdown of our revenue:

(in millions, except percentages)	For the year ended December 31,			
	2014		2015	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(RMB)	(%)	(RMB)	(%)
Infant formulas .....	3,981.6	84.1%	3,355.8	69.6%
Other pediatric products.....	750.0	15.9%	612.8	12.7%
Adult nutrition and care products (including Swisse) .....	—	—	849.9	17.6%
<b>Total</b> .....	4,731.6	100.0%	4,818.6	100.0%

Our revenue for the years ended December 31, 2015 and 2014 (excluding our Swisse operations) was all derived from our operations in China.

## Infant formula products

(in millions, except percentages)	For the year ended December 31,				Change (%)
	2014		2015		
	(RMB)	(US\$)	(RMB)	(US\$)	
Revenue .....	3,981.6	614.7	3,355.8	518.0	(15.7)%
Cost of sales .....	(1,514.7)	(233.8)	(1,231.7)	(190.1)	(18.7)%
Gross profit .....	2,466.9	380.8	2,124.1	327.9	(13.9)%
Gross profit margin.....		62.0%		63.3%	

Revenue within our infant formula product segment decreased by RMB625.8 million (US\$96.6 million) in the year ended December 31, 2015 compared to the prior year. This decrease was primarily attributable to volume decreases due to a delay in orders from distributors in the second and third quarters of 2015 in anticipation of the launch of SN-2 PLUS infant formula.

We also had non-recurring price discounting activities during the first three quarters of 2015 to clear infant formula product stock in anticipation of the launch of our SN-2 PLUS infant formula offering, which resulted in exceptional discounts of RMB315.1 million (US\$48.6 million). This decrease was partially offset through the successful launch of our premium branded SN-2 PLUS infant formula in June 2015 as well as an increase in revenue generated from other premium branded infant formula products for the year ended December 31, 2015. Overall, our average selling price decreased in 2015 compared to 2014 due to exceptional one-time discounts in the first nine months of 2015 in order to clear our prior-series formula from the entire supply chain to allow for the introduction of our new SN-2 PLUS infant formula, and a reduction in the ADiMIL™ average selling price toward our domestically produced infant formula which was introduced in late 2014. We also had a decline in sales from our ADiMIL™ brand due to increased competition in the mid-to-high-tier segment and our decision to increase discounts in order to differentiate our ADiMIL™ branded products from our Biostime™ branded products.

Gross profit within the infant formula segment decreased by RMB342.8 million (US\$52.9 million) driven by the decrease in revenue resulting from the exceptional discounting and a reduction in average selling price of our ADiMIL™ brand, which was slightly offset by a moderate increase in gross profit margin as a result of cost reductions driven by improved supply terms from increasing volumes to strategic suppliers and a decline in dairy prices.

## Adult nutrition and care products

The results of Swisse have been included in our consolidated financial results from September 30, 2015 and thus our results from 2015 include one quarter of Swisse from October 1, 2015 to December 31, 2015. Our revenue for our adult nutrition and care products segment was RMB849.9 million (US\$131.2 million) in the year ended December 31, 2015. Sales volumes increased materially, primarily due to an increase in our market share in Australia and growth in demand from Chinese consumers, which accelerated significantly during the period. This was also supported by an increase in the average selling price as a result of (i) the shift in our channel mix to the pharmacy channel with higher gross profit margins and (ii) the shift in the product mix to greater quantity and more expensive packages within each of our respective product categories.

Our gross profit within the adult nutrition and care products segment was RMB520.9 million (US\$80.4 million) in the year ended December 31, 2015, with a gross profit margin at 61.3% as a result of our higher average selling price and improved supplier terms.

### Other pediatric products

(in millions, except percentages)	For the year ended December 31,				Change (%)
	2014		2015		
	(RMB)	(US\$)	(RMB)	(US\$)	
Revenue .....	750.0	115.8	612.8	94.6	(18.3)%
Cost of sales .....	(290.0)	(44.8)	(273.3)	(42.2)	(5.8)%
Gross profit .....	460.0	71.0	339.5	52.4	(26.2)%
Gross profit margin.....		61.3%		55.4%	

Revenue from other pediatric products decreased by RMB137.2 million (US\$21.2 million) in the year ended December 31, 2015 compared to the prior year. This was largely driven by a decline of 36.8% in our baby care products segment to RMB109.7 million (US\$16.9 million) for the year ended December 31, 2015, from RMB173.5 million (US\$26.8 million) for the year ended December 31, 2014, primarily attributable to unstable supplies of diapers from our associate Hangzhou Coamie Personal Care Products Co., Ltd. (“Hangzhou Coamie”), which commenced production in the first half of the year ended December 31, 2015, and increased competition from lower-cost imported diapers through e-commerce channels. We also experienced a decline of 24.9% in revenue from our dried baby food and nutritional supplements segment due to unstable supplies of baby cereals from a new facility of one of our suppliers, which was partially offset towards the end of the year ended December 31, 2015 by the resumption in regular supply of baby cereals as well as through our expanded product offering under our new Healthy Times™ brand which we acquired in July 2015. Our revenue from the probiotic supplements segment decreased by 8.4% in the year ended December 31, 2015 compared to the prior year, primarily due to increased consumer discounts attributable to a cross-selling strategy which increased consumer rewards. While revenue generated from our probiotic supplements products segment declined, our retail sales of probiotic supplements within China remained stable for the year ended December 31, 2015.

Gross profit from our other pediatric products decreased by RMB120.5 million (US\$18.6 million), driven by the drop in gross profit in the baby care segment due to decreased sales in our baby care and baby food products and reduced margin from our probiotic supplement products due to cross-selling with our infant formula products. Similarly, our gross profit margin from other pediatric products fell from 61.3% in the year ended December 31, 2014 to 55.4% in the year ended December 31, 2015 as a result of the drop in our baby care segment, from 47.2% to 22.8%, and in our probiotic supplements segment, from 71.4% to 66.4%.

### Other income and gains

Our other income and gains increased by 12.4% to RMB144.0 million (US\$22.2 million) for the year ended December 31, 2015 from RMB128.1 million (US\$19.8 million) for the year ended December 31, 2014. This increase was primarily attributable to an increase of interest income on bank account deposits as well as an increase in government fiscal subsidies.

## *Selling and distribution costs*

(in millions, except percentages)	For the year ended December 31,				Change (%)
	2014		2015		
	(RMB)	(US\$)	(RMB)	(US\$)	
Staff costs and office expenses .	764.2	118.0	746.9	115.3	(2.2)%
Advertising and promotional expenses.....	657.4	101.5	1,039.9	160.5	58.1%
Others .....	166.2	25.7	189.1	29.2	13.8%
Selling and Distribution Costs ..	1,587.8	245.1	1,975.8	305.0	24.4%

Our selling and distribution costs increased by RMB388.0 million (US\$59.9 million) for the year ended December 31, 2015 compared to the prior year. This increase was primarily attributable to increased brand building campaigns ahead of our SN-2 PLUS infant formula launch, including RMB89.8 million (US\$13.9 million) related to the non-recurring installation of new shelf displays in stores for the launch of our SN-2 PLUS infant formula within our infant formula products segment and RMB35.2 million (US\$5.4 million) related to non-recurring TV commercials for the launch of our SN-2 PLUS infant formula.

### *Administrative expenses*

Our administrative expenses increased by 59.8% to RMB280.1 million (US\$43.2 million) for the year ended December 31, 2015 from RMB175.3 million (US\$27.1 million) for the year ended December 31, 2014. This increase was primarily attributable to RMB64.6 million (US\$10.0 million) in fees to third-party professionals including consultants, auditors, lawyers and tax advisors in connection with our acquisition of an 83% shareholding of Swisse on September 30, 2015 and headcount increases at Swisse as a result of its business expansion. This was partially offset by a reduction in headcount as a result of our internal reorganization following the Swisse acquisition in the second half of 2015.

### *Other expenses*

Our other expenses increased by 144.8% to RMB214.2 million (US\$33.1 million) for the year ended December 31, 2015 from RMB87.5 million (US\$13.5 million) for the year ended December 31, 2014. This increase was primarily attributable to an increase in R&D expenses of RMB34.3 million (US\$5.3 million) primarily relating to increased product development activities as well as a net exchange and fair value losses for the year ended December 31, 2015 of RMB88.5 million (US\$13.7 million). This loss was primarily the result of RMB70.6 million (US\$10.9 million) related to the acquisition of Swisse and fair value losses on derivative financial instruments of RMB18.5 million (US\$2.9 million).

### *Finance costs*

Our finance costs increased by 77.6% to RMB154.0 million (US\$23.8 million) for the year ended December 31, 2015 from RMB86.7 million (US\$13.4 million) for the year ended December 31, 2014. This increase was primarily attributable to increased bank loan interest payments, primarily attributable to debt incurred in connection with our acquisition of an 83% shareholding in Swisse, and a full year of non-cash interest expense on the Convertible Bonds of RMB95.0 million (US\$14.7 million) compared to RMB78.0 million (US\$12.0 million) for the year ended December 31, 2014.

### *Income tax expense*

Our income tax expense decreased by 32.4% to RMB210.6 million (US\$32.5 million) for the year ended December 31, 2015 from RMB311.5 million (US\$48.1 million) for the year ended December 31, 2014. This decrease was primarily attributable to a decrease in our profit before tax of 54.9%. This decrease was partially offset by an increase in the effective tax rate of our Group from 27.9% for the year ended December 31, 2014 to 41.8% for the year ended December 31, 2015 as a result of an increase in certain expenses not being deductible, including transaction costs associated with the acquisition of subsidiaries, net exchange loss and interest expenses.

### *Profit for the year*

Our profit for the year decreased to RMB293.3 million (US\$45.3 million) for the year ended December 31, 2015 from RMB806.8 million (US\$124.5 million) for the year ended December 31, 2014. This decrease was primarily attributable to a decline in revenues from our infant formula products due to giving discounts in our existing infant formula products in anticipation of the introduction of SN-2 PLUS infant formula, which was offset by the fourth quarter results from our Swisse operations after the Acquisition, as well as significant increases in selling and distribution costs and finance expenses, transaction costs and exchange losses in relation to the acquisition of Swisse.

### *EBITDA, Adjusted EBITDA and Adjusted EBITDA margin*

Our EBITDA decreased to RMB626.4 million (US\$96.7 million) for the year ended December 31, 2015 from RMB1,142.6 million (US\$176.4 million) for 2014. Our Adjusted EBITDA and Adjusted EBITDA margin changed to RMB1,251.3 million (US\$193.2 million) and 24.4% for the year ended December 31, 2015 from RMB1,157.8 million (US\$178.7 million) and 24.5% for 2014. The decrease in EBITDA was driven by a reduction in our gross profit from our pediatric nutrition and care products driven by a decrease in volume in our infant formula products in the second and third quarters of 2015 in anticipation of the launch of SN-2 PLUS infant formula and an increase in our selling and distribution costs related to increased promotion activities in the lead-up to our SN-2 PLUS infant formula product launch, partially offset by the addition of Swisse after September 30, 2015.

### *Biostime Standalone Adjusted EBITDA and Biostime Standalone Adjusted EBITDA margin*

Biostime Standalone Adjusted EBITDA decreased by 23.2% from RMB1,157.8 million (US\$178.7 million) in 2015 compared to RMB888.7 million (US\$137.2 million) in 2014. The decrease in Biostime Standalone Adjusted EBITDA, as well as the decrease in Biostime Standalone Adjusted EBITDA margin (relative to Biostime Standalone Adjusted Revenue) from 24.5% to 20.8% was primarily the result of a decrease in volume of our infant formula products due to a delay in orders from distributors in the second and third quarters of 2015 in anticipation of the launch of SN-2 PLUS infant formula, and an increase in our selling and distribution costs to increase brand awareness. Our infant formula volumes recovered in the fourth quarter of 2015 following the launch of SN-2 PLUS infant formula.



**Results of operations for the year ended December 31, 2014 compared to the year ended December 31, 2013**

*Revenue*

The following table provides a segment breakdown of our revenue for the years ended December 31, 2014 and 2013.

(in millions, except percentages)	For the year ended December 31,			
	2013		2014	
	Amount	Percentage of total revenue	Amount	Percentage of total revenue
	(RMB)	(%)	(RMB)	(%)
Infant formula products.....	3,752.1	82.3%	3,981.6	84.1%
Other pediatric products.....	809.2	17.7%	750.0	15.9%
<b>Total</b> .....	4,561.3	100.0%	4,731.6	100.0%

Our revenue for the years ended December 31, 2014 and 2013 was all derived from our operations in China.

*Infant formula products*

(in millions, except percentages)	For the year ended December 31,				
	2013		2014		Change
	(RMB)	(US\$)	(RMB)	(US\$)	
Revenue.....	3,752.1	579.2	3,981.6	614.7	6.1%
Cost of sales .....	(1,330.1)	(205.3)	(1,514.7)	(233.8)	13.9%
Gross profit .....	2,422.0	373.9	2,466.9	380.8	1.9%
Gross profit margin .....	64.5%		62.0%		

Revenue within our infant formula products segment increased by RMB229.5 million (US\$35.4 million) for the year ended December 31, 2014 compared to the prior year. This increase was primarily attributable to increased retail sales of our range of ADiMIL™ branded infant formulas that were launched in late 2013 as well as a moderate increase in volume in our premium Biostime™ branded infant formulas. This increase was partially offset by reduced prices to our distributors in the second half of 2013 as a proactive response to the NDRC's investigation into alleged monopolistic price practices in the infant milk formula industry.

Gross profit within the infant formula segment increased by RMB45.0 million (US\$6.9 million). The decrease in gross profit margin was the result of reduced prices to our distributors in the second half of 2013; increased costs related to consumer reward programs, including the provision of additional accumulation points to our infant formula consumers, which began during the second half of 2013; and the impact of a change in product mix towards products with lower gross profit margins.

*Other pediatric products*

	For the year ended December 31,				Change (%)
	2013		2014		
(in millions, except percentages)	(RMB)	(US\$)	(RMB)	(US\$)	
Revenue .....	809.2	124.9	750.0	115.8	(7.3)%
Cost of sales .....	(256.0)	(39.5)	(290.0)	(44.8)	13.3%
Gross profit .....	553.2	85.4	460.0	71.0	(16.8)%
Gross profit margin.....		68.4%		61.3%	

Revenue within our other pediatric products decreased by RMB59.2 million (US\$9.1 million) in the year ended December 31, 2014 compared to the prior year, driven largely by a decline of 23.8% in our dried baby food and nutritional supplements segment and a decline of 7.2% in our probiotic supplement segments, which was partially offset by a 14.0% increase in our baby care products segment. The decrease in our dried baby food and nutritional products segment of RMB47.4 million (US\$7.3 million) was primarily attributable to the discontinuation of the production of our DHA chews/soft capsules during 2014 as a result of strategic changes to our product portfolio offering.

The decrease in our probiotics supplements segment of RMB33.1 million (US\$5.1 million) was primarily attributable to a reduction in average selling prices and a shift in focus of sales force activity during the first half of the year ended December 31, 2014, following the launch of the ADiMIL™ brand. This decrease was partially offset by increased revenue generated from probiotic supplements during the second half of the year ended December 31, 2014 with probiotic supplements sales during the period increasing 3.9% compared to the same period during the year ended December 31, 2013. The increase in our baby care products segment of RMB21.3 million (US\$3.3 million) was primarily attributable to our launch of a baby diaper product offering during December 2014 which resulted in sales of RMB83.8 million (US\$12.9 million) in 2014.

Gross profit from our other pediatric products decreased by RMB93.1 million (US\$14.4 million) which was primarily attributable to the decrease in revenue in our probiotic supplements segment while cost of sales increased by 23.8% as a result of costs related to rolling out an upgrade of our formula and a 23.7% decrease in sales of dried baby food and nutrition supplements while cost of sales decreased by a relatively lower rate of 12.7% as a result of the discontinuation of the DHA chews/soft capsules production, which had a higher gross profit margin. Our gross profit margin from other pediatric products declined largely as a result of the margin reduction from probiotic supplements and dried baby food and nutrition supplements.

*Other income and gains*

Our other income and gains increased by 20.4% to RMB128.1 million (US\$19.8 million) for the year ended December 31, 2014 from RMB106.4 million (US\$16.4 million) for the year ended December 31, 2013. This increase was primarily attributable to an increase in interest income on bank account deposits as well as an increase in government fiscal subsidies. This increase was partially offset by foreign exchange gains in 2013 of RMB14.0 million (US\$2.2 million).

## *Selling and distribution costs*

	For the year ended December 31,				Change (%)
	2013		2014		
(in millions, except percentages)	(RMB)	(US\$)	(RMB)	(US\$)	
Staff costs and office expenses .	769.2	118.7	764.2	118.0	(0.7)%
Advertising and promotional expenses.....	574.4	88.7	657.4	101.5	14.4%
Others .....	169.5	26.2	166.2	25.7	(1.9)%
Selling and Distribution Costs ..	1,513.0	233.6	1,587.8	245.1	4.9%

Our selling and distribution costs increased by RMB74.8 million (US\$11.5 million) for the year ended December 31, 2014 compared to the prior year. This increase was primarily attributable to increased marketing and promotion activities in connection with continued brand building initiatives, including increased investment in new media channels, such as internet TV, search engines and online social media and our store offering expansion.

### *Administrative expenses*

Our administrative expenses decreased by 1.1% to RMB175.3 million (US\$27.1 million) for the year ended December 31, 2014 from RMB177.3 million (US\$27.4 million) for the year ended December 31, 2013. This decrease was primarily attributable to operational efficiencies associated with a reduction in staff costs.

### *Other expenses*

Our other expenses increased by 57.4% to RMB87.5 million (US\$13.5 million) for the year ended December 31, 2014 from RMB55.6 million (US\$8.6 million) for the year ended December 31, 2013. This increase was primarily attributable to increased R&D expenses relating to increased R&D activity as well as a net exchange loss of RMB8.2 million (US\$1.3 million) for the year ended December 31, 2014.

### *Finance costs*

Our finance costs increased to RMB86.7 million (US\$13.4 million) for the year ended December 31, 2014 from RMB10.6 million (US\$1.6 million) for the year ended December 31, 2013. This increase was primarily attributable to the non-cash interest expense on the Convertible Bonds of RMB78.0 million (US\$12.0 million) which were issued on February 20, 2014.

### *Fine on the violation of Anti-Monopoly Law*

On August 6, 2013, our wholly owned subsidiary Biostime, Inc. (Guangzhou) (“Biostime Guangzhou”) received an Administrative Punishment Decision (the “Decision”) issued by the National Development and Reform Commission of the PRC (the “NDRC”). According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the Anti-Monopoly Law of the PRC (the “PRC AML”) by providing fixed prices for its products in its distribution agreements with its distributors, and fined Biostime Guangzhou RMB162.9 million (US\$25.1 million).

### *Income tax expense*

Our income tax expense decreased by 8.8% to RMB311.5 million (US\$48.1 million) for the year ended December 31, 2014 from RMB341.4 million (US\$52.7 million) for the year ended December 31, 2013. This decrease for the year ended December 31, 2014 was primarily attributable to the decline in our profits before tax of 3.8% and the decrease in our effective tax rate from 29.4% to 27.9%. The decrease in our effective tax rate was mainly due to the one-off expense of a fine amounting to RMB162.9 million (US\$25.1 million) incurred in 2013, which is not deductible for income tax under the PRC tax rules.

### *Profit for the year*

Our profit for the year decreased by 1.7% to RMB806.8 million (US\$124.5 million) for the year ended December 31, 2014 from RMB820.7 million (US\$126.7 million) for the year ended December 31, 2013. This decrease was primarily attributable to the increase in our finance costs as a result of our issuance of the Convertible Bonds, the increase in our selling and distribution costs and the reduction in our gross profit. Our profit for the year in 2013 was impacted by the fine paid in connection with the violation of the PRC AML.

### *EBITDA, Adjusted EBITDA and Adjusted EBITDA margin*

Our EBITDA increased to RMB1,142.6 million (US\$176.4 million) for the 12 months ended December 31, 2014 from RMB1,111.7 million (US\$171.6 million) for the 12 months ended December 31, 2013. Our Adjusted EBITDA and Adjusted EBITDA margin decreased to RMB1,157.8 million (US\$178.7 million) and 24.5% for the 12 months ended December 31, 2014 from RMB1,337.2 million (US\$206.4 million) and 29.3% for the 12 months ended December 31, 2013. The decrease in our Adjusted EBITDA and Adjusted EBITDA margin was driven by the reduction in our gross profit from probiotic and baby nutrition products and the increase in our selling and distribution costs and an increase in marketing expenditure related to continued brand-building initiatives, partially offset by a small increase in gross profit from our infant formula products.

## **Results of operations of Swisse**

The following table sets forth, for the periods indicated, certain items derived from the consolidated statements of comprehensive income contained in our Swisse Consolidated Financial Statements and unaudited Swisse financial information for the 12 months ended March 31, 2016. The Swisse financial information for the 12 months ended March 31, 2016 has been derived by adding the condensed quarterly financial information of Swisse and its subsidiaries for each of the three months ended June 30, 2015, September 30, 2015, December 31, 2015 and March 31, 2016. See “Summary condensed quarterly financial information of Swisse.”

Prior to the Acquisition, Swisse had a financial year-end of June 30. We have provided the section below “Results of operations of Swisse—Results of operations for the 12 months ended March 31, 2016 compared to for the year ended June 30, 2015” in order to provide investors additional analysis about how the Swisse business has performed to date relative to the most recent audited period. The Swisse results for the 12 months ended March 31, 2016 are not audited and are not based on a financial year for either Swisse currently or Swisse prior to the Acquisition.

## Summary consolidated statement of comprehensive income

AAS (in millions, except percentages)	For the year ended June 30,						For the 12 months ended March 31,	
	2013		2014		2015		2016	
	Amount (A\$)	Percentage of total revenue (%)	Amount (A\$)	Percentage of total revenue (%)	Amount (A\$)	Percentage of total revenue (%)	Amount (A\$)	Percentage of total revenue (%)
							(unaudited)	(unaudited)
Revenue from continuing operations..	149.7	100.0%	125.6	100.0%	313.1	100.0%	581.7	100.0%
Other Income .....	—	—	5.5	4.4%	0.2	0.1%	1.7	0.3%
Materials, consumables and freight.....	(65.7)	(43.8)%	(61.6)	(49.1)%	(118.9)	(38.0)%	(214.5)	(36.9)%
Employee benefits expense.....	(16.3)	(10.9)%	(19.1)	(15.2)%	(26.9)	(8.6)%	(140.8)	(24.2)%
Depreciation and amortization expense.....	(2.3)	(1.5)%	(3.1)	(2.5)%	(3.1)	(1.0)%	(3.4)	(0.6)%
Advertising and marketing expenses .....	(45.1)	(30.1)%	(29.7)	(23.7)%	(26.5)	(8.5)%	(43.0)	(7.4)%
Selling and other rebates .....	(10.5)	(7.0)%	(4.2)	(3.3)%	(5.1)	(1.6)%	(5.1)	(0.9)%
Occupancy expenses .....	(1.2)	(0.8)%	(1.6)	(1.3)%	(2.2)	(0.7)%	(4.1)	(0.7)%
Administration expenses.....	(5.3)	(3.5)%	(3.8)	(3.0)%	(8.4)	(2.7)%	(28.7)	(4.9)%
Distribution costs .....	(4.5)	(3.0)%	(2.7)	(2.2)%	(5.6)	(1.8)%	(9.2)	(1.6)%
Other expenses .....	(5.1)	(3.4)%	(5.0)	(4.0)%	(6.4)	(2.0)%	(9.7)	(1.7)%
Finance costs.....	(2.7)	(1.8)%	(7.7)	(6.1)%	(7.7)	(2.5)%	(4.7)	(0.8)%
Share of profit from associates.....	0.3	0.2%	0.3	0.2%	—	—	—	—
<b>Profit/(loss) before Income tax.....</b>	<b>(8.5)</b>	<b>(5.7)%</b>	<b>(7.2)</b>	<b>(5.7)%</b>	<b>102.5</b>	<b>32.7%</b>	<b>120.2</b>	<b>20.7%</b>
Income tax (expense)/benefit.....	2.8	1.9%	1.6	1.3%	(28.8)	(9.2)%	(44.1)	(7.6)%
<b>Profit/(loss) from continuing operations.....</b>	<b>(5.8)</b>	<b>(3.8)%</b>	<b>(5.6)</b>	<b>(4.5)%</b>	<b>73.7</b>	<b>23.5%</b>	<b>76.1</b>	<b>13.1%</b>
Profit/(loss) from discontinued operation .....	(11.6)	(7.7)%	(33.8)	(26.9)%	—	—	—	—
<b>Profit/(loss) after income tax .....</b>	<b>(17.3)</b>	<b>(11.6)%</b>	<b>(39.4)</b>	<b>(31.4)%</b>	<b>73.7</b>	<b>23.5%</b>	<b>76.1</b>	<b>13.1%</b>

### Results of operations for the 12 months ended March 31, 2016 compared to the year ended June 30, 2015

#### Revenue from continuing operations

Our revenue from continuing operations increased by 85.8% to A\$581.7 million (US\$423.8 million) for the 12 months ended March 31, 2016 from A\$313.1 million (US\$228.1 million) for the year ended June 30, 2015. This increase was primarily attributable to increased sales in our pharmacy channel in Australia, which was primarily driven by an increase in purchases from consumers in China and to a lesser extent an increase in consumption in Australia. Higher overall average selling price also contributed to the increase, which was primarily attributable to the shift in the channel mix with less reliance on our grocery store channel and more focus on our pharmacy channel, which has better trading terms. For the 12 months ended March 31, 2016, trade discounts and volume rebates decreased as a result of the combined effect of the continued implementation of our bonus stock plan (accepting extra stock in lieu of the traditional promotional discounting) as a key element of our promotion strategy for our pharmacy channel, along with the shift in the channel mix.

#### Other income

Other income increased to A\$1.7 million (US\$1.2 million) for the 12 months ended March 31, 2016 from A\$0.2 million (US\$0.1 million) for the year ended June 30, 2015. This increase was primarily attributable to the interest income related to the increased cash and cash equivalent balances due to increased revenue for the 12 months ended March 31, 2016 compared to the year ended June 30, 2015.

### *Materials, consumables and freight*

Our materials, consumables and freight expenses increased by 80.4% to A\$214.5 million (US\$156.3 million) for the 12 months ended March 31, 2016 from A\$118.9 million (US\$86.6 million) for the year ended June 30, 2015. In addition, there has been an improvement in our materials, consumables and freight costs relative to sales. This was primarily the result of our increased scale, supplier diversification and pricing negotiations with our suppliers, manufacturers and packers, which was largely instituted by early 2015.

### *Employee benefits expenses*

Our employee benefits expenses increased to A\$140.8 million (US\$102.6 million) for the 12 months ended March 31, 2016 from A\$26.9 million (US\$19.6 million) for the year ended June 30, 2015. This increase was primarily attributable to the exceptional MISP bonus paid during September 2015 of A\$100.4 million (US\$73.2 million) as part of the Acquisition. The remaining increase was largely due to an increase in full-time employees for the 12 months ended March 31, 2016 in order to support sales growth of our adult nutrition and care products along with our international expansion, primarily through our international distributorship agreement.

### *Depreciation and amortization*

Our depreciation and amortization increased by 9.7% to A\$3.4 million (US\$2.5 million) for the 12 months ended March 31, 2016 compared to the year ended June 30, 2015. This increase was primarily attributable to new office equipment and leasehold improvements for our leased real estate in Sydney and Melbourne.

### *Advertising and marketing expenses*

Our advertising and marketing expenses increased by 62.3% to A\$43.0 million (US\$31.3 million) for the 12 months ended March 31, 2016 from A\$26.5 million (US\$19.3 million) for the year ended June 30, 2015. This increase was primarily attributable to increased marketing activity to further drive market share. However, advertising and marketing as a percentage of revenue decreased from 8.5% for the year ended June 30, 2015 to 7.4% for the 12 months ended March 31, 2016.

### *Selling and other rebates*

Our selling and other rebates remained consistent at A\$5.1 million (US\$3.7 million) for the 12 months ended March 31, 2016 from A\$5.1 million (US\$3.7 million) for the year ended June 30, 2015. Despite the selling and other rebates expense remaining relatively constant for the year ended June 30, 2015 and the 12 months ended March 31, 2016, there was an improvement in the selling and other rebates ratio to revenue, from 1.6% for the year ended June 30, 2015 to 0.9% for the 12 months ended March 31, 2016. Our selling and other rebates was predominantly made up of in-store merchandising and promotional samples provided to retail consumers.

### *Occupancy expenses*

Our occupancy expenses increased by 86.4% to A\$4.1 million (US\$3.0 million) for the 12 months ended March 31, 2016 from A\$2.2 million (US\$1.6 million) for the year ended June 30, 2015. This increase was primarily attributable to higher lease costs as a result of the move into a larger support office in Melbourne to accommodate the larger employee headcount. For further information, see “Business—Employees” and “Business—Properties.”

### *Administrative expenses*

Our administrative expenses increased by 241.7% to A\$28.7 million (US\$20.9 million) for the 12 months ended March 31, 2016 from A\$8.4 million (US\$6.1 million) for the year ended June 30, 2015. This increase was primarily attributable to the transactions costs of A\$22.3 million (US\$16.2 million) incurred as part of the Acquisition.

### *Distribution costs*

Our distribution costs increased by 64.3% to A\$9.2 million (US\$6.7 million) for the 12 months ended March 31, 2016 from A\$5.6 million (US\$4.1 million) for the year ended June 30, 2015. This increase was primarily attributable to the variable nature of the cost, which increased in line with our sales growth.

### *Other expenses*

Our other expenses increased by 51.6% to A\$9.7 million (US\$7.1 million) for the 12 months ended March 31, 2016 from A\$6.4 million (US\$4.7 million) for the year ended June 30, 2015. This increase was primarily attributable to higher costs for IT infrastructure as a result of business growth, along with an increase in travel costs, driven by an increase in employee headcount and Swisse global footprint.

### *Finance costs*

Our finance costs decreased by 39.0% to A\$4.7 million (US\$3.4 million) for the 12 months ended March 31, 2016 from A\$7.7 million (US\$5.6 million) for the year ended June 30, 2015. This decrease was primarily attributable to the gradual repayment of the term loan facility, which was fully repaid on September 30, 2015.

### *Income tax (expense)/benefit*

Our income tax expense increased by 53.1% to A\$44.1 million (US\$32.1 million) for the 12 months ended March 31, 2016 compared to an income tax expense of A\$28.8 million (US\$21.0 million) for the year ended June 30, 2015. This increase was primarily attributable to the increased profit before income tax for the 12 months ended March 31, 2016, which attracted a higher income tax expense and an increase in our effective tax rate from 28.1% to 36.7% as a result of transaction costs incurred in September 2015 in connection with the Acquisition.

### *Profit/(loss) after tax*

We reached a profit after tax of A\$76.1 million (US\$55.4 million) for the 12 months ended March 31, 2016 from a profit of A\$73.7 million (US\$53.7 million) for the year ended June 30, 2015. This profit was primarily attributable to the combination of the above-mentioned factors.

## **Results of operations for the year ended June 30, 2015 compared to the year ended June 30, 2014**

### *Revenue from continuing operations*

Our revenue from continuing operations increased by 149.4% to A\$313.1million (US\$228.1million) for the year ended June 30, 2015 from A\$125.6 million (US\$91.5 million) for the year ended June 30, 2014. This increase was primarily attributable to increased sales in pharmacies in Australia, which was driven by increased purchases by consumers in China and, to a lesser extent, an increase in consumption in Australia. Estimated net sales grew significantly during the year ending June 30, 2015, in response to growing demand from consumers in China, with significant demand observed across our Swisse<sup>TM</sup> branded products, such as Swisse<sup>TM</sup> Liver Detox and other women's health products, body and beauty categories.

The difference between the results in the year ended June 30, 2015 and the year ended June 30, 2014 was primarily due to the overstock of products in the year ended 2014, which improved during the year ended June 30, 2015. Additionally, in the year ended June 30, 2014, we focused on reducing the amount of trade discounts and rebates based on the revisit of our pricing strategy. We worked in conjunction with a major management consulting firm to optimize our discounting strategy. Accordingly, trade discounts and rebates decreased in the year ended June 30, 2015 as a result of the

combined effect of (i) the continued increase in the use of our bonus stock policy as a key initiative of the promotion strategy for our pharmacy channel (accepting extra stock in lieu of the traditional promotional discounting) and (ii) our channel mix shift with less reliance on our grocery store channel and more focus on our pharmacy channel, in which we are subject to lower discount requirements.

#### *Other income*

Other income decreased by 96.3% to A\$0.2 million (US\$0.1 million) for the year ended June 30, 2015 from A\$5.5 million (US\$4.0 million) for the year ended June 30, 2014. This decrease was primarily attributable to a one-off payment in connection with our international distribution agreement during the year ended June 30, 2014.

#### *Materials, consumables and freight*

Our materials, consumables and freight expenses increased by 93.0% to A\$118.9 million (US\$86.6 million) for the year ended June 30, 2015 from A\$61.6 million (US\$44.9 million) for the year ended June 30, 2014. This increase was primarily attributable to a general increase in the sales of our adult nutrition and care products. Compared to the year ended June 30, 2014 there has been a significant improvement in the materials, consumables and freight ratio relative to sales which has primarily resulted from our increased benefits of scale, supplier diversification and pricing negotiations with our suppliers, manufacturers and packers.

#### *Employee benefits expenses*

Our employee benefits expenses increased by 40.7% to A\$26.9 million (US\$19.6 million) for the year ended June 30, 2015 from A\$19.1 million (US\$13.9 million) for the year ended June 30, 2014. This increase was primarily attributable to an increase of full-time employees during the year ended June 30, 2015 in order to support sales growth of our adult nutrition and care products along with an increase in salary rates paid to our existing employees that came into effect on June 30, 2014. Our increased employee expenses were also driven by our expansion, primarily relating to employees hired to assist in servicing our international distribution agreement.

#### *Depreciation and amortization*

Our depreciation and amortization remained at A\$3.1 million (US\$2.3 million) for the year ended June 30, 2015 with no significant change from the year ended June 30, 2014. This depreciation and amortization was primarily attributable to equipment, leasehold improvements for our leased real estate in Sydney and Melbourne, office equipment and iHub displays installed in certain pharmacy retailers in Australia. For further information on our properties and our iHub displays, see “Business—Properties” and “Business—Marketing—Adult nutrition and care products.”

#### *Advertising and marketing expenses*

Our advertising and marketing expenses decreased by 10.9% to A\$26.5 million (US\$19.3 million) for the year ended June 30, 2015 from A\$29.7 million (US\$21.7 million) for the year ended June 30, 2014. This decrease was primarily attributable to reduced airtime and television advertising. We decreased our airtime and television advertising as a result of our focus on reducing advertising spend in order to address the declining profitability of our business during the year ended June 30, 2014. In addition, we also focused on more efficient advertising and leveraged our brand awareness that we developed through the years ended June 30, 2014 and 2013.



### *Selling and other rebates*

Our selling and other rebates increased by 22.6% to A\$5.1 million (US\$3.7 million) for the year ended June 30, 2015 from A\$4.2 million (US\$3.0 million) for the year ended June 30, 2014. This increase was primarily attributable to discounts granted to retail consumers to further incentivize our retail consumers and correspondingly increase shelf space for our adult nutrition and care products. Our selling and other rebates was predominantly made up of in-store merchandising and promotional samples provided to retail consumers.

### *Occupancy expenses*

Our occupancy expenses increased by 40.0% to A\$2.2 million (US\$1.6 million) for the year ended June 30, 2015 from A\$1.6 million (US\$1.1 million) for the year ended June 30, 2014. This increase was primarily attributable to additional off-site offices leased in Melbourne due to our increase in employee head count. For further information, see “Business—Employees” and “Business—Properties.”

### *Administrative expenses*

Our administrative expenses increased by 119.6% to A\$8.4 million (US\$6.1 million) for the year ended June 30, 2015 from A\$3.8 million (US\$2.8 million) for the year ended June 30, 2014. This increase was primarily attributable to consultancy fees that we paid in connection with strategic support that was provided for the refinancing of the business during the year ended June 30, 2015.

### *Distribution costs*

Our distribution costs increased by 104.9% to A\$5.6 million (US\$4.1 million) for the year ended June 30, 2015 from A\$2.7 million (US\$2.0 million) for the year ended June 30, 2014. This increase was primarily attributable to the variable nature of the cost, which increased in line with revenue.

### *Other expenses*

Our other expenses increased by 26.9% to A\$6.4 million (US\$4.7 million) for the year ended June 30, 2015 from A\$5.1 million (US\$3.7 million) for the year ended June 30, 2014. This increase was primarily attributable to increased business travel expenses, driven by an increase in our global footprint along with an increase in sales market data expenses, due to greater reliance on data analytics.

### *Finance costs*

Our finance costs remained at A\$7.7 million (US\$5.6 million) for the year ended June 30, 2015 with no significant change from the year ended June 30, 2014. The finance costs incurred during the year ended June 30, 2015 were primarily attributable to the interest charged for our term loan facility, which was repaid on September 30, 2015.

### *Income tax (expense)/benefit*

Our income tax expense was A\$28.8 million (US\$21.0 million) for the year ended June 30, 2015, or an effective tax rate of 28.1%, compared to an income tax benefit of A\$1.6 million (US\$1.2 million) for the year ended June 30, 2014. This increase was primarily attributable to realizing a profit in the year ended June 30, 2015 compared to realizing a loss related to the year ended June 30, 2014.

### *Profit/(loss) from discontinued operation*

Our loss from discontinued operation was A\$33.8 million (US\$24.6 million) for the year ended June 30, 2014 due to the discontinuation of our operations in the United States, which ceased trading on June 30, 2014.

### *Profit/(loss) after tax*

We reached a profit for the year of A\$73.7 million (US\$53.7 million) for the year ended June 30, 2015 from a loss of A\$39.4 million (US\$28.7 million) for the year ended June 30, 2014. This profit was primarily attributable to a large increase in our sales and relatively smaller increases in our operating costs, combined with a loss from our discontinued operations in the United States in the year ended June 30, 2014.

### **Results of operations for the year ended June 30, 2014 compared to the year ended June 30, 2013**

#### *Revenue from continuing operations*

Our revenue from continuing operations decreased by 16.2% to A\$125.6 million (US\$91.5 million) for the year ended June 30, 2014 from A\$149.7 million (US\$109.1 million) for the year ended June 30, 2013. This decrease was primarily attributable to reduced sales through grocery stores and pharmacies in Australia during the year ended June 30, 2014. This resulted from stores being overstocked with our products during the year ended June 30, 2013 as a result of our focus on revenue growth in order to increase market scale in Australia. Trade discounts and rebates decreased from 33.5% of our gross revenue in the year ended June 30, 2013 to 31.9% of our gross revenue in the year ended June 30, 2014 as a result of the continued increased use of our bonus stock policy as a promotional mechanic to the pharmacy channel (offering extra stock in lieu of the traditional promotional discounting).

#### *Other income*

Other income was A\$5.5 million (US\$4.0 million) for the year ended June 30, 2014 compared to A\$0.0 million (US\$0.0 million) for the year ended June 30, 2013. This increase was primarily attributable to a one-off payment to PGT in connection with the PGT Agreement during the year ended June 30, 2014. For further information on the PGT Agreement, see “Business—Distribution network and sales—Adult nutrition and care products—International distribution network.”

#### *Materials, consumables and freight*

Our materials, consumables and freight expenses decreased by 6.2% to A\$61.6 million (US\$44.9 million) for the year ended June 30, 2014 from A\$65.7 million (US\$47.8 million) for the year ended June 30, 2013. This decrease was primarily attributable to a reduction in sales. Towards the conclusion of the year ended June 30, 2014 we focused on improving pricing with product suppliers, reducing our reliance on key contract manufacturers by diversifying product supply and entering into rebate arrangements with raw material suppliers, the benefits of which were realized in the year ended June 30, 2015.

#### *Employee benefits expenses*

Our employee benefits expenses increased by 17.6% to A\$19.1 million (US\$13.9 million) for the year ended June 30, 2014, from A\$16.3 million (US\$11.8 million) for the year ended June 30, 2013. This increase was primarily due to an increase of full-time employee headcount during the year ended June 30, 2014. During the year ended June 30, 2014, we hired a number of key executive employees and increased our operations team in order to improve our cost management.

#### *Depreciation and amortization*

Our depreciation and amortization increased by 34.0% to A\$3.1 million (US\$2.2 million) for the year ended June 30, 2014 from A\$2.3 million (US\$1.7 million) for the year ended June 30, 2013. This increase was primarily attributable to new plant and equipment that we acquired during the year ended June 30, 2014. In addition, we also introduced and rolled out our ‘iHub’ displays throughout our pharmacy networks in Australia in order to drive brand awareness and increase product sales.

### *Advertising and marketing expenses*

Our advertising and marketing expenses decreased by 34.1% to A\$29.7 million (US\$21.7 million) for the year ended June 30, 2014 from A\$45.1 million (US\$32.9 million) for the year ended June 30, 2013. This decrease was primarily attributable to our rationalization of television advertisement with a shift in focus towards high viewer rating entertainment programs in Australia and major sporting events, as well as other campaigns to improve the effectiveness of our marketing spend. During the year ended June 30, 2013, our advertising strategy was primarily focused on building brand awareness in Australia through alliances, television advertising and sponsorships along with significant advertising and marketing activity in the United States.

### *Selling and other rebates*

Our selling and other rebates decreased by 60.2% to A\$4.2 million (US\$3.0 million) for the year ended June 30, 2014 from A\$10.5 million (US\$7.6 million) for the year ended June 30, 2013. There was an improvement in the selling and other rebates ratio to revenue, from 7.0% for the year ended June 30, 2013 to 3.3% for the year ended June 30, 2014. Selling and other rebates was predominantly made up of in-store merchandising and promotional samples provided to retail consumers. As we became progressively less reliant on the grocery channel, our in-store merchandising and promotional samples decreased accordingly.

### *Occupancy expenses*

Our occupancy expenses increased by 33.0% to A\$1.6 million (US\$1.1 million) for the year ended June 30, 2014 from A\$1.2 million (US\$0.9 million) for the year ended June 30, 2013. This increase was primarily attributable to additional building units leased during the year ended June 30, 2014 in our Sydney warehouse and associated costs including utilities and taxes.

### *Administration expenses*

Our administration expenses decreased by 27.2% to A\$3.8 million (US\$2.8 million) for the year ended June 30, 2014 from A\$5.3 million (US\$3.8 million) for the year ended June 30, 2013. Our administration expenses decreased primarily because, during the year ended June 30, 2014, our research and development function was brought in-house whereas previously we had outsourced this function. Our administration expenses also decreased due to a reduction in travel costs, information technology costs and a reduction in other miscellaneous administrative costs due to an increased focus on cost management during the year ended June 30, 2014.

### *Distribution costs*

Our distribution costs were A\$2.7 million (US\$2.0 million) for the year ended June 30, 2014 compared to A\$4.5 million (US\$3.3 million) for the year ended June 30, 2013. This change in our distribution costs was due to our higher revenue during the year ended June 30, 2013 compared to the year ended June 30, 2014.

### *Other expenses*

Our other expenses decreased by 1.4% to A\$5.0 million (US\$3.7 million) for the year ended June 30, 2014 from A\$5.1 million (US\$3.7 million) for the year ended June 30, 2013. This decrease was primarily attributable to a slight decrease in sales market data expenses.

### *Finance costs*

Our finance costs increased by 179.8% to A\$7.7 million (US\$5.6 million) for the year ended June 30, 2014 from A\$2.7 million (US\$2.0 million) for the year ended June 30, 2013. This increase was primarily attributable to a full year of interest costs in relation to our A\$70 million (US\$51.0 million) term loan facility that we incurred on July 31, 2013, as well as costs relating to the unwinding of a discount on our previous syndicated facility.

### *Income tax (expense)/benefit*

Our income tax benefit was A\$1.6 million (US\$1.2 million) for the year ended June 30, 2014 compared to A\$2.8 million (US\$2.0 million) for the year ended June 30, 2013, as a result of having losses in both years.

### *Profit/(loss) from discontinued operation*

Our loss from discontinued operation increased by 192.3% to A\$33.8 million (US\$24.6 million) for the year ended June 30, 2014 from A\$11.6 million (US\$8.4 million) for the year ended June 30, 2013. This increase was primarily attributable to the discontinuation of our operations in the United States, which ended on June 30, 2014. The loss from the closure of our operations in the United States for the year ended June 30, 2014 includes accruals for closure costs of A\$11.7 million (US\$8.5 million) relating to expected costs to be incurred on product returns, onerous contracts, handling and repacking costs, freight and other costs to be incurred in the closure of our operations in the United States.

### *Profit/(loss) after tax*

Our loss for the year increased by 127.7% to A\$39.4 million (US\$28.7 million) for the year ended June 30, 2014 from A\$17.3 million (US\$12.6 million) for the year ended June 30, 2013. This loss was primarily attributable to decreases in revenues and the costs of closing our operations in the United States in 2014.

## **Liquidity and capital resources**

Liquidity generally describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, debt service obligations, other commitments, contractual obligations, acquisitions and investments in joint ventures and cooperation arrangements. During the period under review, due to the cash generative nature of our business, stable working capital needs and relatively low capital expenditure levels, our primary source of liquidity for these purposes has been cash flow from our operations. We also paid dividends to our shareholders in respect of the years ended December 31, 2013 and 2014.

We have prudently managed our cash balances and liquidity needs through methods such as time deposits, primarily in China, and working capital facilities supported by pledged time deposits. In February 2014, we issued the Convertible Bonds in order to finance the expansion of our existing businesses and for general corporate purposes; a portion of the proceeds was subsequently applied to pay a portion of the purchase price consideration for Swisse.

In September 2015, we financed the A\$1,449.9 million (US\$1,056.4 million) total purchase price consideration for the Swisse acquisition through a combination of a drawing under the US\$450 million Bridge Loan facility, drawings under cash bridge facilities, available cash on balance sheet (including a portion of the cash proceeds from the issuance of the Convertible Bond issued in 2014) and the issuance of shares of the Company. On April 27, 2016, we repaid the US\$450 million Bridge Loan with drawings under the Senior Facility Agreement and cash on balance sheet.

The net proceeds from the offering of the Notes will be used to repurchase or otherwise repay the Convertible Bonds, the holders of which have an optional put right in February 2017 and which mature in February 2019. See “Use of Proceeds” and “Description of the Notes — Escrow of Proceeds”.

We expect that our primary sources of liquidity going forward, including to service interest payments and amortization payments on the Senior Facility Agreement, which matures in April 2019, and to service interest payments on the Notes, will be provided by our ability to generate cash flows from our operations and working capital facilities in China and Australia. For further information, see “Description of certain financing arrangements” in this offering memorandum. The majority of our cash is presently held in unrestricted deposits in China, with a portion held in Australia and Hong Kong. This cash may be distributed as a dividend to service the Notes, subject to, as applicable, withholding tax in China and other foreign exchange requirements and the payment of the proportional share of dividends to the minority shareholders of Swisse. Please see “Regulation—The People’s Republic of China.”

Our future liquidity will also be impacted by our future decisions with respect to Swisse and certain contractual rights of the Minority Shareholders of Swisse. We currently own 83% of the shares of Swisse. Under certain circumstances, we may reduce our ownership interest in Swisse to as low as a simple majority ownership interest (including through a Qualifying SWG IPO or Qualifying SWG Private Sale and subsequent transactions) or, conversely, may increase our ownership interest in Swisse to above 83% (including through the voluntary or contractually required acquisition of the Swisse shares of one or more of the Minority Shareholders). As described in “The Swisse Shareholders’ Agreement”, upon the completion of the transactions contemplated by the Roll-Up Call Option Deed, the terms of the existing Shareholders’ Agreement will be replaced by a new shareholders’ agreement. The terms of the new shareholders’ agreement provide that each of the Minority Shareholders will have the option to require us to purchase their shares for a fair market value determined by a third party expert. The put option will be exercisable on the third, fifth, sixth, seventh and eighth anniversaries of completion of the Acquisition (which completed on September 30, 2015) and in the event of certain change of control transactions. However, on April 1, 2016, in connection with our entry into the Senior Credit Facility, a majority of the Minority Shareholders (representing 11.7% of the outstanding shares of Swisse) provided a consent under the Roll-Up Call Option Deed to us whereby their put options will only be exercisable on the third anniversary of the completion of the Acquisition, which would be September 30, 2018, to the extent that the Company has sufficient cash resources available to satisfy the put purchase price from internal cash resources (after taking into account the satisfaction of bona fide working capital requirements, debt service and other liabilities of the Group) or the proceeds from raising additional financing which is permitted under the terms of the Notes. The Minority Shareholders who have not waived their right to exercise their put option may still exercise that right in September 2018. If the put option is not exercisable at such time, then the Minority Shareholders who provided the waiver may exercise the option at the earlier of (i) the fifth anniversary of March 20, 2017; (ii) the refinancing of the Notes; or (iii) one month after the maturity date of the Notes. The determination of whether we would have sufficient cash resources as of September 30, 2018 so as to be able to purchase any put shares at such date would be dependent on a number of factors, including our results of operations and cash flow from operations, cash balances at that time, debt service requirements and the fair market value of the Swisse shares. The US\$450 million Senior Facility Agreement provides for semi-annual amortization payments commencing in October 2016 and a final maturity date of April 2019, on which date US\$280

million of principal is payable. In addition, the Company will need to comply with the restrictive covenants in the Indenture in order for the Company to incur additional debt in order to finance the purchase of shares of Swisse. Our debt documentation also limits the ability to raise additional funds through the disposition of Swisse shares. Under the Senior Facility Agreement, we are not permitted to issue or sell any shares of Swisse, thus we would not be able to raise any funds through an IPO or private sale of Swisse shares for so long as the Senior Facility Agreement is outstanding. The Indenture for the Notes will also impose certain requirements on any disposition of Swisse shares, including compliance with a pro forma consolidated leverage test. See “Description of the Notes — Certain Covenants — Qualifying SWG IPO”.

Although we believe that our expected cash flows from operations will be adequate to meet our anticipated general liquidity needs and debt service obligations, we cannot assure you that our business will generate sufficient cash flows from operations to meet these needs or that future debt or equity financing will be available to us in an amount sufficient to enable us to fund our liquidity needs, including making payments on the Notes, the Senior Facility Agreement or other debt when due. If our cash flows from operating activities are lower than expected, we may be required to seek additional financing, which may not be available on commercially reasonable terms, if at all. Our ability to arrange financing generally and our cost of capital depends on numerous factors, including general economic, financial, competitive market, legislative, regulatory and other factors, many of which are beyond our control, as well as other factors discussed in the section entitled “Risk factors.”

### Net cash flows

The following table sets forth, for the period indicated, certain information relating to our net cash flows:

IFRS (in millions)	For the year ended December 31,			For the three months ended
	2013	2014	2015	March 31,
	(RMB)	(RMB)	(RMB)	(RMB)
Net cash flows from operating activities ..	660.5	972.2	365.8	514.7
Net cash flows from/(used in) investing activities .....	(80.7)	(460.4)	(4,163.8)	90.3
Net cash flows from/(used in) financing activities .....	(214.7)	1,171.8	2,570.5	(251.7)

### *Net cash flows from operating activities*

For the three months ended March 31, 2016, our net cash flows from operating activities amounted to RMB514.7 million (US\$79.5 million), which were primarily driven by our EBITDA performance. Inventory-related cash out-flows of RMB102.7 million (US\$15.9 million) were primarily due to an increase in stock for our Swisse™ branded products in anticipation of continued higher sales levels and the RMB204.6 million (US\$31.6 million) cash inflow from trade and bills receivable, which were both largely the result of seasonality.

For the year ended December 31, 2015, our net cash flows from operating activities amounted to RMB365.7 million (US\$56.5 million), as compared to our net cash flows from operating activities of RMB972.2 million (US\$150.1 million) for the year ended December 31, 2014. Net cash flows from operating activities for the year ended December 31, 2015 were impacted by our lower EBITDA primarily due to decreased revenues due to a delay in orders from distributors in the second and third

quarters of 2015 in anticipation of the launch of SN-2 PLUS infant formula and significantly increased selling and distribution costs due to increased promotional activities in the lead-up to the SN-2 PLUS infant formula launch. Working-capital related cash flows were impacted by the effects on inventory, trade and bill receivables and payables from the Acquisition and an increase in other payables and accruals in the Swisse business due to the provision for sales discounts, employee benefits and other accrued expenses and a decrease in trade and bills payable due to a reduction in trade payables in our Swisse<sup>TM</sup> branded products business. Working capital related cash flows for the year ended December 31, 2015 benefited from the improvement in our working capital cash conversion cycle, including an overall decrease in inventory turnover days and increase in average trade payable turnover days mainly due to increased purchases from suppliers with longer credit terms.

For the year ended December 31, 2014, our net cash flows from operating activities amounted to RMB972.2 million (US\$150.1 million) as compared to RMB660.5 million (US\$102.0 million) for the year ended December 31, 2013. Net cash flows from operating activities for the year ended December 31, 2014 benefited from strong EBITDA and working capital trends, including cash inflows from the decrease of inventories.

#### *Net cash flows from investing activities*

For the three months ended March 31, 2016, our net cash flows from investing activities amounted to RMB90.3 million (US\$13.9 million). This included the receipt of RMB118.2 million (US\$18.2 million) of cash interest relating to time deposits that expired in the period and a payment of RMB132.0 million (US\$20.4 million) made by us to the sellers related to the working capital purchase price adjustment in relation to the Acquisition.

For the year ended December 31, 2015, our net cash flows used in investing activities amounted to RMB4,163.8 million (US\$642.8 million) compared to our net cash flows used in investing activities of RMB460.4 million (US\$71.1 million) for the year ended December 31, 2014. New cash flows from investing activities for the year ended December 31, 2015 primarily related to the acquisition of our 83% shareholding in Swisse on September 30, 2015. This was partially offset by the effects on net cash flows from the decrease in time deposits of RMB1,893.0 million (US\$292.2 million) due to the maturity of time deposits.

For the year ended December 31, 2014, our net cash flows used in investing activities amounted to RMB460.4 million (US\$71.1 million) as compared to our net cash flows used in investing activities of RMB80.7 million (US\$12.5 million) for the year ended December 31, 2013. Net cash flows from investing activities for the year ended December 31, 2014 were partly impacted by the cash outflows from the net increase in time deposits of RMB293.3 million (US\$45.3 million). Net cash flows for the year ended December 31, 2014 also included the investment of RMB80.0 million (US\$12.4 million) made in Hangzhou Coamie, a supplier of baby diapers, comprised of an acquisition of a 40.0% equity interest and a loan, and an investment of RMB48.8 million (US\$7.5 million) in the bonds of ISM, a supplier of infant formula. In 2013, we made a RMB350.0 million (US\$54.0 million) payment relating to our acquisition of Changsha Yinke Nutrition Products Company Limited in order to acquire our Changsha facility for the production of domestic ADiMIL<sup>TM</sup> branded products, and purchased RMB98.1 million (US\$15.1 million) of bonds connected to ISM.

#### *Net cash flows from financing activities*

For the three months ended March 31, 2016, our net cash flows used in financing activities amounted to RMB251.7 million (US\$38.9 million). This was driven by RMB1,151.4 million (US\$177.7 million) in repayments of bank loans which we had incurred as a result of funds that were held in time deposits. This cash outflow was largely offset by RMB953.9 million (US\$147.3 million) we received from pledged time deposits which were not rolled over.

For the year ended December 31, 2015, our net cash flows from financing activities amounted to RMB2,570.5 million (US\$396.8 million) as compared to our net cash flows from financing activities of RMB1,171.8 million (US\$180.9 million) for the year ended December 31, 2014. Net cash flows for the year were primarily impacted by the inflow from the net proceeds from bank loans of RMB4,740.5 million (US\$731.8 million) used to finance the acquisition of our 83% shareholding in Swisse, which was partially offset by the net increase in pledged deposits of RMB1,927.0 million (US\$297.5 million) to secure the bank loans. In 2014, we had net proceeds from the Convertible Bonds of RMB2,414.4 million (US\$372.7 million), which was partially offset by the repayment of banks loans of RMB750.6million (US\$115.9 million). Our distribution of dividends to the shareholders of the Group was RMB196.0 million (US\$30.3 million) in 2015 compared to RMB492.7 million (US\$76.1 million) in 2014.

For the year ended December 31, 2014, our net cash flows from financing activities amounted to RMB1,171.8 million (US\$180.9 million), compared to our net cash flows used in financing activities of RMB214.7 million (US\$33.1 million) for the year ended December 31, 2013. Net cash flows from financing activities for the year ended December 31, 2014 were attributable to the net proceeds received through our issuance of the Convertible Bonds in February 2014, which was offset by repayments of bank loans with the proceeds. Net cash flows from financing activities for the year ended December 31, 2013 were primarily due to new bank loans in 2013 of RMB645.2 million (US\$99.6 million), which was partly offset by repayments of RMB165.1 million (US\$25.5 million). In 2013, we also invested RMB64.1million (US\$9.9 million) in our shares pursuant to our Share Award Scheme for employees and distributed a dividend of RMB621.9 million (US\$96.0 million).

### **Working capital**

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations. Our current assets primarily consist of cash and cash equivalents, pledged deposits, inventories, trade and bills receivables, prepayments, deposits and other receivables. Our current liabilities primarily consist of interest-bearing bank loans, trade and bills payable, other payables and accruals and tax payable. We manage our working capital by closely monitoring the level of our trade payables and other payables and accruals as well as inventory levels. Our cash position consists primarily of bank balances time deposits and pledged deposits, less pledged deposits for bank loans.

Our working capital has fluctuated in large part as our cash position has moved in relation to our financings and the requirement by lenders that we deposit cash in pledged or restricted accounts related to our financings. Historically, our working capital position has been stable throughout the year.



We incurred a significant increase in current liabilities in 2015 resulting from the financing incurred in order to acquire an 83% shareholding in Swisse. We refinanced this facility in April 2016 with our Senior Facility Agreement. For further information on our Senior Facility, see “Description of other financing arrangements — Senior Facility.” The following table sets forth, as of the dates indicated, our current assets, current liabilities and net current assets:

(in millions)	As of December 31,			As of
	2013	2014	2015	March 31,
	(RMB)	(RMB)	(RMB)	(RMB)
	(Restated) <sup>(1)</sup>			(unaudited)
<b>Current Assets</b>				
Inventories .....	971.9	797.0	856.2	949.2
Trade and bills receivable .....	15.2	12.0	622.8	418.0
Prepayments, deposits and other receivables .....	110.9	137.5	219.0	140.6
Due from directors .....	2.0	—	—	—
Loan to an associate .....	—	—	40.0	40.0
Loans receivable .....	27.1	39.5	22.0	22.8
Derivative financial instrument .....	5.9	2.6	2.7	2.7
Restricted bank deposit .....	70.0	—	—	—
Pledged deposits .....	—	—	1,677.0	763.1
Cash and cash equivalents .....	<u>1,662.8</u>	<u>3,347.2</u>	<u>1,198.2</u>	<u>1,491.0</u>
Total Current Assets .....	<u>2,865.9</u>	<u>4,335.7</u>	<u>4,638.0</u>	<u>3,827.4</u>
<b>Current Liabilities</b>				
Trade and bills payable .....	361.6	294.5	618.7	610.9
Other payables and accruals .....	719.8	737.5	1,125.5	847.7
Derivative financial instruments .....	—	—	19.0	23.2
Interest bearing bank loans .....	750.6	—	4,740.5	3,729.6
Convertible bonds .....	—	—	—	2,669.7
Tax payable .....	<u>212.7</u>	<u>235.6</u>	<u>175.6</u>	<u>110.3</u>
Total Current Liabilities .....	<u>2,044.8</u>	<u>1,267.6</u>	<u>6,679.3</u>	<u>7,991.4</u>
<b>Net Current Assets/(Liabilities) .....</b>	<b>821.1</b>	<b>3,068.1</b>	<b>(2,041.3)</b>	<b>(4,164.0)</b>

(1) The current portion of prepaid land lease payments included in prepayments, deposits and other receivables has been restated due to the adjustments made in relation to the finalization of purchase price allocation for acquisition of Adimil (Changsha), which has been reflected as a change to the 2013 comparative amounts in the 2014 audited financial statements.

The following table sets forth, for the periods indicated, our working capital cycle for inventory and trade and bills receivable and payables:

	For the year ended December 31,			For the three months ended
	2013	2014	2015	March 31, 2016
Inventory turnover days <sup>(1)</sup> .....	170	176	162	156
Trade and bills receivable turnover days <sup>(2)</sup> .....	1	1	24	32
Trade and bills payables turnover days <sup>(3)</sup> .....	71	65	90	106

- (1) Turnover days of inventories is derived by dividing the arithmetic mean of the opening and closing balances of inventory for the relevant period by cost of sales multiplying by 365 days for a year or multiplying by 90 days with respect to turnover days of inventory for a three-month period.
- (2) Turnover days of trade and bills receivables is derived by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables for the relevant period by turnover and multiplying by 365 days for a year or multiplying by 90 days with respect to turnover days of trade and bill receivables for a three-month period.
- (3) Turnover days of trade payables is derived by dividing the arithmetic mean of opening and closing balances of trade payables, for the relevant period by cost of sales and multiplying by 365 days for a year or multiplying by 90 days with respect to turnover days of trade and bills payables for a three-month period.

#### Inventory

We maintain a conservative inventory management policy with sufficient levels of finished products and raw materials on hand (approximately four months for our baby nutrition and care products and three months for our adult nutrition and care products) in order to ensure that we can meet the demand for our products as well as benefit from the longer shelf-life and non-perishable nature of most of our products and raw materials.

The following table sets forth, for the periods indicated, our inventory:

(in millions)	As of December 31,			As of March 31,
	2013	2014	2015 <sup>(1)</sup>	2016 <sup>(1)</sup>
	(RMB)	(RMB)	(RMB)	(RMB) (unaudited)
Raw materials .....	445.5	535.7	357.3	345.0
Raw materials in transit .....	375.5	156.0	142.1	160.9
Work in progress.....	2.9	2.5	4.7	2.1
Finished goods.....	<u>148.0</u>	<u>102.8</u>	<u>352.1</u>	<u>441.3</u>
<b>Total.....</b>	<b>971.9</b>	<b>797.0</b>	<b>856.2</b>	<b>949.2</b>

- (1) Our adult nutrition and care products are only represented in the table above for December 31, 2015 and March 31, 2016 since the Acquisition closed on September 30, 2015. For further information, see “The Swisse Shareholders’ Agreement.”

Raw materials mainly included probiotic powder, dried baby food ingredients and other materials purchased from our material suppliers; finished infant formula products, dried baby food products, baby care products and nutrition supplement products held in our warehouse and imported with original packaging from our product suppliers, which were subject to bar code affixing; and packaging materials.

Inventories are stated at cost, which is calculated using the weighted average method or net realizable value, whichever is lower. The cost of finished goods and work-in-progress comprises raw materials, direct labor and related production overhead, based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less any estimated costs to be incurred to completion and disposal. We make provisions for impairment of inventories when the carrying value of our inventories declines below the net realizable value. We review the carrying value of our inventories from time to time and make adjustments based on conditions of goods, including age and expiry date of the products. As of March 31, 2016, our provisions for impairment of inventories was RMB29.5 million (US\$4.6 million).

#### *Trade and bills receivables*

For our baby nutrition and care products, we normally require advance payment for sales to our consumers in China except in very limited circumstances for credit sales. For our adult nutrition and care products, we allow credit sales to our consumers in Australia and other countries with credit terms of 30 to 60 days. We seek to maintain strict control over our outstanding receivables and we utilize our credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management.

The following table sets forth, for the periods indicated, our trade receivables:

(in millions)	As of December 31,			As of March
	2013	2014	2015 <sup>(1)</sup>	31,
	(RMB)	(RMB)	(RMB)	2016 <sup>(1)</sup>
				(RMB)
				(unaudited)
Within one month .....	7.6	1.5	289.9	152.3
One to three months.....	7.6	10.5	313.8	224.6
Over three months .....	<u>0.0</u>	<u>0.0</u>	<u>19.1</u>	<u>41.1</u>
<b>Total</b> .....	<b>15.2</b>	<b>12.0</b>	<b>622.8</b>	<b>418.0</b>

(1) Our adult nutrition and care products are only represented in the table above for December 31, 2015 and March 31, 2016 since the Acquisition closed on September 30, 2015. For further information, see “The Swisse Shareholders’ Agreement.”

The increase in trade receivables as of December 31, 2015 when compared to December 31, 2014 was primarily due to the Acquisition and Swisse’s credit terms, which do not require prepayment. As of December 31, 2015 and March 31, 2016, we had provided for impairment for trade and bills receivables and other receivables of RMB5.2 million (US\$0.8 million) and RMB5.2 million (US\$0.8 million), respectively. Such provisions were for individually impaired receivables relating to consumers that were in default or delinquent in making payments. We do not hold any collateral or other security over such impaired amount.

#### *Prepayments, deposits and other receivables*

Prepayments primarily represent prepayments in connection with advertisement or other professional services. Other receivables primarily represent interest receivables and VAT receivables. Our prepayments, deposits and other receivables increased as of December 31, 2014 to December 31, 2015 primarily due to the increase in interest receivables relating to time deposits, loan receivables and investment in ISM.

We estimate the provisions for impairment of other receivables by assessing their recoverability based on credit history and prevailing market conditions, which requires the use of estimates and judgments. Provisions are applied to other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of other receivables and thus the impairment loss in the period in which such estimate is changed. We reassess the provisions at each balance sheet date.

#### *Trade and bills payable*

Our suppliers generally grant us a credit period of between 30 and 90 days. As of December 31, 2013, 2014 and 2015, and March 31, 2016, we had trade and bills payable of RMB361.6 million (US\$55.8 million), RMB294.5 million (US\$45.5 million), RMB618.7 million (US\$95.5 million) and RMB610.9 million (US\$94.3 million), respectively. The increase in trade and bills payable in 2015 and the first quarter of 2016 was primarily due to longer credit periods for our Swisse operations.

#### *Other payables and accruals*

Accruals primarily represented the payables relating to promotion and advertisements, professional and other services fees, which were incurred but have not yet settled. Other payables and accruals comprise advances from consumers, deferred income associated with our consumer loyalty program, salaries and welfare payables to our employees, accruals, tax payables other than income tax, and other payables. Advances from consumers represented the payments provided by our consumers when they placed their purchases, for which we processed but had not completed the delivery of products ordered. Our deferred income primarily represents the points earned by our consumers under our consumer loyalty program, which will be recognized until the points are redeemed or expired. As of December 31, 2013, 2014 and 2015 and March 31, 2016, we had other payables and accruals of RMB719.8 million (US\$111.0 million), RMB737.5 million (US\$113.9 million), RMB1,125.5 million (US\$173.7 million) and RMB847.7 million (US\$130.9 million), respectively. The increase in other payables and accruals from December 31, 2014 to December 31, 2015 was primarily due to the Acquisition and an increase in other payables to the sellers in connection with the Swisse acquisition of RMB125.9 million (US\$19.4 million). The decrease in other payables and accruals in the first quarter of 2016 was primarily due to the payment made to the sellers in connection with the Acquisition and payment of certain marketing and promotions expenses incurred in late 2015.

#### **Contractual Obligations**

We lease certain production plants, warehouses and vehicles under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of these leases generally require us to pay security deposits. For further information, see note 28 in the Biostime Unaudited Condensed Interim Consolidated Financial Statements and note 40 in the Biostime Audited Consolidated Financial Statements.

#### **Capital Expenditures**

As the majority of our products are produced by our suppliers, our capital expenditures have remained low and consistent during the last three years ended December 31, 2013, 2014 and 2015. We incur maintenance capital expenditures in connection with maintenance activities at our research and development centers, office premises and warehouse facilities. We also incur growth capital expenditures principally in connection with the development of our new research and development and warehousing facility in Guangzhou, China.

We define capital expenditures as payments for property, plant and equipment and payments for intangible assets. Our net capital expenditures were RMB137.9 million (US\$21.3 million), RMB148.4 million (US\$22.9 million), RMB112.8 million (US\$17.4 million) and RMB39.9 million (US\$6.2 million) for the years ended December 31, 2013, 2014, 2015 and the three months ended March 31, 2016, respectively.

We do not expect to incur any significant investment expenditure in the near future and we expect to take advantage of significant additional capacity as a result of the opening of our Guangzhou, China warehouse facility and resultant increased warehousing capability. With respect to our operation in Australia, any potential future growth projects requiring capital expenditure will be evaluated under strict criteria to ensure that they meet the Company's return targets and generate attractive returns on capital consistent with past practices.

## **Off-balance sheet arrangements and contingent liabilities**

### ***Off-balance sheet arrangements***

We are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

### ***Contingent liabilities***

As of March 31, 2016, we did not have any contingent liabilities.

## **Quantitative and qualitative disclosures about market risks**

Our principal financial instruments, other than derivatives, comprise cash and cash equivalents, time deposits and bank loans. The main purpose of these financial instruments is to raise finance for our operations. We have various other financial assets and liabilities such as trade and bills receivables, other receivables and deposits and trade and other payables, which arise directly from our operations.

We have also entered into derivative transactions, e.g., forward currency contracts. The purpose is to manage the currency risks arising from our operations and our sources of finance.

The main risks arising from our financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Our board of directors reviews and agrees to policies for managing each of these risks and they are summarized below.

### ***Interest rate risk***

With respect to the floating interest rate instruments, we are subject to the cash flow interest rate risk, and for the fixed interest rate instruments, we are subject to fair value interest rate risk.

We are required to hedge 50% of our interest rate exposure under our Senior Facility Agreement.

### ***Foreign currency risk***

We have transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. For the three months ended March 31, 2016, 3.8% of our sales were denominated in currencies other than the functional currencies of our operating subsidiaries while 39.4% of our purchases were denominated in currencies other than these companies' functional currencies. The functional currencies of our major operating subsidiaries are Renminbi and Australian dollars. Certain operating subsidiaries used forward currency contracts to eliminate the foreign currency exposures. We also have certain bank balances denominated in A\$, HK\$, US\$ and Euro. In addition, we have investments denominated in Euro, and have provided loans to some of our suppliers denominated in US\$ and Danish kroner. We do not currently have currency hedges but are considering entering into currency hedging arrangements in relation to our Senior Facility Agreement and our operating costs.

The loans under our Senior Facility Agreement are presently denominated in US\$ but we may consider requesting that a portion of such loans be redenominated into A\$, which is one of our functional currencies. We also are considering enter into currency hedging arrangements in relation to the Notes.

### ***Credit risk***

We trade only with recognized and creditworthy third parties. It is our policy that all consumers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

The credit risk of our other financial assets, which comprise loans receivable, other receivables and deposits, cash and cash equivalents, time deposits and pledged deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Since we trade only with recognized and creditworthy third parties, we do not require any collateral. In addition, substantially all of our cash and cash equivalents are held in major financial institutions located in China and Australia, which our management believes are of high credit quality.

### ***Liquidity risk***

Our policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet our working capital requirements. We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

### ***Commodity price risk***

We are also exposed to commodity price risk from changes in the prices of our products and the cost of our raw materials and packaging materials. Fluctuation on commodity price of raw materials and packaging materials due to various factors beyond our control, including increasing market demand, inflation, severe climatic and environmental conditions, currency fluctuations, changes in governmental and agricultural regulations and programs and other factors, will have significant impact on our earnings and cash flows as well as the value of our inventories. We have not historically entered into any commodity derivative instruments to hedge our potential commodity price changes. We also expect that our raw material prices will continue to fluctuate in the future.

### **Critical accounting policies and practices**

The discussion and analysis of our results of operations and financial condition is based on our audited consolidated financial information, which has been prepared in accordance with IFRS. Our results of operations and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our consolidated financial information. Historical experience and various other assumptions and estimates we currently believe to be reasonable form the basis for making our judgments on matters that are not readily apparent from other sources. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as the facts, circumstances and conditions may experience change or as a result of different assumptions.

The selection of critical accounting policies, the judgments and other uncertainties affecting the application of those policies, as well as the sensitivity of reported results to changes in conditions and assumptions, are all factors you should consider when reviewing our audited financial statements. Our significant accounting policies are summarized in Note 2.4 to the Biostime Audited Consolidated Financial Statements included elsewhere in this offering memorandum. We believe that the following critical accounting policies and practices involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

### ***Revenue recognition***

We recognize revenue when it is probable that the economic benefits will flow to us and when the revenue can be reliably measured, on the following basis: When the significant risks and rewards of ownership have been transferred to the buyer, *provided* that we maintain neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

### ***Consumer loyalty program and deferred income***

We operate a consumer loyalty program which allows consumers to earn points when they purchase products from us. The points can then be redeemed for free services or products, subject to a minimum number of points being obtained. The consideration received or receivable from the products sold is allocated between the points earned by the consumer loyalty program members and the other components of the sales transactions. The amount allocated to the points earned by the consumer loyalty program members, is deferred until the points are redeemed, when we fulfill our obligations to supply services or products, or when the points are expired. The amount of deferred income attributable to the points earned by the members of our consumer loyalty program is estimated based on the fair value of the points awarded and the expected redemption rate. The expected redemption rate is estimated considering the number of the points that will be available for redemption in the future after allowing for points which are not expected to be redeemed.

### ***Impairment***

We determine whether goodwill and trademarks and brand names are impaired at least on an annual basis. This requires an estimation of the value in use. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units where the goodwill is allocated, or the trademark or brand name, and also a suitable discount rate to calculate the present value of those cash flows. We had a significant increase in goodwill in connection with the acquisition of Swisse, from RMB76.0 million (US\$11.7 million) as of December 31, 2014 to RMB4,956.4 million (US\$765.1 million) as of December 31, 2015. If our Swisse business were to decline, we may recognize a charge to impair our Swisse-related goodwill, which would result in a reduction in our profit.

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

### ***Inventories***

Our inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Our management reviews our ageing analysis of inventories at each reporting date and makes provision for identified obsolete and slow-moving inventory items that are no longer suitable for sale.

### ***Provisions***

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, *provided* that a reliable estimate can be made from the amount of the obligation. When the effect of discounting is material, the amount recognized for a provision is the present value at the end

of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the finance costs in the statements of comprehensive income.

***Income tax provisions and deferred tax assets and liabilities***

The determination of income tax provisions involves judgment on the future tax treatment of certain transactions. Our management carefully evaluates the tax implications of transactions, and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislations and practices.

Deferred income tax liabilities amounting to RMB34.4 million (US\$5.3 million) as of December 31, 2015 have not been established for income tax and withholding tax that would be payable on certain profits of the subsidiaries in the PRC to be repatriated and distributed by way of dividends, as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future.

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



## INDUSTRY OVERVIEW

*Generally, the industry and market information presented below is taken or derived from the cited sources. Industry and market data is inherently forward-looking and subject to uncertainty and does not necessarily reflect actual market conditions. It is based on market research, which itself is based on sampling and subjective judgments by both the researchers and respondents, including judgments about what types of products and competitors should be included in the relevant market. In addition, certain statements below are based on our own proprietary information, insights, subjective opinions or unsubstantiated estimates and not on any third-party or independent source; these statements contain words such as “we estimate,” “we expect,” “we believe” or “in our view,” and as such do not purport to cite to or summarize any third-party or independent source and should not be read to do so. Unless stated otherwise, all retail values expressed in this section are in local currency terms or US dollar terms, using a year-on-year exchange rate. All retail values, whether country-specific, regional and global, are expressed in current value terms, with inflationary effects included.*

### **Baby nutrition and care products market in China**

#### **Overview**

The baby nutrition and care products market encompasses a wide range of categories of products, such as (i) baby food products, including infant formula products and dried baby food, and (ii) baby care products such as baby skin and hair products and diapers. In the past decade, the market has achieved rapid growth principally due to favorable demographic trends and an increase in disposable income of Chinese consumers.

The introduction of the two-child policy in China, effective January 1, 2016, is expected to lead to increased demographic growth and a resultant increase in demand for baby-related food and products. The Chinese authorities adopted the one-child policy in 1979. According to Euromonitor China Baby food report, starting from August 2013, Chinese regulators began relaxing the one-child policy. In December 2015, the two-child policy was adopted, which allowed all couples to have a second child without being subject to a penalty or fine. According to the National Bureau of Statistic of the PRC, the current birth rate in China is approximately 16 million new-borns per annum, and the number of new-born babies in China is expected to increase by 2.5 million per annum as a result of the two-child policy, based on an interview with an official of the National Health and Family Planning Commission. The National Health and Family Planning Commission of the PRC reported that the number of second-child births increased by 27.6% from 2013 to 2015. Additionally, an increase in the number of newly-weds who were born in the 1980's is expected to result in an increasing number of new families and new-borns, which will likely further accelerate volume growth of the Chinese baby nutrition and care products market, according to Euromonitor China baby food report.

According to Euromonitor China VDS report, growth of GDP per capita in China in recent years has led to higher disposable income for average Chinese households. As a result, Chinese families have generally become able to afford higher-quality baby products at higher price points. We believe that the rising disposable income of Chinese consumers resulted in a significant increase in the demand for premium-tier and super-premium-tier infant formula products.

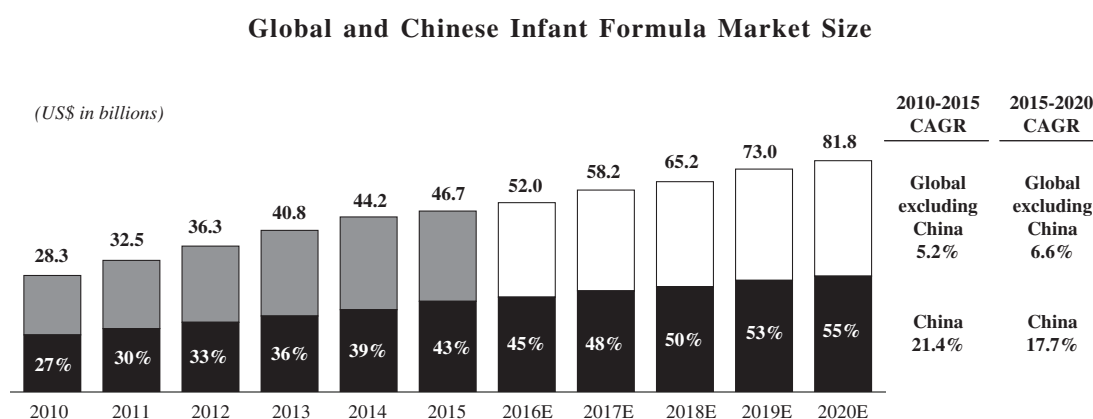
#### **Overview of the baby food market in China**

According to Euromonitor Packaged Food data, the current growth of China's baby food market has exceeded that of the global market, which in our view was largely due to robust economic development in China during the last 10 years and the resulting increase in disposable income in Chinese households. In 2015, infant formula products represented approximately 90% of total retail sales of baby food in China, according to Euromonitor Packaged Food data. Moreover, the increasing demand for infant formula products has grown alongside the on-going research and development into infant formula products, which we believe has improved the quality of the products and increasingly allowed the products to provide a reliable source of nutrition for infants.

According to Euromonitor Packaged Food data, the retail sales value of baby food in China has increased from approximately US\$8.3 billion in 2010 to approximately US\$21.8 billion in 2015, representing an approximate CAGR of 21.2%. Retail sales volumes of infant formula in China have also increased, from approximately 406,800 tons in 2010 to approximately 797,500 tons in 2015, representing an approximate CAGR of 14.4%. In particular, according to Euromonitor Packaged Food data, the retail sales value of infant formula in China has increased from approximately RMB51.1 billion (US\$7.5 billion) in 2010 to approximately RMB122.1 billion (US\$19.9 billion) in 2015, representing approximate CAGR of 21.4%. Moreover, in 2015, there was an approximately 3% increase in average selling price of infant formulas, according to Euromonitor Packaged Food data. We believe this was due to the mix shift towards premium products, which according to Euromonitor Packaged Food data have gained market share over low- and mid-tier infant formula products.

### *Infant formula market in China*

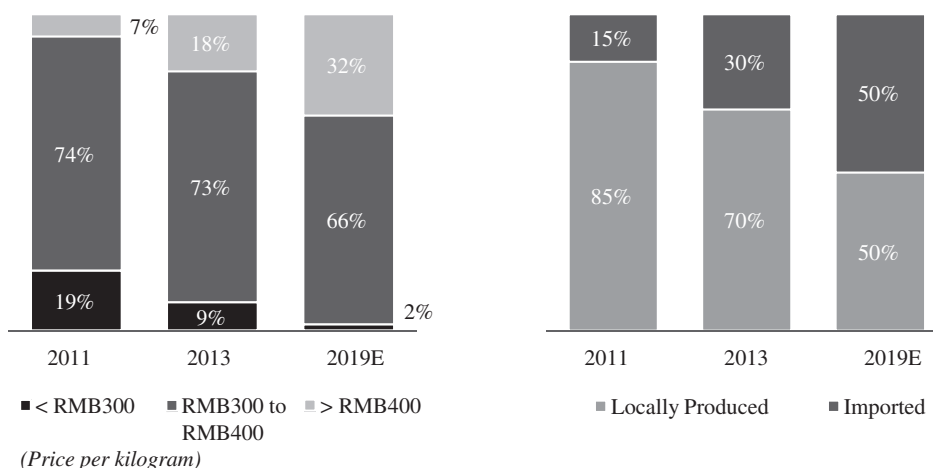
According to Euromonitor Packaged Food data, the infant formula market in China is the largest globally, constituting approximately 43% of the global infant formula market in 2015. According to Euromonitor Packaged Food data, the Chinese infant formula market is expected to grow at approximately 17.7% CAGR until 2020 when the overall market size reaches approximately US\$45 billion. The following graph sets forth, for the periods indicated on historical and forecast basis, the growth rates of the Global and Chinese infant formula market:



Source: Euromonitor International — Packaged Food, 2016 edition

In 2014, a State Council directive targeted achieving an approximate 80% market concentration rate for the leading ten infant formula companies by 2018. We believe that this regulatory development resulted in significant consolidation in the market. In 2015, Biostime was ranked 6th by retail sales, following after Wyeth, Nutricia, Mead Johnson, Friesland and Abbott, respectively, according to Nielsen.

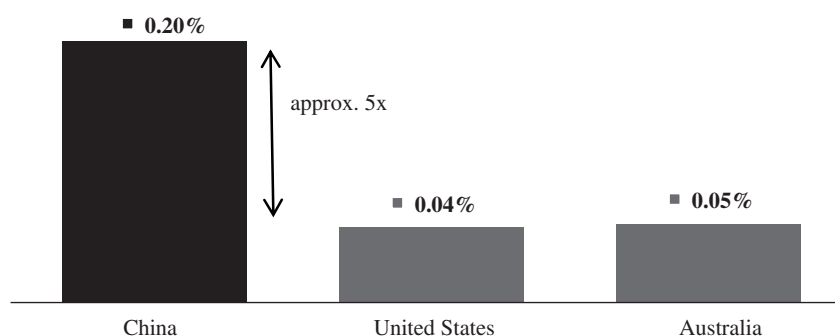
According to Nielsen’s price segment definition, infant formula products are divided into five segments by price range: (i) super-premium-tier infant formulas, with a retail price higher than RMB390 per kilogram; (ii) premium-tier infant formulas, with a retail price between RMB290 and RMB390 per kilogram; (iii) mid-to-high-tier infant formulas, with a retail price between RMB210 and RMB290 per kilogram; (iv) mid-tier infant formulas, with a retail price between RMB145 to RMB210 per kilogram; and (v) low-tier infant formulas, with a retail price lower than RMB145 per kilogram. Biostime’s products range from RMB200 to RMB450, which mainly lies in the super-premium tier and premium tier. The following graph sets forth, for the periods indicated on historical and forecast basis, the growth in high-quality and imported infant formula products:



Source: Biostime internal survey

### Premiumization

The infant formula market in China has undergone product premiumization, resulting in a trend of increasing average selling price in China. With rising disposable income and an increased ability to spend on baby products at higher price points, we believe Chinese consumers are now more selective when choosing infant formula brands. As a result, Chinese consumers are willing to pay higher prices for products, as higher prices are generally perceived as having better quality. We believe that Chinese consumers tend to spend higher portions of their disposable income on infant formula products. The following chart sets forth, for the countries indicated, the spending on baby food in 2015 as a percentage of per capita GDP:



Source: Euromonitor International — Packaged Food, 2016 edition, Economies and Consumers

According to Nielsen, the super-premium tier segment has demonstrated the highest growth rate in retail sales in the Chinese market in 2015. We believe that the super-premium tier segment, where Biostime operates, is currently serviced by a small number of providers, including multinational

pharmaceutical conglomerates and selective Chinese providers who specialize in high-quality infant formula and compete primarily on product quality, whereas the low-tier and mid-tier segments of the infant formula products in China are highly fragmented and there are a large number of producers manufacturing in local facilities who compete primarily on product price.

We expect continued demand for higher-quality foreign-sourced products, rising Chinese household disposal incomes, a continued uplift in industry average selling price and a constructive regulatory environment to underpin the continued growth of the premium infant formula segment, which will benefit companies such as Biostime with an established foothold in the super-premium tier segment.

#### *Barriers to entry*

The infant formula market has high barriers to entry. In particular, new entrants into the super-premium-tier infant formula product segment face significant barriers to entry, including (i) branding and marketing expenses, (ii) maintaining relationships with distributors and (iii) ability to navigate CFDA and comply with relevant policies as well as import and export regulations. Furthermore, since 2013, the PRC government has sought to build consumer confidence in infant formula products sold in China through implementing more stringent safety regulations by requiring stricter registration processes and heightening quality control and product-testing requirements. These measures have not only increased the costs to enter and/or operate in the market but have also raised susceptibility to compliance and regulatory risks.

In our view, consumer confidence, trust and presence in the market are key to maintaining a leading position in the infant formula market. Market share within the infant formula market in China has been largely stable during the past decade. According to Euromonitor Packaged Food data, the top ten companies represent approximately 60% of the market.

#### *Decline in breastfeeding*

The growth of the infant formula industry in China was in conjunction with a decline in breastfeeding in China. According to Euromonitor China baby food report, the breastfeeding rate in urban areas in China has decreased. Based on the data provided by the National Health and Family Planning Commission, in 2014, the rate was as low as approximately 16%, meaning that more than four out of five mothers did not breastfeed their infants and instead used alternative baby food for baby feeding, such as infant formula products. Furthermore, as more Chinese women are entering the labor market, breastfeeding is expected to become even less popular among mothers, which could further boost consumer demand for baby food products in China according to Euromonitor China baby food report.

#### *Other baby foods market in China*

Other baby food products include (i) dried baby food and (ii) prepared baby food, along with a small portion of other miscellaneous nutritional products. The dried baby food product segment includes a broad category of products, such as cereals and dehydrated soups. Dried baby food products are typically sold in packets and also include those that require addition of water before consumption. Prepared baby food product segment includes yogurt, chilled desserts and ready-made soup marketed for consumption by babies. Prepared baby food products are typically sold in jars or cans, which often do not require any cooking or additional preparation other than heating. From 2010 to 2015, the dried baby food category grew at an approximate 18.8% CAGR, reaching a retail value of approximately US\$1.6 billion in 2015, according to Euromonitor Packaged Food data. We believe that with growing average household income and enhanced consumer sophistication, the dietary intake of babies in China is expected to remain as a core concern of Chinese parents, which will likely drive increased sales of the various baby food products.

### ***Probiotic supplements market in China***

Probiotics are defined as “live microorganisms which when administered in adequate amounts confer a health benefit on the host” according to the FAO/WHO. Probiotic supplement products are developed from probiotic strains. We believe that the preparation process of probiotic strains requires advanced technology and a number of experiments and testing processes within conditions that are strictly controlled.

Based on our industry experience, probiotic supplement products are widely consumed by infants and young children in China. We are one of the leading players in the children’s probiotic supplement products market in China. Probiotic supplement products are regularly marketed as health foods that can enhance immunity in infants and young children. The development of the segment also closely tracks that of the wider health products segment in China. Furthermore, certain probiotic supplement products are offered with additional functional nutrients, such as bovine colostrum and docosahexaenoic acid (“DHA”; an omega-3 fatty acid). These probiotic supplements must carry a certified health food label, which requires approval from the CFDA, if they are to be legally sold in China. For further information, see “Regulation.”

### ***Baby care products market in China***

Baby care products market in China includes various product markets. For the purposes of this section, baby care products include products such as (i) baby skin care products, (ii) baby toiletries, (iii) baby hair care products; and (iv) baby sun care products as well as baby wipes, nappy rash treatments and medicated baby and child-specific products. Within the baby care products market, the baby toiletries products segment was the fastest growing segment in 2015, followed by baby toiletries, baby hair care and baby sun care product segments, respectively. The total retail sales value of baby care products market in China has grown from approximately US\$9.7 billion in 2010 to US\$2.3 billion in 2015 based on current year-on-year exchange rates, representing an approximate CAGR of 18.9%, according to Euromonitor Beauty and Personal Care data.

### ***Sales channel***

In China, baby food and care products are sold through a number of channels, including baby specialty stores, retail organizations (e.g., supermarkets) and e-commerce platforms, out of which infant formula sales through baby specialty stores have grown most rapidly from 2014 to 2015, according to Nielsen. In particular, infant formula sales through baby specialty stores grew by 20.7% from RMB28.1 billion (US\$4.3 billion) in 2014 to RMB33.9 billion (US\$5.2 billion) in 2015, which outpaced the growth of sales through e-commerce channel which have grown by 2.5% from RMB20.7 billion (US\$3.2 billion) in 2014 to RMB21.2 billion (US\$3.3 billion) in 2015. This double-digit growth in the sales of infant formula products through baby specialty stores from 2014 to 2015 is in contrast to the decline in the sales through retail organizations in the respective period, which declined by 9.4% from RMB17.0 billion (US\$2.6 billion) in 2014 to RMB15.4 (US\$2.4 billion) in 2015. In addition, out of all three channels, the share of sales sold through baby specialty store is the largest, accounting for 48.1% of the total sales of infant formula through the three channels in 2015, which has increased from 42.7% in 2014.

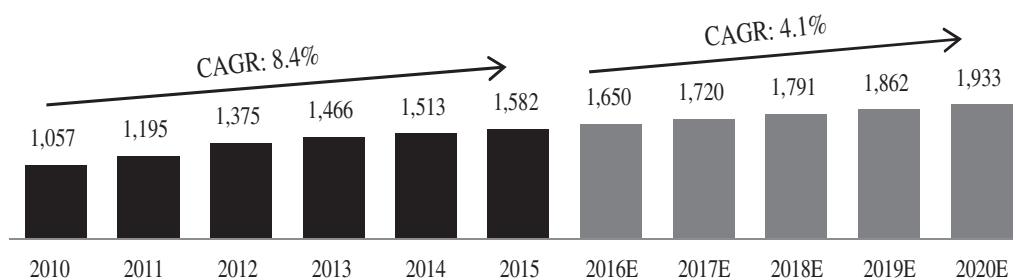
### **Overview of adult nutrition and care products market**

The global adult nutrition and care product market includes the VHMS market, which according to Euromonitor Consumer Health data is expected to grow at a CAGR of 6.0% between 2015-2020E. Biostime’s adult nutrition and care products segment is predominantly driven by sales of VHMS products under the Swisse<sup>TM</sup> brand, with primary markets being Australia and China.

## VHMS market in Australia

According to Euromonitor Consumer Health data, the VHMS market in Australia is approximately US\$1.6 billion (in fixed 2015 exchange rates) in size in 2015 and has demonstrated strong historic growth. We believe the growing health and wellness awareness trend among Australian consumers is the main driving force behind the Australian VHMS market growth. Consumers have shifted from taking a remedial approach to health to adopting more preventative measures. Increased interest in preventative health measures, due to an aging population, will likely result in increased consumer spending on health and wellness products, including vitamins and dietary supplements. Availability of vitamins and dietary supplement products is expected to increase as consumers seek an alternative way to supplement insufficient intake of nutrients from regular meals. The following table sets forth, for the periods indicated, the historical and forecast CAGR of the Australian VHMS market:

(US\$ in millions, current prices, fixed 2015 exchange rates)



Source: Euromonitor International — Consumer Health, 2016 edition

The following factors are, in our view, expected to assist the Australian VHMS market to sustain its growth level: (i) penetration of VHMS products for daily consumer usage for short term volume growth and (ii) an increased aging population in Australia for long-term volume growth.

### *Penetration of vitamin usage*

In the short term, high penetration of vitamins for daily consumption by Australian consumers is expected to boost expansion of the Australian VHMS market. Moreover, consumers of vitamins have a tendency to replenish vitamins and dietary supplements on a regular basis, which creates stable and predictable revenue streams for VHMS providers. Based on a consumer survey conducted by Swisse, approximately a third of Swisse consumers display repeated purchase patterns for multivitamin purchases of approximately once every month.

### *Increasing and aging population*

In the long term, an increase in aging population in Australia will be a driver behind growth in the Australian VHMS market, according to Euromonitor Australia VDS report. In particular, the age group of 65 years or older is anticipated to be the fastest-growing age group in number according to the Australian Bureau of Statistics, in line with which vitamin consumption is, in our view, also anticipated to grow proportionally.

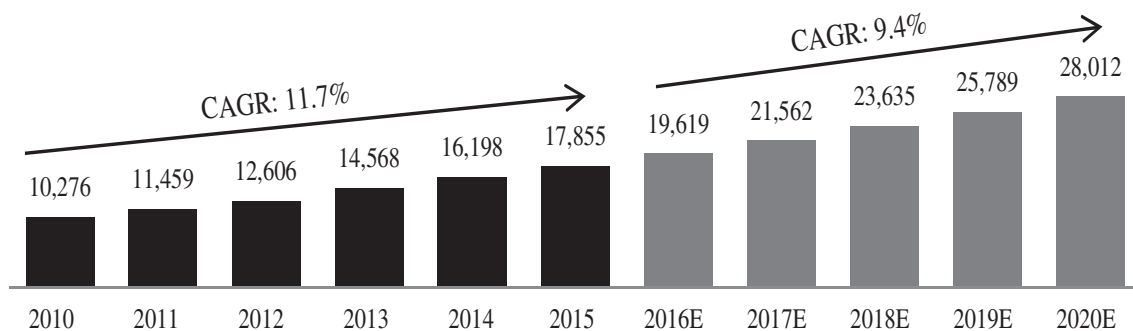
### *Sales channels*

In Australia, VHMS products are sold through a number of channels, including pharmacies, other retail organizations and e-commerce platforms. This diverse sales channel allows VHMS providers such as Swisse to exercise greater bargaining power over suppliers and allows them to enter into more favorable supply terms. While pharmacy and grocery retail organization channels are equally important sales channels for Swisse, we generally experience more discounting pressure in grocery channels where major competitors supply VHMS products, such as at Coles and Woolworths, and we believe this trend is experienced by other VHMS providers.

## VHMS market in China

According to Euromonitor Consumer Health data, the VHMS market in China is valued at approximately US\$17.9 billion (in fixed 2015 exchange rates) and is expected to grow at an approximate 9.4% CAGR by 2020. In addition, according to Euromonitor Consumer Health data, in 2015, online sales of VHMS products in China showed a significant growth rate of approximately 21%. We believe that such growth is primarily driven by (i) increasing consumer health awareness and (ii) increasing disposable income by Chinese families. The following table sets forth, for the periods indicated, the historical and forecast CAGR of the Chinese VHMS market:

(US\$ in millions, current prices, fixed 2015 exchange rates)

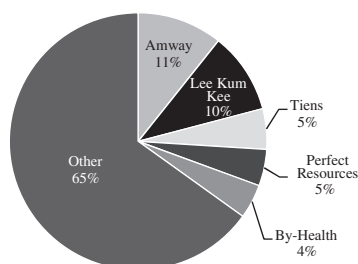


Source: Euromonitor International — Consumer Health, 2016 edition

## Highly fragmented market

The VHMS market in China is highly fragmented. The following chart sets forth the market share of each VHMS provider in China and the market share of each VHMS provider on Alibaba in 2015, respectively:

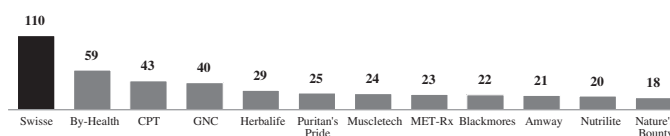
### China VHMS market share (2015)



Source: Euromonitor International — Consumer Health, 2016 edition

### China VHMS Market Share On Alibaba (2015)

(US\$ in millions)

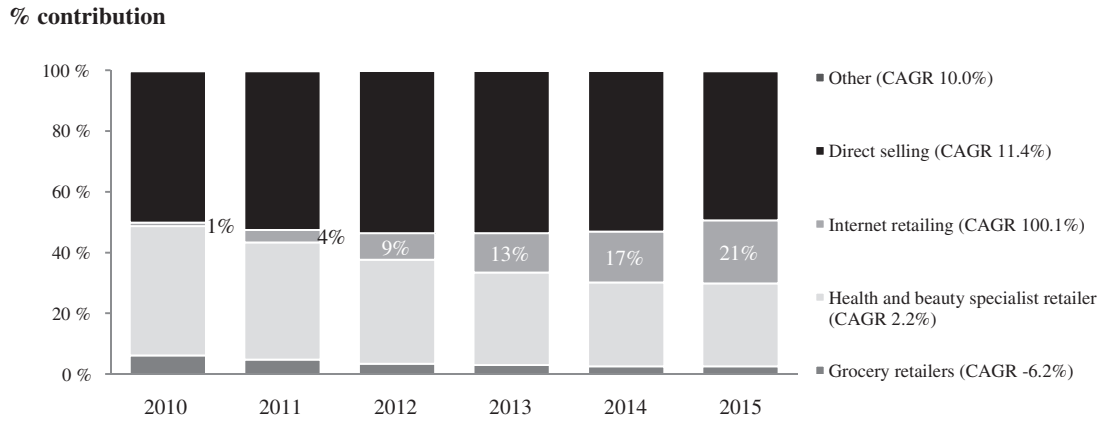


Source: Alibaba

In 2015, the five largest companies by retail sales were Amway, Lee Kum Kee, Tiens, Perfect Resources and By-Health, which collectively accounted for approximately 35% of total retail sales. The applicable regulatory policies in China are, in our view, currently more favorable to VHMS providers. See “Regulation.” As a result, many domestic pharmaceutical companies, such as CSPC Pharmaceutical and Xiuzheng Pharmaceutical, have begun increasing their investment in the VHMS market, according to Euromonitor China VDS report. Private-label sales remain negligible in China due to (i) competition among existing brands and (ii) consumer preference towards branded VHMS products, which in our view was primarily attributable to greater consumer confidence.

### Sales channels

In China, VHMS products are sold through a number of channels, including direct selling by e-commerce, health and beauty specialist retailers and retail organizations. Online retailing through e-commerce platforms is the fastest-growing VHMS sales channel in China, which represented approximately 21% of the total industry value in 2015, according to Euromonitor Consumer Health data. The following chart sets forth, for the periods indicated, the percentage of contributions from each channel in the Chinese VHMS market:



Source: Euromonitor International — Consumer Health, 2016 edition



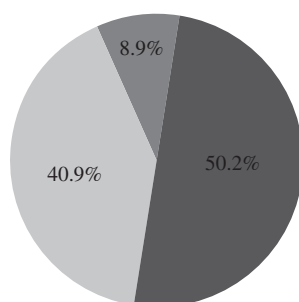
## BUSINESS

### Overview

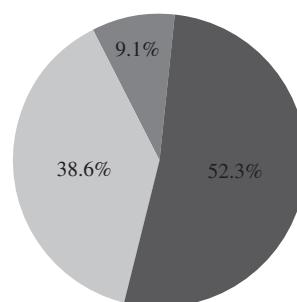
We are an all-round nutrition and care provider for the entire family, providing high-end pediatric and adult nutrition and care products through our established brands in China, Australia and internationally.

Our product offering is divided into three broad segments: (i) formulas for infants and children under seven years old as well as for expectant and nursing mothers; (ii) adult nutrition and care products; and (iii) probiotic and other pediatric supplements, dried baby foods and baby care products. Biostime™ and ADiMIL™ are the two principal brands under which we currently sell our infant formula products, probiotic supplements and dried baby food products in China. We currently sell our adult nutrition and care products, under our Swisse™ brand, in Australia and New Zealand, as well as in several other international markets, most significantly in China. We acquired our adult nutrition and care products business when we purchased 83% of Swisse on September 30, 2015. For further information, see “The Swisse Shareholders’ Agreement”. For the 12 months ended March 31, 2016, on a *pro forma* basis we generated revenue and gross profit of RMB6,553.9 million (US\$1,011.7 million) and RMB4,180.0 million (US\$645.3 million), respectively. The following charts illustrate the percentage of revenue and gross profit across our three product segments for the three months ended March 31, 2016:

Revenue



Gross Profit



- Infant formula products.
- Adult nutrition and care products.
- Probiotic and other pediatric supplements, dried baby foods and baby care products.

We are an established and leading provider of baby nutrition and care products in China. Our infant formula offering is positioned at the higher end of the market and focuses on educated consumers with relatively higher disposable income. We entered the super-premium tier of the infant formula market eight years ago. According to Nielsen, as of December 31, 2015, we were the second largest participant in the super-premium tier with a 16.0% market share by retail sales value. We also have a 5.9% market share by retail sales value of the overall infant formula market in China, according to Nielsen. We believe we were a pioneer in the children’s probiotics market in China. We were the first company in China to register probiotics as health food supplements for infants and children in 2002 and we believe we have established a leading market position and high brand recognition since then.

We are an established and leading provider of vitamins, herbal, minerals and health supplements (“VHMS”) products in Australia and New Zealand, with a growing presence in international markets, most significantly in China. Our adult nutrition and care products segment offers Swisse™ branded products across four differentiated product categories: (i) VHMS, (ii) superfoods, (iii) sports nutrition and (iv) skincare. According to IRI data, we are the leading provider of vitamin and herbal products with a 19.0% share, by scanned retail sales value of the Australian VHMS market as of March 20, 2016. We hold a leading market position in a number of VHMS categories in Australia and New Zealand. For example, according to IRI data of scanned retail sales value, as of March 2016, we hold an approximately 82.4% share of the milk thistle category (“Liver Detox”), an approximately 74.8% share of the top-selling hair, skin and nails (“HSN”) category, and an approximately 71.1% share of the cranberry category. In addition, in 2015, our Swisse™ brand was ranked number one in terms of sales value in the VHMS products under the health products category on Alibaba’s e-commerce platforms in China.

We focus on mass advertising campaigns to build and maintain brand awareness of our baby nutrition and care products as well as targeted marketing to promote consumer interaction and retention. For our advertising campaigns, we promote our baby nutrition and care products through online and offline media platforms including TV, print and in-store displays. Our targeted marketing campaigns concentrate on consumer education and interaction which uses our sophisticated and proprietary consumer relationship management (“CRM”) system to track purchases and spending habits via our Mama100 membership program. The Mama100 membership program is an integrated database marketing platform, which provides value added services for members including a mobile application, a WeChat platform, a monthly magazine, consumer events, a dedicated call center and an online forum for members to obtain and share parenting information, advice and experiences. Through our Mama100 membership program we aim to identify new consumers and solidify relationships with existing consumers. We believe that developing strong relationships with our existing consumers is particularly important where the life cycle of each consumer is relatively short (the period of a baby’s infancy) to allow us to maximize sales of baby nutrition and care products as well as cross selling opportunities. We had approximately two million active Mama100 members in 2015 and 88.5% of the revenue from our baby nutrition and care products segment for the three months ended March 31, 2016 was contributed by our Mama100 members. We believe these membership numbers and proportion of revenue are evidence of brand loyalty within our extensive consumer base.

For our adult nutrition and care products, marketing focuses on our offering of premium and proven products that have been produced using world class raw materials in accordance with Australia’s Therapeutic Goods Administration (“TGA”) standards, rigorous quality control processes and in close consultation with independent research institutions. Our marketing philosophy centers on an aspirational lifestyle message that we deliver across a variety of media platforms (e.g., TV, print and selected new Media Channels). These platforms include partnerships with international and country-specific brand ambassadors. These ambassadors include our global brand ambassador, international actress and multiple award winner Nicole Kidman as well as other ambassadors such as the former captain of the Australian national cricket team, Ricky Ponting. We also engage in on-going and campaign event-based sponsorships such as the Australian Olympic Team and the Australian Rugby Union.

We source high quality premium raw materials and in manufactured products principally in Western Europe, including France and Denmark as well as Australia. We adopt a rigorous approach when selecting our ingredients and material inputs to ensure they are premium and of the highest quality and efficacy standards. Our products are manufactured based on our specific design specifications and formulas utilizing manufacturing best practices and leading technologies. Our infant formula products are manufactured in accordance with applicable European Union food hygiene standards and under approval by the Certification and Accreditation Administration of the PRC (the “CNCA”). Our adult care and nutrition products are manufactured under license by TGA and meet Good Manufacturing Practice (“GMP”) requirements, meaning our adult nutrition products are manufactured to pharmacy grade standards. As part of the manufacturing process our products are subject to safety checks including a five-layered food safety check for our infant milk formulas and numerous quality

assurance tests during the main stages of production for our adult nutrition and care products. Throughout our operating history we have not had any material quality issues with any of our products and we believe that our consistent approach to sourcing and manufacturing our products to the highest quality standards provides us with a significant competitive advantage.

We reach our consumers through an extensive distribution network across the markets in which we operate. With respect to our baby nutrition and care products distributed in China, we utilize both offline and online channels. For offline channels, our products are sold to regional distributors who on-sell to baby specialty stores and retail sales outlets such as supermarkets and local pharmacies covering more than 39,000 locations and supported by more than 5,500 in-store commissioned sales promoters as of March 31, 2016. Our baby nutrition and care products segment has a strong national footprint. In particular, we were one of the first companies to provide infant formula and probiotic products directly to baby specialty stores and, according to Nielsen, we were the second largest participant in this sales channel for infant formulas in 2015. As a result of our direct relationship with these baby specialty stores, we are able to monitor the flow of our baby nutrition and care products in real-time via bar code scanners that track inventory and sales records that allow our products to be traced from regional distributor to retailer to consumer. As a result, we can obtain valuable consumer data and logistics intelligence to respond effectively to fluctuations in supply and demand.

In online channels we have a growing presence and in 2015, we featured in the top ten, by sales value, in the infant formula e-commerce market in China. In March 2016 we launched our flagship online store for our adult nutrition and care products on Tmall.HK. We are expanding our active sales presence in the Chinese VHMS market by leveraging our extensive online and offline distribution capabilities. In China, we offer our adult nutrition and care products on all major Chinese cross-border e-commerce platforms, including Alibaba, JD.com, VIP.com and Kaola.

We distribute our adult nutrition and care products in Australia and New Zealand through pharmacies, grocery and health food stores and other retail outlets. We distribute our adult nutrition and care products internationally, including in selected markets in Western Europe and Asia through our international distribution agreement with PGT Healthcare (“PGT”), a joint venture between The Procter & Gamble Company and Teva Pharmaceutical Industries Ltd.

New product development and innovation is important to maintaining our leading competitive position. We have continuously invested in developing our research and development capabilities and our approach has been to focus on joint development and/or cooperation with our suppliers in addition to our independent research activities in Guangzhou and Europe. This approach has enabled us to introduce innovative and improved products in China such as (i) infant formulas that include  $\beta$ -vegetable oil, (ii) our SN-2 PLUS infant formula that was introduced in June 2015 and (iii) the application of full-formulation spray drying technology to promote nutrition dissolution. We regularly utilize clinical trials to support the efficacy of our products such as with the SN-2 PLUS infant formula. Clinical studies proved that SN-2 promoted enhanced nutrient absorption to support the balanced growth of babies as well as reduced crying time and constipation. For adult nutrition and care products, we utilize a product development process which allows us to rapidly formulate and launch a product into the Australian market ahead of our competitors, allowing us to respond to the latest developments in the health and wellness industry. We work in close consultation with an advisory panel that includes leading academics, scientists and clinicians in the field of integrative medicine who provide expert advice, including written reports that validate our formulations. Furthermore, to ensure the health benefit claims behind our adult care and nutrition products are backed by hard science, we have partnered with numerous research organizations, which independently review our evidence supporting the claimed health benefits.

## **Our Strengths**

### ***We operate in high growth industries supported by favorable macroeconomic trends.***

According to Euromonitor Consumer Health data, the Chinese VHMS market has grown at a 11.7% compound annual growth rate from 2010 to 2015 to represent the second largest VHMS market in the world at a value of approximately US\$18 billion. Furthermore, the Chinese VHMS market is expected to continue to grow at a 9.4% compound annual growth rate, outstripping expected global growth of 6.6% compound annual growth rate, from 2015 to 2020 to reach approximately US\$28 billion. Growth in this industry is expected to be driven by rising consumer health awareness, coupled with a growing middle class with higher disposable income and greater access to foreign VHMS products due to the growth of e-commerce sites.

The baby nutrition and care market in China is underpinned by two core macroeconomic trends, rising disposable income and favorable demographic developments. With China's increasing GDP per capita, more Chinese households have disposable income to afford higher quality and foreign sourced baby products. For example, we believe increased disposable income has led to significant growth in demand for premium and ultra-premium infant formula products in China. Furthermore, we believe the recent introduction of China's "two-child policy" will support strong growth in our key demographic segment by allowing couples to have two children. The Chinese infant formula market is also the largest in the world by value, representing 43% of the global market. Chinese infant formula market has a market growth rate that is currently outpacing the global infant formula market and it is expected to grow at a 17.7% compound annual growth rate from 2015 to 2020 according to Euromonitor Packaged Food data. Furthermore, the market is undergoing significant average selling price increases. This premiumization of the Chinese infant formula market is occurring as consumers have increasing disposable income and have become more educated and selective which has driven demand for premium infant formula products.

The Australian VHMS market has experienced strong historical growth and possesses favorable macroeconomic drivers including an increasing and aging population and an increasing penetration of VHMS usage. According to Euromonitor Consumer Health data, the Australian VHMS market is expected to grow at a compound annual growth rate of 4.1% from 2015 to 2020. We believe this growth is underpinned by Australia's increasing and aging population and the growing health and wellness trend among consumers, particularly as consumers continue to progressively shift from a remedial approach to a more preventative approach to their health.

### ***We have established market leading positions that provide a sustainable competitive advantage.***

We hold established and leading market positions in the Chinese infant formula and probiotics markets and in the Australian VHMS market. We believe that we hold these established market positions due to (i) consumer trust in our brands supported by the strength of our proprietary marketing model; (ii) our long-standing and established presence in profitable distribution channels; (iii) our reputation for offering high quality products with premium ingredients and best in class manufacturing processes; and (iv) our product innovation and development activities that help us differentiate our consumer proposition. We believe these factors collectively represent unique competitive advantages which will protect our strong market leading position.

### ***We offer high quality, innovative and proven products.***

We source high quality premium raw materials and manufactured products principally in Western Europe, including France and Denmark, as well as in Australia. We adopt a rigorous approach when selecting our ingredients and material inputs for our products to ensure they are premium and of the highest quality and efficacy standards. Our products are manufactured based on our specific design specifications and formulas utilizing manufacturing best practices and leading technologies and we regularly audit our manufacturers to ensure high quality standards are maintained. Furthermore, we have made selective investments in some of our suppliers in order to gain greater integration of

manufacturing and supply. Our baby nutrition and care products are manufactured in accordance with applicable European Union food hygiene standards and under approval by the CNCA and our adult nutrition products are manufactured under license by TGA and meet GMP requirements, meaning our adult care and nutrition products are manufactured to pharmacy grade standards. As part of the manufacturing process our products are subject to safety checks including a five-layered food safety check for our infant formulas which involves a series of comprehensive quality control tests by (i) our Western European suppliers, (ii) our own laboratories in France, (iii) European customs authorities, (iv) Chinese customs authorities, and (v) our in-house laboratory in China. For our adult nutrition products our ingredients are vetted by a rigorous quality testing process that exceeds the regulatory minimums in all jurisdictions where we operate and we utilize numerous quality assurance tests during the main stages of production. In addition, we work with contract manufacturers in connection with the establishment of ‘process validation’ protocols to monitor and ensure the quality of the full range of VHMS products from both quantitative component and visual/physical stability testing perspectives.

New product development and innovation is important to maintaining our leading competitive position. We believe that our emphasis on maintaining the highest quality standards has, for example, resulted in our infant formula ranking in the top five for brand reputation (along with international brands such as Wyeth, Abbott and Mead Johnson) among infant formula brands by Chinese consumers according to our internal survey, and is a key contributor to the brand’s success. We believe that our product innovation and development efforts support and improve our ability to introduce innovative, technologically advanced new products and materials and improve our production processes to meet market demands. Chinese consumers regard scientific advancement as a factor of importance in making a purchasing decision. For example, in a 2014 survey, 90% of respondents from seven tier 1 and tier 2 cities regarded scientific advancement as the most important factor in making their purchasing decision. They also ranked Biostime as second in order of preference in this respect. We continuously invest in improving our research and development capabilities with a focus on joint development and/or cooperation with our suppliers in addition to our independent research activities in Guangzhou and Europe and regularly utilize clinical trials to support the efficacy of our baby nutrition and care products. Our research and development for our adult nutrition and care products is focused on supporting our established track record of continuously providing an offering of high quality, premium and innovative products which are scientifically validated and responsive to consumer demand. We work in close consultation with an advisory panel that includes leading academics, scientists and clinicians in the field of integrative medicine and these panel members provide expert advice, including written reports, that validate our formulations. Furthermore, to ensure the health benefit claims behind our adult care and nutrition products are backed by hard science, we have partnered with numerous research organizations, which independently review our evidence supporting the claimed health benefits.

***Our proven and effective marketing and proprietary consumer relationship systems enhance the awareness of our brands.***

We believe that we have proven and effective marketing models that successfully promote sales of our baby nutrition and care products and adult care and nutrition products.

According to our internal survey, in China, our Biostime™ branded baby nutrition and care products rank amongst the top five for brand reputation along with foreign pharmaceutical brands such as Wyeth, Abbott and Mead Johnson — Biostime’s marketing focuses on the European origin of its products to capitalize on Chinese consumers’ preference for foreign infant formula due to perception of superior quality. In addition, our proprietary BIOD marketing model which focuses on (i) brand communication (B), (ii) interactive education (I), (iii) online and offline point-of-sale (“POS”) management (O) and (iv) database marketing (D) serves to facilitate brand stickiness. This is evidenced by the fact that Biostime™, our flagship baby nutrition and care brand, is ranked first in terms of consumer willingness to repurchase according to our internal survey and that 88.5% of revenue from our baby nutrition products segment was generated from Mama100 members for the three months ended March 31, 2016.

For our adult nutrition and care products, marketing focuses on our offering of premium and proven products that have been produced using world class raw materials in accordance with TGA standards, rigorous quality control processes and in close consultation with independent research institutions. Our marketing philosophy centers on an aspirational lifestyle message that we deliver across a variety of media platforms (e.g. TV, print and selected new media channels). These platforms include partnerships with international and country-specific brand ambassadors. These ambassadors include our global ambassador, international actress and multiple award winner Nicole Kidman as well as other ambassadors such as the former captain of the Australian national cricket team, Ricky Ponting. We also engage in on-going and campaign event based sponsorships such as the Australian Olympic Team and the Australian Rugby Union. The effectiveness of this marketing model has allowed us to grow market share without increasing advertising spend as a proportion of sales. We believe this marketing model maximizes the effectiveness of our marketing efforts, which are targeted at increasing brand awareness and growing market share, therefore allowing us to reduce the proportionate spend of advertising expenses relative to sales.

***We have a large and diversified distribution network that provides scale and broad consumer access.***

We believe our distribution network across China, Australia and internationally provides us with a strong competitive advantage. In China, our offline distribution network has grown through the adoption of a multi-format distribution strategy targeting a broad channel mix of baby specialty stores and retail sales outlets such as supermarkets and local pharmacies. We believe that our use of baby specialty stores in China, through which we offer all of our baby nutrition and care products, provides competitive advantages as consumers use these stores as a “one-stop shop” for baby products and, according to Nielsen, they are one of the fastest growing sales channels for sales of baby nutrition and care products in China, growing by 15% and 21% in 2014 and 2015, respectively. Accordingly, we believe that the baby specialty store distribution channel which we adopted relatively early compared to our competitors, offers us significant cross-selling opportunities. In addition, we believe that the baby specialty stores in tier 2 and tier 3 cities in China are under-penetrated, offering significant growth prospects for this channel. Furthermore, we believe we were the first supplier of baby nutrition and care products to make our products available through pharmacies. To date, our baby nutrition and care products are sold in approximately 5,140 pharmacies in China.

In addition, we monitor the flow of our baby nutrition and care products real-time via the bar code scanners that are installed in the warehouses of our regional distributors. Our ability to track inventory and sales records allows us to track products from the distributor to retailer to consumer. This system provides us with valuable consumer data, logistics intelligence and control of each product batch at every point in the distribution chain. Furthermore, we expect that we will be able to leverage this distribution system to enhance distribution of our adult nutrition and care products in China.

In Australia, we sell our adult care and nutrition products to a long-established consumer base comprised of pharmacies, grocery and health food stores and other retail outlets. In particular, we have managed to increase the proportion of sales in Australia and New Zealand that are made through the higher margin pharmacy channel to approximately 77.8% of our Swisse revenue for the three months ended March 31, 2016. We are expanding our active sales presence in the Chinese market by leveraging our extensive online and offline distribution capabilities. We offer our adult nutrition and care products through our Mama100 membership program. In March 2016, we launched online shops on several cross border e-commerce platforms, including a flagship store on Tmall.HK, to promote the sales of our adult nutrition and care products in China.

In addition to our own distribution channels in China, Australia and elsewhere, we distribute our Swisse™ branded adult nutrition and care products internationally, including in selected markets in Western Europe and Asia through our international distribution agreement with PGT. To date, PGT has launched Swisse™ branded products in Singapore, the UK, Italy and the Netherlands.

***Our high cash flow conversion supports deleveraging.***

Our results of operations reflect strong earnings, primarily as a result of the strong market position we hold in our core markets in China and Australia. During the year ended December 31, 2015 our Adjusted EBITDA on a *pro forma* basis for the Acquisition was RMB1,996.9 million (US\$308.3 million). For the 12 months ended March 31, 2016 our Adjusted EBITDA on a *pro forma* basis for the Acquisition was RMB2,145.5 million (US\$331.2 million). We believe that both our baby nutrition and care product and adult nutrition and care product segments generate high profit margin from sales in their respective markets and provide strong earnings diversification. Furthermore, since we do not currently expect our business to require substantial ongoing capital expenditure, we expect that we will be able to generate a high cash flow conversion rate, with each of our business segments capable of contributing to the service of our debt obligations and supporting rapid deleveraging.

***Experienced and highly capable management team with proven track record of performance.***

We have a highly experienced senior management team with a proven record of performance.

Founder of the Group, Luo Fei, is directly engaged in the business, holding the positions of Executive Chairman and Chief Executive Officer, while also remaining a principal shareholder. Mr. Luo has approximately 20 years' experience in the biotechnology industry. Radek Sali, who has been with the Swisse business for over 10 years and currently serves as the Chief Executive Officer of Swisse since 2007, is also an Executive Director of the Group and remains a shareholder in Swisse following its acquisition by Biostime. In addition, we have recently strengthened the financial management team of the Group through our appointment of Mr. Wang Yidong as the Chief Finance Officer of the Group in May 2016. Mr. Wang Yidong has over 18 years' experience in financial management, accounting and corporate finance with international corporations.

Our broader management team also has a proven track record in delivering operational and financial results and has been instrumental in strategizing and executing our strategic goals. The senior management team aims to foster a culture of continuous innovation in all of its operations. After the acquisition of Swisse by Biostime on September 30, 2015, the majority of the senior management team of our adult nutrition and care business remain shareholders in Swisse.

**Our Strategies**

***Grow our core business and focus on the most attractive distribution channels.***

We intend to continue to capitalize on strong demand for high quality and premium imported infant formula and VHMS products in our core markets. We expect to achieve this strategy by focusing on our most active distribution channels within each of our core markets. Furthermore, we will leverage continued strong customer demand for our products by expanding, innovating and diversifying our existing product offerings.

With respect to our infant formula products, we intend to grow our infant formula product presence in the baby specialty store channel in China through increasing store penetration levels from the current weighted penetration rate of approximately 62% to the approximately 84% weighted penetration rate achieved by our leading competitor in this channel according to Nielsen. To achieve this, we intend to selectively "accredit" stores in this channel to stock our infant formula product range based on their reputation, client network and ability to offer favorable trading terms.

For our adult nutrition and care products, we intend to leverage our existing strengths in the offline grocery and pharmacy channels in Australia to further enhance sales. In particular, we believe that the pharmacy channel in Australia is capable of achieving higher sales margins than other channels. We also intend to continue to develop our online sales through Chinese e-commerce platforms, which is currently our fastest growing distribution channel for these products.

***Continue to position ourselves as a premium all-round family nutrition provider.***

We are focused on reinforcing our position as a provider of premium all-round family nutrition through our extensive baby nutrition and care products and adult nutrition and care products portfolio. We intend to achieve this objective through our continued development of new and innovative products with an emphasis on maintaining the highest quality standards; using proven and effective marketing models that successfully promote sales, including utilizing targeted marketing to promote customer education and interaction; maximizing the benefits of our strong distribution channels, particularly offline in China through baby speciality stores and online through Chinese and Australian e-commerce platforms; and realizing the synergies from the integration of our Biostime and Swisse businesses to deliver increased market share, as well as cross-sharing our research and development efforts.

***Continue to invest in new product development and innovation.***

We will continue to employ a science-based approach to new product development and maintain our position as a leading innovator in the market. We will continue to invest and strengthen our advisory panels and continue to partner with reputable organizations including leading universities to ensure that our health benefit claims continue to be scientifically validated. We will maintain our speed to market in responding to trends in the health and wellness industry ahead of our competitors, which we believe will continue to reinforce our market-leading position in the VHMS industry.

Furthermore, in line with the on-going premiumization of the Chinese infant formula industry, which has seen growing consumer preference for premium, organic baby food products, we intend to introduce an organic range into our infant formula product offering as well as continuing to innovate and develop our SN-2 PLUS infant formula product. We also plan to leverage the Swisse™ brand to grow market share in the high-growth skincare and sports nutrition (active) categories in Australia and China.

***Leverage synergies and competitive advantages from the integration of our Biostime and Swisse businesses***

We believe there are substantial synergies to be generated from the integration of Biostime and Swisse businesses. These synergies can drive increasing revenue and profit growth. We will leverage our offline distribution channels in China by introducing Swisse™ branded products into our extensive network of bricks and mortar retail outlets, which are concentrated in high-margin baby speciality stores and pharmacies. In conjunction, we intend to quickly grow Swisse's share of the high-growth cross-border e-commerce market by further promoting and selling Swisse products on Mama100 (our proprietary mobile-enabled sales platform), major cross-border e-commerce platforms (including JD.com, VIP.com and Kaola), and our flagship Tmall store.

As Swisse™ branded products continue to gain greater traction with consumers in China, we will analyze their purchasing behavior using our industry-leading consumer relationship management software to execute effective and targeted marketing of Swisse™ products. We will also aim to combine our Swisse™ and Biostime™ research and development efforts, which will benefit from the increased scale and knowledge cross-sharing. We also believe that the combination of the two operating businesses' supply chain and sourcing will improve operational efficiency and reduce costs. In addition, we will also be able to leverage our existing regulatory knowledge in China in order to expand active sales of our adult nutrition and care products in China.

By utilizing our significant expertise and capabilities in building strong market share in the health and wellness industry in China, we believe these strategies will work in combination to raise awareness of the Swisse™ brand with Chinese consumers and grow Swisse's sales of adult nutrition and care products in China.



### ***Continue to generate strong cash flow to reduce leverage***

We have demonstrated our ability to generate strong cash flows over the last three years. During the year ended December 31, 2015, our Adjusted EBITDA on a *pro forma* basis for the Acquisition was RMB1,996.9 million as compared to Adjusted EBITDA of RMB1,337.2 million during the year ended December 31, 2013 (which did not include the earnings of Swisse). For the 12 months ended March 31, 2016, our Adjusted EBITDA on a *pro forma* basis for the Acquisition was RMB2,145.5 million (US\$331.2 million). We intend to focus on maintaining strong cash flow generation by increasing revenue and managing margins, capital expenditures and costs which we believe will enable us to rapidly reduce our leverage.

### **Recent Regulatory Developments**

On February 26, 2016, the CFDA issued the Administrative Measures for the Registration and Filing of Health Food (the “New Measures”), effective from July 1, 2016. The New Measures introduce a dual-track registration and filing system for the importation of health food for sale in China. Health foods subject to the filing process will be exempted from onsite inspection and technical review by the CFDA, as well as the other procedures under the registration system. In April 2016, CFDA and other authorities announced two lists which together outline the product categories which will be allowed into China through bonded warehouses (the “Positive Lists”) pursuant to the New Measures. In May 2016, the General Administration of Customs extended the effective date of the Positive Lists to May 11, 2017. We believe a substantial amount of our Swisse<sup>TM</sup> branded adult nutrition and care products are considered normal food under PRC laws and thus will not be required to be registered or filed as health food with the CFDA and our current method of importing our Swisse<sup>TM</sup> branded adult nutrition and care products into China through bonded warehouses is in compliance with applicable laws and regulations of PRC.

On June 6, 2016, the CFDA released the Administrative Regulations for the Registration of Formula of Infant Milk Formula Powder Products (嬰幼兒配方乳粉產品配方註冊管理辦法), pursuant to which, formulas of infant milk formula products sold on the Chinese market should be registered with the CFDA and allows each domestic formula manufacturer and offshore formula manufacturer that intends to export formula products into China to register up to nine formula products in three formula series (for stage 1 formula (0-6 months), stage 2 formula (6-12 months) and stage 3 formula (12-36 months)). The aforesaid registrations will be valid for a term of five years and should be renewed six months before expiry. The new regulation will be effective on October 1, 2016.

Pursuant to a prior statement from the Ministry of Finance, the registration deadline applicable to infant milk formula products imported through cross-border e-commerce has been postponed to January 1, 2018. For further information, see “Regulation—Cross border e-commerce”.

### **Our history**

In 1999, we were founded by Mr. Luo Fei and Mr. Luo Yun in Guangzhou, China, to focus on the research and development of probiotic supplement products for infants and children. In 2002, we established our Biostime<sup>TM</sup> brand and we began to manufacture through a cooperation agreement with Lallemand, a leading manufacturer of probiotics based in France, and distribute probiotic supplements in China for infants and children.

In 2006, we further expanded our product offering when we began to manufacture and distribute dried baby food products in China sourced from Western Europe and the United States. Furthermore, in 2006, we began research and development into premium infant formula, releasing our Biostime<sup>TM</sup> branded super-premium infant formula in 2008 using infant formula products (with innovative ingredients) from our supplier in France in order to capture growing opportunities in the Chinese market for premium infant formula products. We also launched our Mama 100 membership program in 2006.







In 2010, in order to leverage our growing market position in China’s premium pediatric nutritional products market, we expanded our product offering into baby care products, such as baby diapers and baby skin and hair products in China under our Bmcare™ brand. Subsequently in 2011, we launched our pediatric nutrition supplement product offering in China. In 2013 we launched our lower-priced ADiMIL™ branded infant milk formula to further diversify our product mix.

On December 17, 2010, we became a listed company on the Main Board of the SEHK. In 2013, we launched our O2O sales model on our mobile application for our Mama100 membership program. In 2013, we also acquired a 20% stake in one of our key infant formula suppliers, ISM, based in France, and an infant formula manufacturing facility in Changsha, China. In 2009 and 2014, we established research and development centers in Guangzhou and Changsha, respectively to further our new product development and innovation activities. In 2014, we established BINC, an international platform to facilitate expert communication and academic exchange among medical and scientific professionals in China and worldwide. On September 30, 2015, we acquired our 83% shareholding in Swisse; for further information, see “The Swisse Shareholders’ Agreement.”

**Products and suppliers**






We have a diversified product offering across three broad segments: (i) formulas for infants and children under seven years as well as for expectant and nursing mothers; (ii) adult nutrition and care products; (iii) probiotic and other pediatric supplements, dried baby food and baby care products. We currently sell our infant formula products, probiotic supplements and other pediatric supplements, dried baby food and baby care products in China. We currently sell our adult nutrition and care products in Australia and New Zealand, with growing sales in several other international markets, most significantly in China.

The following chart sets forth our product offering by life stage of our target user:






Target user	Brands	Products	
<b>Infants and children</b>	Biostime™	Premium to super-premium infant formula	
		Baby food supplements	
		Probiotic and other supplements	
	ADiMIL™	Mid-to-high-tier infant formula	
Bmcare™	Baby diapers		
	Baby skin and hair care		

Target user	Brands	Products
		Baby wipes
	Healthy Times™	Organic baby cereal
		Organic Teddy Puffs
		Organic baby food and biscuits
		Organic baby care
<b>Pregnant and nursing mothers</b>	Biostime™	Premium nutritional milk
		Milk calcium chewable tablets
	Swisse™	Pregnancy Ultivite



Target user	Brands	Products
Adults	Swisse™	Ultivite - gender - specific multivitamins 
		Ultiboost - multi- vitamins supporting specific beneficial health outcomes 
		Superfoods 
		Active - sports nutrition 
		Skincare 

The following chart sets forth our current product offering by brand:

Brands	Description	Percentage of total sales for the three months ended March 31, 2016
Biostime™ 	<ul style="list-style-type: none"> <li>• A leading super premium infant and child nutrition brand in China.</li> <li>• Includes product categories such as:               <ul style="list-style-type: none"> <li>- Infant formula series including Supreme Care, Supreme, Premium, Golden Care; and</li> <li>- baby food supplements including probiotics and other pediatric supplement.</li> </ul> </li> </ul>	53.8%
Swisse™ 	<ul style="list-style-type: none"> <li>• A leading VHMS brand in Australia and New Zealand.</li> <li>• Offers VHMS, superfoods, sports nutrition products and skincare products.</li> </ul>	40.9%
ADiMIL™ 	<ul style="list-style-type: none"> <li>• Functional formulas for nutritional enhancement to improve digestion, immunity and cognition which are complementary to our Biostime™ branded products.</li> <li>• Includes product categories such as:               <ul style="list-style-type: none"> <li>- ADIMMUN™ (Supreme, Premium);</li> <li>- ADIGEST™ (Supreme, Premium); and</li> <li>- ADISMART™ (Supreme, Premium).</li> </ul> </li> </ul>	4.0%
BMcare™ 	<ul style="list-style-type: none"> <li>• A premium baby care brand from China focused on baby diapers and personal baby skin and hair care products.</li> <li>• Utilizes super soft material for diapers as well as essential and natural ingredients for personal skin and hair care products.</li> </ul>	1.2%
Healthy Times™ 	<ul style="list-style-type: none"> <li>• An organic baby food brand from the United States with a historical presence in Asia.</li> <li>• Produces organic baby food products including baby cereal, teething biscuits and cookies.</li> </ul>	0.1%

## *Infant formula*



Our infant formula segment represented 50.2% of our revenue for the three months ended March 31, 2016. We offer a range of infant formula products in China that is positioned at the higher end of the market and focuses on educated consumers with relatively higher disposable income. Our Biostime™ branded infant formula is our premium infant formula product and we also offer a high-tier infant formula product under our ADiMIL™ brand. We endeavor to bring the nutrition profile of our infant formula closer to that of breast milk. As research has shown that many infants experience constipation due to indigestion associated with conventional infant formula products, we launched infant formula products with  $\beta$ -vegetable oil to help reduce the likelihood of constipation and to enhance the intake of calcium and energy and calorie absorption. Based on information from Advanced Lipids, one of the two producers of  $\beta$ -vegetable oil globally, we believe we were the first to offer infant formula products with  $\beta$ -vegetable oil in China. Generally, infant formula has the following four main components: (i) cow's milk protein that is processed to have a profile similar to breast milk, (ii) a blend of vegetable fats to support the nutritional lipid profile of breast milk, (iii) a carbohydrate, generally lactose from cow's milk, and (iv) a vitamin and mineral "micronutrient" pre-mix that is blended into the product to target the specific needs of an infant at a given age. In June 2015, we introduced our SN-2 PLUS infant formula, containing our proprietary SN-2 structured lipid blend, which a clinical study proved enhanced nutrient absorption to support balanced growth of babies as well as reduced crying time and constipation.




According to Nielsen, as of December 31, 2015, we were the second-largest participant in the super-premium tier of the Chinese infant formula market with a 16.0% market share by retail sales value. We also have a 5.9% market share by retail sales value of the overall infant formula market in China. Biostime™ and ADiMIL™ are the two principal brands under which we currently sell our infant formula products in China. Our Biostime™ and ADiMIL™ brands primarily target the super-premium and premium tiers of the Chinese infant formula market. Under our ADiMIL™ brand, we also target the mid-to-high-tier infant formula in China with infant formula products manufactured in China from base powder produced at our ISM manufacturing site in France.

Our infant formula products broadly fall into four categories: (i) Stage 1 formula, or infant formula, which is suitable for newborn infants up to six months; (ii) Stage 2 formula, or follow-on formula, which is suitable for infants and toddlers aged from six to 12 months (and potentially longer); (iii) Stage 3 formula, or growing-up formula, which is suitable for toddlers aged from 12 months to three years; and (iv) Stage 4 formula, or pre-school formula, which is suitable for children aged from three to seven years.

All of our Biostime™ branded infant formula products and a majority of our ADiMIL™ branded infant formula products and mother's nutritional supplement products are imported from our suppliers in France and Denmark with original packaging. Our suppliers manufacture these products based on our specific design specifications and formulas. For further information, see "Manufacturing and Suppliers." We jointly develop infant formulas with our suppliers. Our product development team, which comprises marketing as well as our in-house scientists and other research and development professionals in China and Europe, identify and create the nutritional profile of new formulas based on marketing requests, research and development findings and regulatory requirements. Once such a nutritional profile is set up, our research and development team develops the recipe and implements a pilot production process in our research and development facility in Moorepark, Ireland. After evaluation of the quality and stability of the recipe, both the research and development team and the quality team collaborate with our infant formula suppliers in Europe to adapt the recipe for final production.

The following table sets forth a list of the Biostime™ branded infant formula products that we currently offer, our key suppliers, suggested retail prices and a description of each product:

Product	Supplier	Suggested retail price (per 900g can)	Product description
 <p><b>Biostime Supreme Care Infant Formula</b></p> <p>Stage 1 — targeted for newborn infants up to six months</p> <p>Stage 2 — targeted for infants and toddlers aged from six to 12 months (and potentially longer)</p> <p>Stage 3 — targeted for toddlers aged from 12 months to three years</p>	Laiterie de Montaigu	Stage 1 — RMB460 Stage 2 — RMB458 Stage 3 — RMB456	<p>Launched in July 2008, Biostime Supreme Care Infant Formula is targeted towards the premium and super-premium tiers of the infant formula market and offers the following advantages:</p> <ul style="list-style-type: none"> <li>contains protein hydrolysate for easy digestion</li> <li>contains high levels of SN-2 structured lipids closer to breast milk</li> <li>adopts full-formulation spray drying technique to promote nutrition dissolution</li> <li>preservation period is 3 years</li> <li>imported with original packaging</li> </ul>
 <p><b>Biostime Supreme Infant Formula</b></p> <p>Stage 1 — targeted for newborn infants up to six months</p> <p>Stage 2 — targeted for infants and toddlers aged from six to 12 months (and potentially longer)</p> <p>Stage 3 — targeted for toddlers aged from 12 months to three years</p> <p>Stage 4 — targeted for children aged from three to seven years</p>	Isigny Sainte-Mère (“ISM”)	Stage 1 — RMB366 Stage 2 — RMB360 Stage 3 — RMB358 Stage 4 — RMB338	<p>Launched in July 2008, Biostime Supreme Infant Formula is targeted towards the premium and super-premium tiers of the infant formula market and offers the following advantages:</p> <ul style="list-style-type: none"> <li>contains high levels of SN-2 structured lipids</li> <li>adopts full-formulation spray drying technique to promote nutrition dissolution</li> <li>preservation period is 3 years</li> <li>imported with original packaging</li> </ul>

Product	Supplier	Suggested retail price (per 900g can)	Product description
 <p><b>Biostime Premium Infant Formula</b></p> <p>Stage 1 — targeted for newborn infants up to six months</p> <p>Stage 2 — targeted for infants and toddlers aged from six to 12 months (and potentially longer)</p> <p>Stage 3 — targeted for toddlers aged from 12 months to three years</p> <p>Stage 4 — targeted for children aged from three to seven years</p>	ISM	Stage 1 — RMB290 Stage 2 — RMB288 Stage 3 — RMB278 Stage 4 — RMB248	<p>Launched in July 2008, Biostime Premium Infant Formula is targeted towards the premium/mid-to-high tiers of the infant formula market and offers the following advantages:</p> <ul style="list-style-type: none"> <li>contains higher levels of SN-2 structured lipids</li> <li>adopts full-formulation spray drying technique to promote nutrition dissolution</li> <li>preservation period is 3 years</li> <li>imported with original packaging</li> </ul>
 <p><b>Biostime Golden Care Infant Formula</b></p> <p>Stage 1 — targeted for newborn infants up to six months</p> <p>Stage 2 — targeted for infants and toddlers aged from six to 12 months (and potentially longer)</p> <p>Stage 3 — targeted for toddlers aged from 12 months to three years</p> <p>Stage 4 — targeted for children aged from three to seven years</p>	Arla Foods Amba	Stage 1 — RMB238 Stage 2 — RMB228 Stage 3 — RMB218 Stage 4 — RMB196	<p>Launched in May 2010, Biostime Golden Care Infant Formula is targeted towards the mid-to-high-tier of the infant formula market and offers the following advantages:</p> <ul style="list-style-type: none"> <li>contains lower levels of SN-2 structured lipids</li> <li>adopts full-formulation spray drying technique to promote nutrition dissolution</li> <li>preservation period is 3 years</li> <li>imported with original packaging</li> </ul>
 <p><b>Biostime Premium Mama Nutritional Formula</b></p>	ISM	RMB286	<p>Launched in July 2008, Biostime Premium Mama Nutritional Formula is targeted towards the premium tier of the infant formula market and offers the following advantages:</p> <ul style="list-style-type: none"> <li>contains folic acid to prevent nervous system malformations and iron coated by lecithin to improve absorption</li> <li>low fat to prevent obesity</li> <li>preservation period is 3 years</li> <li>imported with original packaging</li> </ul> <p>Ingredients: skimmed milk, lactose, whey protein concentrate, GOS, milk fat, DHA, minerals, vitamins</p>



## *SN-2 Plus*

In June 2015, we introduced our SN-2 PLUS infant formula under our Biostime™ brand. Our SN-2 PLUS infant formula contains a structured lipid blend which a clinical study on 171 new born babies in China, proved that it promoted enhanced nutrient absorption to support the balanced growth of babies as well as reduced crying time and constipation. We spent three years researching, developing and testing our SN-2 PLUS infant formula in cooperation with Enzymotec and have entered into a supply agreement for the lipid structure based on our jointly developed formula. Under the supply agreement, Advanced Lipids, our supplier of the lipid used in our SN-2 PLUS infant formula, provides the lipid blend based on our specification. We believe that we are the first infant formula provider in China to use SN-2 (as defined below) in our infant formula products, and that we have a higher concentration of SN-2 in our formula compared to those of our competitors, making our product closer in structure to breast milk.

### ***Adult nutrition and care products***

Our adult nutrition and care segment represented 40.9% of our revenue for the three months ended March 31, 2016. We primarily offer a range of Swisse™ branded VHMS, “superfoods” and skincare products in Australia and New Zealand, as well as in several other international markets, most significantly China. Through our international distribution agreement with PGT, our products are distributed in Singapore, the United Kingdom, the Netherlands and Italy. Our adult nutrition and care products are developed to create various formulas that both cater to a general audience as well as being customized for specific health requirements. We aim to adjust the ingredients and formulations of our adult nutrition and care products in order to optimize health outcomes.

Our products can be classified into the following four differentiated product categories: (i) VHMS, (ii) superfoods, (iii) sports nutrition (under the brand Pure Warrior — powered by Swisse™) and (iv) skin care. According to IRI data, we are the leading provider of vitamin and herbal products with a 19.0% share, by scanned retail sales volume of the Australia VHMS market as of March 20, 2016.

*Vitamins, minerals and supplements.* We offer a range of vitamins, minerals and supplements including two principal products, Ultiboost™ and Ultivite™. We offer 19 Ultivite™ multivitamin products for different consumers based on age and gender. We offer 71 Ultiboost™ premium branded vitamins, minerals and supplements products, each designed for specific health outcomes, such as immune health support, restful sleep, joint health, heart health, digestive health, mood balance and hair, skin and nails health. Our vitamins, minerals and supplements are available in liquid, tablet, soft gelatin, hard-shell capsule, chewable and powder form, depending on category. For the three months ended March 31, 2016, vitamins, minerals and supplements accounted for 96.1% of adult nutrition and care revenue.

*Superfoods.* We offer a range of “superfood” products in either single-nutrient or blended formulas that contain natural compounds and a high anti-oxidant content to consumers looking for nutritional supplements based on naturally occurring compounds in food. We currently have 16 superfood products, including Chlorophyll and High Strength Organic Spirulina.

*Sports Nutrition.* We offer a range of sports nutrition products under our Pure Warrior-Powered by Swisse™ brand to target active and athletic consumers. We currently have eight individual products including protein powders and sports bars.

*Skin care.* We offer three lines of nutrient-enriched skin care products based on natural formulas, which provide formulated skin care products for the face, oil and serum products and body hydration products. Our skin care products target consumers of natural ingredient focused skincare products. We currently have 18 skin care products.

### ***Probiotic supplements***

Our probiotic, nutritional and other pediatric supplement segment represented 6.3% of our revenue for the three months ended March 31, 2016. We are the first company to register probiotics as health food supplements for infants and children in 2002 and we have an established market position and high brand recognition since then. Probiotics are live microorganisms that are considered healthy for humans to consume. According to the currently adopted definition by the Food and Agriculture Organization of the United Nations (“FAO”) and the World Health Organization (“WHO”), probiotics are “live microorganisms that, when administered in adequate amounts, confer a health benefit on the host.” Positive health effects have been documented from the use of probiotics and we market our pediatric probiotic supplements as being advantageous in children whose immune systems are still developing. We offer a range of probiotic supplements in China designed to target consumers of premium-branded pediatric nutritional supplements under our Biostime™ brand. Our probiotic supplements come in sachet and tablet formats designed for infants and children.

### ***Baby care products***

Our baby care segment represented 1.2% of our total revenue for the three months ended March 31, 2016. We offer a range of baby care products in China designed to target consumers of premium baby care products under our BMcare™ brand. Our range of baby care products include diapers, shampoos, bath gels, baby oils and baby wipes for infants, children and nursing mothers.

### ***Dried baby food and nutrition supplements***

Our dried baby food and nutrition supplements represented 1.4% of our total revenue for the three months ended March 31, 2016. We offer a range of dried baby food in China designed to target consumers of premium baby food products supplements. We offer our dried baby food under two of our brands, Biostime™ and Healthy Times™. We acquired Healthy Times™ on July 1, 2015. Established in 1980, Healthy Times™ is an organic baby food brand based in the United States producing organic baby cereal, teething biscuits, cookies and other products, with sales in North America and a historical presence in Asia. Our key dried baby food products include conventional and organic cereals.

Our nutritional supplements include milk calcium chewable tablets for children and expectant and nursing mothers. Our milk calcium chewable tablets series are designed for both pregnant women and children above three years old. These tablets are made from microencapsulated milk calcium.

## **Marketing**

Our marketing activities can be divided between two broad product groups (i) baby nutrition and care products, constituting our infant formula products, probiotic and other pediatric supplements dried baby food and baby care products and (ii) adult nutrition and care products.

### ***Baby nutrition and care products***

Our marketing activities for our baby nutrition and care products segment is driven by the need to gain new consumers and increase sales to our current consumers over the approximate three year period that a typical mother purchases such products starting with pregnancy and ending when children reach the toddler stage. We engage in a variety of marketing activities in China. Our proprietary “BIOD” marketing model which focuses on (i) brand communication (B), (ii) interactive education (I), (iii) online and offline point-of-sale (“POS”) management (O) and (iv) database marketing (D) serves to facilitate brand stickiness which is evidenced by the fact that Biostime™, our flagship baby nutrition and care brand is ranked first in terms of consumer willingness to repurchase according to our internal survey.

As part of our marketing strategy, we run a consumer member program named the Mama100 membership program. The Mama100 membership program is an integrated database marketing platform, which provides value added services for members including a mobile application, a WeChat platform, a monthly magazine, consumer events, a dedicated call center and an online forum for members to obtain and share parenting information, advice and experiences. Through our Mama100 membership program we aim to identify new consumers and solidify relationships with existing consumers, enhance loyalty of existing members, encourage existing members to purchase a wider range of our products, as well as repeat purchases. Our Mama100 consumer loyalty program also provides a channel for our members to provide constructive feedback on our products and services. We had approximately two million active members of our Mama100 membership program in 2015 and 88.5% of the revenue of our baby nutrition and care products for the three months ended March 31, 2016 were contributed by our Mama100 members. We believe the membership numbers and proportion of retail sales are evidence of brand loyalty within our extensive consumer base.

### *Branding*

We position ourselves as a premium baby nutrition and care products provider for infants, young children up to seven years old, expectant mothers and nursing mothers. We believe that our brand recognition and reputation have played a critical role in the growth and sustainability of our business. We believe that consumers principally associate our Biostime™ brand with our direct sourcing of high quality premium infant nutrition products from Western Europe . We have continuously sought to build brand recognition for our Biostime™ brand as representing high quality, reliable and innovative pediatric nutritional products since our establishment of our Biostime™ brand in 2002. According to our internal survey, our Biostime™ branded baby nutrition and care products rank amongst the top five for brand reputation along with foreign pharmaceutical brands such as Wyeth, Abbott and Mead Johnson. We believe that our brand recognition can be further strengthened through word of mouth regarding our product quality and the recognition of the advanced science behind many of our products. Certain anti-counterfeiting features have been implemented into our products, including the printing of identification barcodes on the packaging of our products for traceability and authentication purposes.

We target educated consumers with relatively higher disposable income. To promote recognition of our brands within this consumer target group, we engage in a variety of marketing and promotional activities. We promote our brands and engage in digital marketing of our products through various media channels, including online platforms such as Weibo, WeChat and online TV and offline platforms including TV, print and in-store displays. We have focused increasingly on online marketing as our primary channel to communicate our brands and products due to increasing online activity of our target consumers (especially young mothers). For TV advertising we purchase prime time advertising slots on leading national satellite and cable channels in order to reach a broad consumer audience. The frequency of our advertising varies, depending on whether a relevant product or brand is well-established or newly launched, and the need to build and maintain our market presence.

We have established and maintain members' areas in selected pharmacies and retail sales organizations, which are referred to as our "Mama100 Members' Zones." Our consumers are offered the full range of our baby nutrition and care products in Mama100 Members' Zones. Retail outlets with our Mama100 Members' Zones are required to install in-store displays featuring our brand advertising to reinforce our brand image.

### *Interactive education*

We also promote our products and brands through interactive education with our consumers. This includes face-to-face demonstrations of our products with consumers, including for mothers of newborns in hospitals, collaboration events with Chinese celebrities, as well as interactions between our consumers and our call-center team. The majority of our interactive education is focused through our Mama100 membership program, which aims to establish an online and offline community among our consumers, our sales channels and us.

We launched a hotline in 2003, and it is currently a popular feature of our Mama100 membership program. Our hotline operates seven days a week from 9:00 a.m. to 9:00 p.m. with 140 in house operators. The hotline is also available online to internet and mobile users. Our call operators include health care professionals such as nutritionists, certified baby care specialists and operators with relevant working experience, such as former pediatric doctors in hospitals. Our call operators provide baby care, child nursing and child health information to all members. During any health or medical consultation, our call operators remind the caller that such consultation is not a substitute for proper medical advice. Consumers seeking medical advice will be referred to medical doctors. In addition, a disclaimer regarding advice provided during these consultation calls to make clear that such calls cannot be treated as a substitute to proper medical advice. Services such as accumulation of membership points can also be processed over the telephone for all Mama100 members, which is usually referred to as offline accumulation. For the 12 months ended March 31, 2016, we received an average of approximately 2,000 daily phone calls relating to consultation on our products or the obtaining of baby health care information.

We established a Mama100 website in 2006 and in 2013 expanded onto a mobile application in line with customer demand. Mama100 is an online community that provides a forum for members to obtain and share parenting information, advice and experiences. Mama100 users are able to receive product information and provide feedback on our products. In addition, we also enable our users to check their membership point balance and redeem for merchandise on line. Consumers can also purchase products online through Mama100 and pick up the ordered products at a local retail store. Our Mama100 mobile application was downloaded seven million times since its inception in November 2013 with an average of 375,000 active monthly users.

We also offer a monthly Mama100 magazine to our Mama100 members, which provides useful information for parents. For the 12 months ended March 31, 2016, the average circulation of the Mama100 magazine reached approximately 100,000 per month.

### *Online and offline POS Management*

A number of retail outlets are equipped with POS machines which work with our Mama100 membership program. Membership points are directly awarded to members of the Mama100 membership program for each of their purchases at the retail outlets equipped with POS machines. Membership points can also be accumulated offline by calling our Hotline (as well as via the Hotline's online format) and providing the numerical details of the bar code and the anti-counterfeiting two-dimensional code, as well as the name of the retail store where the product was purchased. As a result, our Hotline operators can confirm whether the products are genuinely purchased during the membership point registration process by verifying whether the bar codes are valid. Members can then redeem their accumulated membership points for our products or selected gifts. Mama100 members also enjoy privileged services in certain pharmacies and retail stores. As part of our marketing strategy, the amount of membership points that will be awarded to our members when purchasing different types of products varies. Mama100 membership points expire during the end of each calendar year.

### *Database marketing*

We also utilize purchase information gathered from Mama100 members in order to track purchases and spending habits, the performance of sales channels as well as the management of inventories and logistics, which are of great importance to our marketing and sales strategies as well as for our product development and innovation. We have over 150 in house software engineers that continually update our sophisticated and proprietary CRM system. Our programmers focus on both enhancements to the consumer experience by having helpful, easy to use interfaces through our website and mobile application, as well as, back-end enhancements to improve our analytical and marketing capabilities.

Through our CRM system, which encompasses the Mama100 membership program, we are able to build up a significant database of consumer information, perform in-depth analysis of consumer information and purchase histories, spending habits, requests, questions and concerns. Our consumer database includes information on over 22 million consumers (accumulated registered users) that has been collected since 2013. We have utilized our CRM database to develop cross-selling opportunities, use targeted marketing campaigns, implement sales campaigns and engage in one-on-one consumer relationship management activities, including personalized coupons, which are responsive to our consumers' feedback.

### *Adult nutrition and care products*

We engage in a variety of marketing activities in our adult nutrition and care segment, through which our marketing focuses on our offering of premium and proven products that have been produced using world-class raw materials in accordance with TGA standard, rigorous quality control processes and in close consultation with independent research institutions. Our marketing philosophy centers on an aspirational lifestyle message that we deliver across a variety of media platforms.

We promote our adult nutrition and care products and our Swisse™ brand through various paid media channels, including television, which is the largest portion of our media spend, as well as print, online search engines and billboard and banner placements. We aim to maximize the effect of our advertising spend by focusing on event television which typically gathers a large amount of live viewership, by doing brand tie-ins for television shows to get placement within the television program which may also involve a brand ambassador, and by focusing promotional spend only on products that have proven consumer interest in stores.

We also use partnerships with international and country-specific brand ambassadors. These ambassadors include our global brand ambassador, international actress and multiple award winner Nicole Kidman, as well as other ambassadors such as the former captain of the Australian national cricket team, Ricky Ponting. We also engage in on-going and campaign event based sponsorships, such as with the Australian Olympic Team and Australian Rugby Union.

We also utilize owned media channels, including our Swisse website, social network service accounts such as Facebook, Twitter and Instagram, iHub, an in-store shelving display featuring iPads which provide consumers access to information on product features and benefits, consumer service contact details and promotion information, and Swisse iQ, an online training portal introducing product range, category and other information.

We also have a partnership association with the Australian Olympic Committee since 2012 whereby we provide sponsorships for events and campaigns. We intend to have a significant Olympic tie-in during the 2016 Olympic Games in Rio de Janeiro, and expect that our spending will incrementally increase during 2016, similar to the increase in marketing spending in 2012 during the Olympic Games in London.

As part of our marketing strategy for our adult nutrition and care products, we acquired a 47% shareholding in Noisy Beast and entered into an exclusive marketing agreement with Noisy Beast on July 4, 2012. Noisy Beast is an Australian based advertising and marketing agency that offers specialist expertise in media planning and buying as well as creative and digital communities. Pursuant to the terms of our agreement Noisy Beast provides marketing services in Australia to promote our Swisse™ brand and reputation and encourage sales of our adult nutrition and care products.

### **Distribution network and sales**

Our current distribution network and sales activities can be divided between two broad product groups (i) baby nutrition and care products; and (ii) adult nutrition and care products.

#### ***Baby nutrition and care products***

We have an extensive distribution network in China that we have grown through our multiformat distribution strategy which utilizes an offline and online channel mix. For offline channels, our products are sold to regional distributors who then on-sell to baby specialty stores and retail sales outlets such as supermarkets and local pharmacies covering more than 39,000 locations and supported by more than 5,500 in-store commissioned sales promoters as of March 31, 2016.

#### ***China sales team***

We centralize our marketing functions at our headquarters in Guangzhou, China. In order to effectively conduct our sales and marketing activities, we have divided our sales and marketing team to cover all principal geographical regions, which extends our sales network into every province, municipality and autonomous region in China.

Within China, we operate 95 sales offices as of March 31, 2016. Our sales team is the primary point of contact between our regional distributors and us. Our sales team is responsible for recruiting new regional distributors in their designated region in order to expand our distribution coverage of our baby nutrition and care products in China. Our sales staff visits our regional distributors, baby specialty stores and regional sales outlets on a regular basis to ensure that they have sufficient stock and that our baby nutrition and care products are sold to consumers within the designated preservation period for the relevant product.

Our sales staff may also assist with consumer service and carry out marketing or promotional campaigns for our baby nutrition and care products and they manage our Mama100 membership program.

#### ***Regional distributors in China***

We distribute our baby nutrition and care products offline through regional distributors in China and online via e-commerce platforms. For offline sales, our baby nutrition and care products are primarily sold to our regional distributors, who then on-sell our baby nutrition and care products to end consumers through baby specialty stores and retail sales outlets such as supermarkets and local pharmacies. As of March 31, 2016, we had arrangements with 530 active regional distributors. During the year ended December 31, 2015, 8.9% of our revenue was generated by our top five regional distributors by revenue. For online sales of our baby nutrition and care products, we work with established e-commerce platforms such as Alibaba, JD.com and VIP.com.

While we do not own or control any of our regional distributors, we monitor the flow of our baby nutrition and care products in real-time via bar code scanners that are installed in the warehouses of our regional distributors. Our ability to track inventory and sales records allows us to track products from the regional distributor to retailer to consumer. This system provides us with valuable consumer data, logistics intelligence and control of each product batch at every point in the distribution chain. As we require our regional distributors to meet pre-determined sales targets for each financial year, we monitor their sales and inventory levels periodically through our real-time logistics management system to ensure that their annual targets are met. While there is no penalty if our regional distributors do not meet their pre-determined sales targets, we offer incentives such as a portion of the total purchase value of products sold. As part of our annual evaluations of our regional distributors, we may elect not to renew the relevant distribution agreement if a regional distributor continuously fails to meet the relevant sales target. We offer our regional distributors periodic training programs to enhance their knowledge of our products and promotional activities.

Our regional distributors are required to prepay for any product orders placed. Upon receipt of prepayment, we will arrange to deliver the products to the relevant regional distributor. In instances of very limited sales made to consumers in remote areas without distribution coverage and to certain long-established regional distributors with proven track records, we may, upon approval of our senior management, incur trade receivables. Generally, our regional distributors place orders for our products two to three times per month. The frequency at which our regional distributors place orders depends primarily on the volume of our products sold by the regional distributors.

In selecting our regional distributors, we consider the background and credentials of potential distributors in a region and examine their suitability before appointing the regional distributor. We adhere to our own internal procedures in selecting regional distributors. Factors taken into account include the regional distributor's network and sales channels, financial condition and the experience of their distribution personnel. We work with regional distributors exclusively for each channel in a given geographic area. Each regional distributor is responsible for building up our sales network and contacting our consumers (i.e., baby specialty stores and retail sales outlets) according to our distribution plan as stated in our standard distribution agreement. On average, we have maintained a relationship of approximately five to seven years with our regional distributors.

Our regional distributors are required to sign our standard distribution agreement prepared in accordance with our guidelines, policies and procedures. Our distribution agreements typically have a term of one year, renewable annually. Under the terms of our distribution agreements, our regional distributors are required to implement standard distribution methods and strategies throughout China. This approach is intended to standardize our marketing and distribution approach across China and allow us to maintain control over the marketing activities of our regional distributors throughout China. We may, from time to time, vary the terms of our standard distribution agreements depending on particular circumstances of a regional distributor.

Major terms of our standard regional distribution agreement include:

*Initial payment of lump sum surety.* Any regional distributor whom we engage to distribute our products is required to pay us an initial lump sum surety before we supply them with our products. We typically retain this surety until the termination of the standard distribution agreement as security against violations of our regional distribution agreement.

*Conditions for cooperation.* Each newly engaged regional distributor should place orders and make payment of the initial lump sum surety within 15 days after entering into our standard regional distribution agreement. For each product item of our baby care and nutrition products, the total monthly purchase amount for each regional distributor should not exceed 150% of the average purchase amount for that product by the regional distributor in the previous three months. For any

regional distributor who has been our regional distributor for less than three months, the relevant total monthly purchase amount will be determined by such regional distributor based on its size, estimated sales and sales areas covered, and such amount will be approved by our relevant sales office. The inventory of each regional distributor of each product item should not be lower than 30.0% of the average retail sales for that particular product item by the regional distributor in the preceding three months. All of our regional distributors are also required to comply with our logistics management requirements. All regional distributors are also prohibited from selling our products outside of the agreed sales channels or sales regions and, for certain regional distributors, selling products beyond the prescribed products for distribution, set forth in the standard regional distribution agreement.

*Publicity.* All promotional and marketing activities are offered and organized by us, and we bear all related costs. Regional distributors are not allowed to organize any marketing activities or promote our products without our prior consent. However, all regional distributors are required to participate or contribute in such activities. Subject to and upon our prior written approval, we compensate the regional distributors for marketing fees incurred at our POS terminals.

*Incentives.* A reward of 1.0% of the total purchase value will be granted upon application to any of our regional distributors who have fulfilled their respective sales targets as set out in the relevant standard regional distribution agreements by the end of the relevant year. Additionally, any of our regional distributors who have met our internal requirements as to the maintenance of logistics records will be granted a quarterly reward of 1.0% of the total quarterly purchase value.

*Logistics and delivery.* Once payment has been received from one of our regional distributors, within three days we will engage logistic providers to deliver our products to the city where that regional distributor is located. Delivery costs are incorporated into the selling price of our products.

*Payments.* Our regional distributors are required to pay us in advance for our prompt supply and delivery of products. Credit purchase for product orders placed by any of our regional distributors is generally not allowed.

*Return and exchange of products.* Our regional distributors are entitled to a refund for any defective or damaged products to us, subject to a maximum amount equivalent to 0.5% of the total purchase value incurred for the immediately preceding year. We do not accept refund applications after termination of a regional distributor's agreement.

*Legal compliance.* Each regional distributor is required to represent that it holds all relevant licenses and/or approvals required for such regional distributor to sell our products.

*Termination right.* We are entitled to terminate regional distribution agreements with our regional distributors in the event of non-compliance with our distribution policy.

To ensure that our regional distributors' activities are in accordance with our guidelines and policies, we also utilize a control and monitoring system, and provide guidance to our regional distributors' staff through publishing quarterly sales guidelines and have our staff meet with our regional distributors on a regular basis.

We also have procedures to monitor product inventory aging on a periodical basis to ascertain whether allowance is required to be made in our financial statements for any obsolete or slow-moving product inventories. In addition, physical inspections in our warehouses are carried out on a periodic basis in order to determine whether allowance is needed in respect of any obsolete or defective product inventories identified.



## *Sales Channels*

### *Baby specialty stores in China*

Our baby nutrition and care products are predominantly sold to our consumers through baby specialty stores in China, which constituted 68.8% of total revenue for our baby nutrition and care products for the year ended December 31, 2015. We were one of the first baby nutrition and care product companies to provide infant formula products to baby specialty stores and we believe we are one of the largest participants in this channel in 2015. Baby specialty stores in China through which we offer all of our baby care and nutrition products, are retailers which sell clothes, food, baby care products and daily necessities for infants and young children. Baby specialty stores are an attractive distribution channel in China as consumers can utilize them as a “one-stop shop” for baby products, thus providing us with significant cross-selling opportunities across our baby nutrition and care product offering. According to Nielsen, baby specialty stores are one of the fastest growing sales channels for sales of infant formula in China, growing by 15% and 21% in 2014 and 2015, respectively.

As of March 31, 2016, approximately 27,759 baby specialty stores, which offer a complete range of our baby nutrition and care products, were part of our sales network. As of March 31, 2016, all of our baby specialty stores were equipped with our Mama 100 application for retailers which enables us to collect sales data and analyze consumer shopping patterns.

### *Retail sales organizations in China*

Our regional distributors also place our baby nutrition and care products to other retail sales organizations in China where our baby nutrition and care products are purchased by consumers, including department stores and supermarkets. As of March 31, 2016, 6,270 department stores, supermarkets and hypermarkets had joined our sales network in China. Mama100 members’ zones are located in department stores and supermarkets that are equipped with our POS machine which enables us to collect sales data and analyze consumer shopping patterns. We aim to equip our POS machines in all department stores and supermarkets where our baby nutrition and care products are marketed by our regional distributors in the near future.

### *Pharmacies in China*

We believe that we are one of a few pediatric nutrition companies in China that systematically utilize pharmacies as a sales channel for our baby nutrition and care products. Our regional distributors place our baby nutrition and care products directly to pharmacies. Currently, our baby nutrition and care products are sold in approximately 5,140 pharmacies in China. As pharmacies typically possess sales teams with significant pharmaceutical knowledge, we seek to educate these sales teams about the benefits of our products and direct them towards recommending our Biostime™ brand to consumers. In pharmacies that host a Mama100 member zone, we typically offer a complete range of our baby nutrition and care products, while pharmacies that do not host a Mama100 member zone typically only carry our probiotic supplement products.

### *Online sales*

Our baby nutrition and care products are predominantly sold to our consumers through online sales in China, which constituted 3.4% of total revenue for 2015.

We employ an independent, specialized team of 19 employees to manage all e-commerce channels including business-to-consumer (B2C) and consumer-to-consumer (C2C).

*O2O.* During September 2013, we launched our O2O sales model through integrating an online ordering platform on our Mama100 mobile application with our offline retail sales organizations. Our O2O system allows members of our Mama100 membership program to order products and settle payments online through our Mama100 mobile application and then collect the purchased item(s) at the nearest baby specialty store.

*B2C.* During September 2014, we launched a B2C sales model with leading e-commerce platforms in China, such as JD.com, Tmall.com and Suning. We currently offer a selected number of our infant formula products on these B2C platforms. Generally, we sell our products to an e-commerce platform who then re-sells it to the consumer. However, in some cases, we sell directly to the consumer and pay a fee to the e-commerce platform. Our margins are generally higher in the B2C channel than in our other sales channels due to the difference in trade terms. We have a growing online sales presence with an approximate 1.5% market share of the infant formula e-commerce market in China as of December 2015, according to Nielsen.

*C2C.* In addition to the B2C model, our products are also sold on a consumer to consumer basis on e-commerce platforms. This primarily represents sales by offline member stores who sell our products online through e-commerce platforms. We have implemented a member store authorization system to enable consumers to purchase from member stores online with confidence that they are getting authentic products. Sales ultimately made through the C2C channel are primarily represented in our revenue as going through one of our offline sales channels.

### ***Adult nutrition and care products***

Our principal markets for our adult nutrition and care products are Australia and New Zealand and we have a growing presence in several other international markets, most significantly China. We have a single centralized warehouse distribution center that is located in Sydney, Australia. While we engage third party service providers for packaging of our products, we manage and monitor our distribution center.

#### *Australian and New Zealand distribution network*

In Australia and New Zealand, we sell our Swisse<sup>TM</sup> branded adult nutrition and care products through pharmacies, grocery and health foods stores and other channels, which constitute approximately 77.8%, 11.6% and 10.6% of our Swisse revenue for the three months ended March 31, 2016, respectively. Our key customers include (i) Chemist Warehouse, a leading Australian retail pharmacy group, (ii) Symbion, a wholesale pharmacy supplier, (iii) API and its wholly owned business Priceline, a leading Australian pharmaceutical distributor and pharmacy chain in Australia, (iv) Regents Park Pharmacy, and (v) Woolworths, a leading supermarket in Australia, which account for 25.1%, 16.9%, 10.2%, 6.5% and 5.4% of our Swisse<sup>TM</sup> branded adult nutrition and care products sales for the three months ended March 31, 2016, respectively. We have increasingly moved away from the grocery channel and focused on the pharmacy channel, given its higher margins and the greater willingness of pharmacy chains to implement our new terms of trade. Our new terms of trade which we have introduced over the past two years has involved moving away from discounting (the industry standard practice) to instead offering bonus stock.

### *International distribution network*

We sell our Swisse™ branded adult nutrition and care products internationally through PGT. We entered into our agreement with PGT in November 2013 (the “PGT Agreement”) with the objective for PGT to help us expand our access to the international markets for Swisse™ branded adult nutrition and care products including within Western Europe and Asia. The PGT Agreement allows us to utilize PGT’s global distribution platform, PGT’s global regulatory and product marketing expertise as well as PGT’s global knowledge and research on consumer trends so that we can quickly, efficiently and effectively expand Swisse™ branded adult nutrition and care products into new countries.

Since signing the PGT Agreement, PGT has launched Swisse™ branded adult nutrition and care products in Singapore (March 2015), the United Kingdom (November 2015), Italy (February 2016) and the Netherlands (May 2016).

### *Passive sales into China*

Passive sales into China refers to the practice of consumers, predominately in Australia and New Zealand, purchasing our Swisse™ branded adult nutrition and care products from retailers and subsequently bringing those products into China for personal use or re-selling those products in China.

Passive sales into China typically come from (i) commercial resellers who purchase large quantities of our Swisse™ branded adult nutrition and care products from pharmacy retailers in Australia or New Zealand and subsequently sell the products primarily through online Chinese e-commerce platforms on a B2C basis and (ii) tourists and individuals living in Australia who either ship Swisse™ branded products by direct mail into China or carry Swisse™ branded adult nutrition and care products for gifting or personal use in China on a C2C basis.

In 2015, our Swisse™ brand was ranked number one in terms of sales value in the VHMS products category on Alibaba’s e-commerce platforms in China. We believe that our market reputation and brand recognition in Australia and New Zealand for our Swisse™ branded adult nutrition and care products has driven an increase in demand for our adult nutrition and care products in China.

### *Active sales into China*

In addition to passive sales of Swisse™ branded adult nutrition and care products in China, we offer our adult nutrition and care products on all major Chinese cross-border e-commerce platforms including Alibaba, JD.com, VIP.com and Kaola. In March 2016, we launched our flagship store on Tmall.HK with more than 119,000 followers as of June 4, 2016.

## **Inventory management and logistics**

Our current inventory management and logistics activities can be divided between two broad product groups (i) baby nutrition and care products and (ii) adult nutrition and care products.

### ***Baby nutrition and care products***

Our inventory comprises raw materials, finished products and packaging materials in China. We manage our inventory levels based principally on expected demand patterns and the volume of sales orders for our baby nutrition and care products.

We use an enterprise resource planning (“ERP”) system to monitor and control our inventory levels of raw materials and finished products, as well as inventory levels at our regional distributors and at retailers, to optimize our operations. Our ERP system allows us to monitor batches of our product from suppliers to us and on to our regional distributors and most retailers. This high level of control and monitoring allows us to track specific product batches in the event of any ingredient contamination and to selectively recall any compromised product batches rather than having to do a global product recall. While we have never been required to do a product recall, we believe this system can significantly reduce costs and allow a much faster response in the event of a product safety issue.

Each type of inventory is stored in separate areas to avoid cross contamination and to facilitate classification and stocktaking. To maintain optimal storage conditions, we ensure that our storage areas are well ventilated and our powdered materials are appropriately distanced from the walls of the storage room to avoid exposure to humidity.

We have inventory management procedures in place that ensure the planning and allocation of storage space and stock of our inventory meets delivery requirements and schedules. All our baby nutrition and care products are sold to our regional distributors on a first-come-first-serve basis. The details of our baby nutrition and care products, including names of the suppliers, the date of entry and the preservation period, are recorded in our ERP system, which enables us to write off any obsolete inventory. We also dispose of any damaged or defective products which are returned to us by our regional distributors.

We store our inventory primarily in warehousing facilities which we lease and independently manage.

We outsource substantially all of our product transportation in China to logistics companies. Delivery costs are incorporated into the selling price of our products to our distributors. All of our logistics providers in China are independent third parties. We have long-term relationships with a large number of third-party logistics providers. The majority of the third-party logistics companies that we use have provided services to us for over three years.

Our logistics providers in China are selected through our internal tender process. We enter into annual supply contracts with logistics companies. The performance of our logistics providers are reviewed and assessed by us on a quarterly basis according to key performance indicators. We evaluate the results of our assessment with our logistics providers and discuss with them areas for improvement. Under the terms of the contracts, we are entitled to terminate the services of our logistics providers if they fail to meet our standards and requirements.

#### ***Adult nutrition and care products***

We receive our finished products into our distribution warehouse in Sydney, Australia and we directly manage our product distribution to our largest consumers in Australia, including Chemist Warehouse, Woolworths, Coles and Priceline (a subsidiary of API). We also deliver to wholesale distributors (primarily API, Sigma and Symbion) who then provide our adult nutrition and care products to pharmacies in Australia. As part of our e-commerce sales in China, we also ship our products to Hong Kong to be delivered to consumers in China or to bonded warehouses in China to be delivered on to consumers. For our adult nutrition and care products imported into China and stored in the warehouses in Hong Kong and bonded warehouses in the PRC, we do not own such warehouses and we engage third party logistics providers who provide label, packaging and storage services, as applicable, for which we are charged based on the number of product units sold.

## Suppliers and manufacturing

### *Our key suppliers*

We source high quality premium raw materials and manufactured products principally in Western Europe, including France and Denmark as well as Australia. We adopt a rigorous approach when selecting our ingredients and material inputs to ensure they are premium and of the highest quality and efficacy standards. Our products are produced based on our specific design specifications and formulas utilizing manufacturing best practices and leading technologies. The following table sets forth information on our key suppliers and on the supply and manufacturing of each of our product categories:

<b>Product category</b>	<b>Product type</b>	<b>Supplier</b>	<b>Principal place of business</b>	<b>Contract Expiration Date</b>
<b>Infant formula products</b> .....	Premium and super-premium tier infant formula products	Laiterie de Montaigu	France	- 2016
	Premium and super-premium tier infant formula products	ISM	France	- 2028
	mid-to-high infant formula products	Arla Foods Amba	Denmark	- 2021
<b>Probiotic supplements</b> .....	Probiotic sachet, tablets and capsules	Lallemand	France	- 2017
		Du Pont Danisco	United States	- production based on our discretion
<b>Dried baby food and nutrition supplements</b> .....	Baby cereals	Maple Island	United States	- 2022
<b>Baby care products</b> .....	Baby diapers, shampoo, bath gel and baby oil	Hangzhou Coamie	PRC	- 2019
		Foshan Mengsha Beauty & Cosmetic Co., Ltd.	PRC	- 2017

We import all of our premium infant formula products complete with original packaging and only attach bar codes to our infant formula products, in order to facilitate distribution and consumer traceability, when they arrive into our plant in Guangzhou, China, except for a small portion of our ADiMIL™ branded mid-market infant formula range where the base formula is imported from France before final blending and packaging in our manufacturing facility in Changsha, China. We hold agreements with a range of suppliers for our baby nutrition and care products and we aim to maintain surplus capacity in order to mitigate supply risk.

We import from France and other Western European countries for our children’s probiotic supplements as well as other nutrition supplements which are blended and packed in our GMP-certified manufacturing plant in Guangzhou, China.

In our adult nutrition and care segment, our suppliers must be licensed by the TGA and meet GMP requirements, meaning our adult nutrition and care products are manufactured to pharmacy grade standards. We believe complying with these requirements provides us with a competitive advantage and has helped us to establish our Swisse™ branded adult nutrition and care products as premium, high quality and safe. We operate a scalable supply chain model for our adult nutrition and care products which encompasses product development, research, marketing and distribution. We maintain

at least two suppliers for all our adult nutrition and care products in order to minimize supply risk in our operations. All of our adult nutrition and care products are produced by our suppliers according to our specifications and are delivered in finished form. We source the high quality premium raw materials that are used in our products and we retain full control over product input and we regularly conduct quality testing processes. Once sourced, product production is primarily undertaken by our manufacturers based in Western Europe.

Under our current supply agreement with Laiterie de Montaigu, we agree on a price formula to calculate price and agree to adjust the prices semi-annually based the applicable price level. Our current infant formula product supply agreement with Laiterie de Montaigu will expire in December 31, 2016.

Under our current supply agreement with ISM, we agree on a price formula to calculate the purchase price paid by us for the raw materials, packaging materials and the price of services provided by ISM. By October 31 of each calendar year, ISM provides us a notification containing the list of raw materials and packaging materials used and the document establishing the price of services provided for the product production process, along with a written demonstration, according to which price can be adjusted. Unless terminated by us, the supply agreement automatically renews upon expiration of the initial term for three years, subject to a prior three month termination notice to ISM. Our current infant formula product supply agreement with ISM will expire in July 1, 2028. In order to further ensure a consistent supply of infant formula from ISM, we acquired a 20% shareholding of ISM in July 2013 and we have invested €20 million (US\$21.7 million) to fund the construction of a new infant formula manufacturing facility in France that was completed in 2015.

Under our current supply agreement with Arla, we agree on a price formula based on Arla's cost of freight, dairy ingredients, non-dairy ingredients, packaging, energy and processing fee, subject to market fluctuations except for energy, to calculate price and agree to adjust the prices semi-annually based on the then applicable market price. If we reach certain volumes of products purchases in a given year, Arla is required to further reduce the price. However, if in a given year we order less than 70% of set forecast amount, Arla is entitled to terminate the agreement with 12 months written notice to us. In 2012, we loaned DKK81.5 million (US\$11.9 million) to Arla to fund the construction of a new infant formula manufacturing facility in Denmark.

Our agreements with suppliers require that our suppliers meet stringent quality, safety and regulatory compliance standards. All of our infant formula supply agreements and many of our adult nutrition and care supply agreements have minimum quantity purchase requirements and relevant penalty terms. For most of our supply agreements, pricing is updated based on market prices of inputs semi-annually.

Our established long-term relationships with suppliers of our principal raw materials, including probiotic powder, and our original imported products such as infant formulas, adult nutrition and care products and baby cereal products, and our stable demand for large quantities of these raw materials and original imported products, enable us to manage the quality, quantity and price of our raw materials and original imported products. As we jointly develop our baby care and nutrition products, rather than just a trader of these products, we must establish relationships with our joint developers and suppliers long before a new product is produced and placed on the market.

Prior to a product being ready for mass production, we take part in product development work and projects that focus on the functionality, safety, quality and marketability of the relevant product. For example, Laiterie de Montaigu, as one of our infant formula suppliers, has been jointly cooperating with us on product development since September 2006. Prior to our commencement of sales of infant formula products in July 2008, we and Laiterie de Montaigu spent almost two years developing our infant formula products, working out the specifications of the relevant formula, nutritional values and prices of our products, original packaging details, as well as product compliance with the relevant EU and PRC regulatory standards. Similarly, we co-developed and tested our SN-2 PLUS infant formula product over three years with our ingredient supplier, Enzymotec. It is therefore important for us to have established long-term relationships with our product and raw material suppliers.

We have established and stable relationships with our principal suppliers and, although we are currently dependent on a limited number of suppliers for certain products, we maintain contact with potential alternative suppliers to add latency to our supply network. However, in certain cases we may need a transition period of up to three months to switch suppliers in order to ensure an alternative supplier can meet our high quality standards, as well as meet regulatory requirements. In such cases, we keep additional inventory on hand to meet the bulk of our requirements during such a transition. In the past, our high growth rates, as well as unexpected higher product demand, has led to supply constraints from some of our suppliers, principally in our adult nutrition and care segment and our pediatric focused segments (other than infant formula). However, we have worked with suppliers to increase capacity and reduce lead times to no more than four weeks for our adult nutrition and care products and we keep a sufficient supply on hand to cover this lead time. We believe that our established and stable relationships with suppliers will enable us to obtain sufficient and stable supply of products to meet an increased consumer demand for our products.

Packaging materials used by us mainly include printed cardboard boxes and aluminum foil packaging.

#### *Manufacturing process and facilities*

Our manufacturing process primarily involves (i) probiotic supplements and dried baby nutrition supplements carried out at our manufacturing facilities in Guangzhou, China, (ii) baby diapers carried out at our manufacturing facilities in Hangzhou, China, and (iii) certain ADiMIL<sup>TM</sup> branded infant formula products carried out at our manufacturing facilities in Changsha, China.

Our manufacturing facilities in Guangzhou, China currently have five production lines, with an aggregate annual production capacity of approximately 230 million units of sachets, tablets and capsules. Our manufacturing facilities in Hangzhou, China currently have three production lines, with an aggregate annual production capacity of approximately 420 million units of baby diapers. Our manufacturing facilities in Changsha, China currently have six production lines, with an aggregate annual production capacity of approximately 39,000 tons of infant formula products.

A manufacturer of nutritional supplements in China must pass the examination of the Health Food GMP Certification to cover all aspects of the production process of nutritional supplements. The criteria for obtaining the Health Food GMP Certification include qualifications related to, among other things, production premises and facilities, production process and quality control. At our GMP-certified manufacturing plant at Guangzhou, China we primarily conduct the final manufacturing process for our probiotic supplement products and certain dried baby food products other than baby cereal.

We believe we have obtained the relevant building ownership certificate(s) for our existing buildings in Guangzhou, Changsha and Hangzhou, China, which is each used in the manufacturing of our infant formula and other pediatric and nursing and expectant mother products. Our manufacturing processes within China have been designed to comply with HACCP guidelines, which set out unsafe practices and preventive measures to enhance food safety by reducing or minimizing physical, chemical, and biological hazards during the production process. Also, our manufacturing plant at Guangzhou, China has implemented stringent sanitation procedures to prevent our employees from contaminating the production area.

We have also implemented a repair and maintenance system for equipment and facilities in order to run our manufacturing facilities efficiently in China. We have not experienced any material or prolonged stoppages of facilities due to any equipment or facility failure during the last three financial years.

## **Research and development**

The aim of our research and development (“R&D”) activities is to provide innovative and scientifically validated products as well as to improve and develop production processes across our products. We believe that our research and development is important to maintaining our leading competitive position. Our R&D approach has been to focus on joint development and/or cooperation with our suppliers in addition to our independent research and development activities in Guangzhou and Europe. Our R&D activities can be divided into two broad product groups (i) baby nutrition and care products and (ii) adult nutrition and care products. For 2015 and the three months ended March 31, 2016 we invested RMB84.0 million (US\$13.0 million) and RMB22.4 million (USD3.5 million), respectively, in R&D, which amounted to 1.7% and 1.5% of revenue for 2015 and the three months ended March 31, 2016. We intend to continue to invest in building up our in-house research and development activities, as well as strengthening our joint and collaborative development partnerships with reputable third-party research and development institutes.

### ***Baby nutrition and care products***

We engage 30 people in R&D relating to our baby nutrition and care products, of which approximately 90% held post-graduate degrees in biological, biochemical, pharmaceutical or medical engineering. We also have 15 scientists and professors on our professional committee which provide research and scientific advice and consulting to us. We have dedicated R&D centers in Guangzhou, China and Changsha, China which have been operating since 2009 and 2014, respectively, and focus on Nutrition Science, Food technologies, Personal Care and Diapers. We also have an R&D teams based in France and Ireland which have been operating since 2011 and 2013, respectively, and focus on infant formula processing technology in order to improve the quality of our infant formula products as well as developing new infant formula products.

As well as our suppliers, we also collaborate with leading research centers such as the Department of Nutrition at U.C. Davis, INRA France, and Teagasc Research Center Ireland, and in 2014, we established in Guangzhou the Biostime Institute for Nutrition and Care (“BINC”), an international platform to facilitate expert communication and academic exchange among medical and scientific professionals in China and worldwide. We have also set up a Nutrition and Care Research Fund in 2015 to finance research projects related to the nutrition, care and psychology fields. Our key BINC advisors, including Dr. Patrice Malard, who is our Chief Technology Officer at BINC and has received a Ph.D from Lille University of Science and Technology, Professor Bo Lonnerdal at U.C. Davis, Professor Su Yixiang at Sun Yat-sen University, are participants of certain major academic conferences in their respective fields, including the National Pediatric Conference, SGMD meeting, China Nutrition Science Congress, Annual Meeting of Chinese Society of Dermatology and Annual National Conference on Psychology.

In September 2014, we signed a technology transfer agreement with Mérieux NutriSciences, a leading provider of analytical testing and research services to pediatric nutrition and infant formula companies. The agreement covers lab management, microbiota research and quality management.

Within our baby nutrition and care products we aim to introduce high-quality ingredients, advanced formulations and the use of advanced and/or proprietary production technology and processes to develop premium products for our consumers and continuously improve quality control. We work closely with our suppliers in the selection and formulation of ingredients and we typically designate specific ingredients and formulations for our products pursuant to our supply contracts in order to ensure our standards with respect to output, function, safety, quality and cost for any specific product are met.



Our product development process focuses on improving and developing our existing products, as well as the development of new products. Our sales promoters also provide us with timely and direct consumer feedback to assist our product development and innovation. Prior to commercial production of a new or improved product, we engage in market analysis to assess consumer needs and preferences as well as to analyze the ingredients and materials used in a product to consider whether it responds to consumers' needs and preferences. Our sales promoters and Mama100 membership program also provide us with consumer feedback that we utilize in our product development. We also engage in extensive feasibility studies and laboratory research with our suppliers and third party institutions to ensure the specifications of products are effective and safe, and for our infant formula products, close to the nutritional values of breast milk. We also conduct a cost-benefit analysis on our new products and aim to optimize our existing manufacturing facilities where possible for the production of our new products. Our new product launches are scheduled in accordance with our marketing plan.

Integration of technology, ingredients and production, particularly for premium health food and infant formula products like ours, is a complicated process that requires biotechnological and nutritional knowledge and experience. Our research and development team, led by a group of experienced biotechnology specialists, are mainly responsible for the integration of innovative ingredients and advanced technology, currently available and utilized globally, to produce our products in cooperation with our suppliers and research partners.

We also participate in clinical research to verify the safety and efficacy of our products, which can take two to three years prior to launching new products. Through this approach we have been able to introduce novel and improved products into the Chinese market such as (i) infant formulas that include  $\beta$ -vegetable oil, (ii) our SN-2 PLUS infant formula that was introduced in June 2015 and (iii) the application of full-formulation spray drying technique to promote nutrition dissolution. We led the research, development and testing of our new SN-2 PLUS infant formula over a three year period in cooperation with our supplier Enzymotec. In clinical studies, SN-2 PLUS infant formula was proven to promote nutrient absorption to support the balanced growth of babies as well as reduce crying time and constipation.

### ***Adult nutrition and care products***

We engage 33 people in product development relating to our adult nutrition and care products. Our product development focus is to continually provide our consumers with an increasingly diverse offering of products that are each scientifically validated. We utilize a product development process which allows us to rapidly formulate and launch a product into the Australian market ahead of our competitors in order for us to respond to the latest trends and developments in the health and wellness industry. We work in close consultation with an advisory panel that includes leading academics, scientists and clinicians in the field of integrative medicine. Panel members are paid an annual retainer fee and meet in person six times per year. They also attend Swisse events and presentations, for an average total time commitment of 12 hours per month. The members provide expert advice, including written reports that validate our formulations. Furthermore, to ensure the health benefit claims behind our adult nutrition and care products are backed by scientific analysis, we have partnered with numerous research organizations, which independently review our evidence supporting the health claimed benefit.

### **Competition**

Competition in our product categories is based on the following factors: brand recognition and loyalty, product quality, effectiveness and nutritional value, marketing, promotional activity and the ability to identify and satisfy consumer preferences, product innovation, distribution and availability of products, and price. We believe that our target consumers primarily choose products based on their nutritional quality and safety.

We believe that the Chinese infant formula market can generally be categorized into five product categories:

- Super-premium tier infant formulas, with a retail price higher than RMB390 per kilogram;
- Premium tier infant formulas, with a retail price between RMB290 and RMB390 per kilogram;
- Mid-to-high tier infant formulas, with a retail price between RMB210 and RMB290 per kilogram;
- Mid tier infant formulas, with a retail price between RMB145 and RMB210 per kilogram; and
- Low tier infant formulas, with a retail price lower than RMB145 per kilogram.

We currently offer four tiers of product, which are Supreme Care, Supreme, Premium and Golden Care, with a price per 900g can varying from RMB200 to RMB450, which ranges from mid-to-high tier to super-premium tier infant formula products.

We focus on the marketing of our premium tier and super-premium tier infant formula products. Premium tier and super-premium tier infant formula products are considered by Chinese consumers to be safer and of higher quality compared to similar products in lower tiers. A large number of premium tier and super-premium tier infant formulas are produced either in developed countries or from imported ingredients from developed countries, and generally contain added special ingredients. In addition, the ingredients in premium tier and super-premium tier infant formulas are generally more expensive and higher quality, and the ingredients and formulations are often backed by scientific and clinical research showing their superior nutritional value. Consumer preferences as a result of the 2008 melamine incident in China has fueled the premium tier and super-premium tier infant formula segment as several leading manufactures began pricing their infant formula products at higher levels.

In the infant formula segment in China, we primarily compete with international brands such as Wyeth, Nutricia, Mead Johnson, Abbott and Friesland, as well as domestic providers such as Beingmate, Yili and Fei He. We believe that infant formula brands in China can be broadly categorized into three groups: (i) international brands, which are primarily in the premium tier and super-premium tier categories; (ii) domestic brands with infant formulas produced from milk powder sourced from outside China, which are primarily in the mid-to-high tier, premium tier and super-premium tier categories; and (iii) domestic brands which produce infant formulas from milk powder predominately produced in China, which are primarily in the low tier and mid tier categories. We believe that our infant formula products compete in the premium tier and super-premium tier pediatric nutrition products market, and to a lesser extent in the mid-tier market, on the basis of (i) our focus on brand recognition as a provider of high quality Western Europe sourced infant formula products, (ii) product quality, including imported ingredients and nutritional values close to breast milk, and (iii) distribution network. For our mid-to-high tier infant formula, price is also a competitive factor. See “Industry Overview” and “Risk factors—Risks relating to our business and industries—Our profitability may suffer as a result of competition in the markets in which we operate.” We believe that we can effectively compete by continuing developing scientifically advanced, high-quality infant formula products using high quality imported ingredients from overseas, which allows us to distinguish from our Chinese competitors who manufacture or source key raw materials within China. We also believe that with our significant investment in R&D, our industry know-how and track record of introducing innovative products, we will be able to continuously improve the quality of our premium line of infant formula products so that they remain competitive against similar products from major international brands. We believe that due to new regulations, which will require completion of

registration of our infant formula products by the end of 2018, there will be a consolidation in the infant formula market and a reduction in the number of brands and products offered. Once effective, we will need to comply and register by the end of 2018. We believe we are well placed to comply with these regulations and our premium products will continue to be competitive advantage.

In the adult nutrition and care products segment, we primarily compete with other adult vitamin, health and supplement manufacturers including Blackmores, Nature’s Own, Nature’s Way, Healthy Care and Cenovis in Australia and New Zealand. In China, we primarily compete with other adult vitamin, health and supplement manufacturers including By-Health, Amway and Infinitus. See “Industry Overview” and “Risk factors—Risks relating to our business and industries—Our profitability may suffer as a result of competition in the markets in which we operate.” We believe that we are able to effectively compete by (i) maintaining premium image, aligned with growing demand of consumers who are willing to pay more for aspirational, high quality and proven products, (ii) focusing on category leading products, (iii) continuing with our innovative and effective comprehensive marketing strategy liaising with Noisy Beast and (iv) focusing on premium product quality and aims to continuously improve quality.

In the probiotics segment in China, we primarily compete with other Chinese probiotics manufacturers including Mami and Nemans. We believe that we are able to effectively compete by having quality products and being an early entrant and innovator in the market.

We conduct market research on a regular basis in the markets in which we compete to better understand the prices of our competitors’ products. We also take into account principal factors, such as production costs, product type, target market and market prices of similar products when determining the price of our products. We also indicate recommended retail prices to our distributors for our products.

## Employees

As of March 31, 2016, we had 2,545 full-time employees. The following table sets forth breakdown of our employees by country:

	As of March 31, 2016
<b>Employees</b>	
China.....	2,267
Australia.....	258
New Zealand .....	8
United Kingdom .....	6
France .....	6
<b>Total</b> .....	<b>2,545</b>

In accordance with the relevant PRC and Australian laws and regulations, we have entered into labor contracts with all of our full-time employees in China and Australia, respectively, and contribute to appropriate social welfare insurance for them. Approximately 56% of our Chinese employees are also members of a union. We do not have any collective bargaining agreements and we have not had any material conflicts or disruptions relating to our employees or the union.

We contribute to social welfare insurance for our full-time employees in the PRC as required by relevant PRC regulations and to WorkCover and Superannuation for our full-time employees in Australia as required by relevant Australian regulations. Such contributions include pension benefits, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance.

We have adopted several policies to provide incentives to our employees and to enhance their productivity. Remuneration packages consist of both salaries and bonuses, which are both adjusted based on performance. We conduct periodic performance reviews for all employees. Regular trainings are provided to sales staff and our management team.

We emphasize the long-term training of our managerial personnel and employees. For our management team, we have established a training plan that aims to support and encourage our management team to continue improving their management skills. The plan includes reimbursement for training costs, and arranging seminars and workshops for them. For example, we support the members of our management team to enroll in executive master of business administration (“EMBA”) programs and reimburse such costs. For our other employees, we have training programs organized by different departments. The training programs focus on providing training to newly hired employees and continuing training for existing employees.

We also provide regular training for the sales staff working in our sales offices. These training programs includes promotion skills training, operational knowledge training and product display training, all of which seek to improve their sales skills to better serve our consumers. We also organize competition events for the sales staff to improve their skills and facilitate better communication among our sales staff from different locations.

## Properties

Our global head office is located at 29th floor, Guangzhou International Finance Center, 5 Zhujiang W. Road, Zhujiang New Town, Tianhe District, Guangzhou, China and our head office for our operations in Australia is located at 111 Cambridge St., Collingwood, Victoria 3066, Australia. The following table sets forth, as of March 31, 2016, the principal manufacturing and distribution facilities and other properties used by us:

Location	Type
Guangzhou, China	
Science City .....	Manufacturing and R&D facility
Liangang Road .....	Manufacturing facility
Changsha, China.....	Manufacturing facility
Hangzhou, China <sup>(2)</sup> .....	Manufacturing facility
Lyon, France .....	R&D facility
Toulouse, France .....	R&D facility
Botany, Australia.....	Storage and distribution facility <sup>(3)</sup>

(1) Represents lease payments made by both Biostime in 2015 and Swisse, both before and after the Acquisition.

(2) Operated jointly with Hangzhou Coco Healthcare Co., Ltd. (“Hangzhou Coco”).

(3) For the warehouses in Hong Kong and bonded warehouses in the PRC that we use to store our adult nutrition and care products, we do not own such warehouses and we have not entered into lease agreements; instead, the relevant third party provider provides labelling, packaging and storage services, as applicable, for which we are charged based on the number of units of products sold.

In addition to the properties disclosed above, we also have 15 leased regional sales offices throughout China.

In March 2014, we established a joint venture manufacturing facility, operated by Hangzhou Coamie Personal Care Products Co., Ltd. (“Hangzhou Facility”), in accordance with a joint venture agreement we entered into with Hangzhou Coco on January 10, 2014. BMcare™ branded baby diapers are produced at our Hangzhou Facility. As of March 31, 2016, we had invested RMB40 million (US\$6.2 million) for a 40% interest in our Hangzhou Facility and loaned RMB40 million (US\$6.2 million) due

in October 2016. The profits of the joint venture are split in accordance with the ownership of the venture. Pursuant to the joint venture, we are prohibited from owning any other entity that produces infant diapers and are required to use reasonable commercial efforts to make minimum purchase requirements of diapers.

Currently, we do not use any third-party warehouses. All equipment and machinery in our manufacturing facilities, except for the forklift trucks and certain equipment and machinery at our Hangzhou Facility which is operated under the joint venture agreement, is owned by us.

### **Quality and safety control**

We have had no major quality issues or any recalls. We believe product safety and quality is a key differentiator of all of our products and we seek to continuously improve our product safety and quality system to ensure high, consistent quality of all our products. Our quality and safety activities can be divided into two broad product groups (i) baby nutrition and care products, constituting our infant formula products, probiotic supplements, baby care products and dried baby food products and nutritional supplements segments and (ii) adult nutrition and care products.

Our procurement department performs detailed evaluation of the background of our raw material suppliers. Our suppliers also have in house quality control teams that ensure raw materials and finished products comply with the relevant international and national safety standards. We audit our suppliers to ensure they have adequate quality controls and sourcing requirements. We also perform additional laboratory experiments and assessments on our products for quality, including solubility testing of our infant formula products.

### ***Baby nutrition and care products***

Quality control is essential for pediatric nutritional and baby care products in China, since all of our pediatric nutritional and baby care products are designed for the consumption and use by infants, young children as well as expectant and nursing mothers. We believe that the only way to achieve and maintain the high quality of our products is through conducting tests, experiments and trials in order to comply with applicable PRC health and safety regulations for food products.

### ***Quality assurance department***

In order to implement our quality assurance program for products sold in China, as of March 31, 2016, we had 47 employees in our quality assurance department in China. 45 out of the 47 employees in the quality assurance department hold professional degrees in pharmacy, Chinese medicine or quality control. In addition, they possess technical expertise as well as quality control and management capabilities gained from work experience in the field of food or pharmaceutical research and analysis as analysts, food inspectors and nutritionists. The global quality department which includes quality control teams, quality assurance teams and suppliers quality team are managed and overseen by the head of the global quality department, Mr. Malard, who is our Chief Technology Officer (CTO). To ensure consumers' satisfaction and to gain their trust and confidence, our focus on quality extends not only to product quality but also to management quality, employee work quality and consumer service quality.

### ***Conduct supplier quality assessments including incoming raw materials quality control***

We believe that product quality assurance starts at the raw material procurement stage, where our Procurement Department performs detailed evaluation on our raw materials and product suppliers. In order to effectively perform incoming raw materials quality control, we evaluate areas including the background, industry experience, personnel expertise, financial condition and world-wide reputation of the relevant supplier, and most importantly, the quality and safety of the suppliers' products or raw materials. Our quality control team will perform sample inspection for each batch of different types of imported raw materials and imported products with original packaging. The inspection process

includes inspecting the appearance, details of nutrition labels affixed on the packages and completeness of the imported raw materials and products. Subsequently, a small amount of random samples of each batch of imported raw materials and products are passed over to our quality control team to conduct laboratory experiments by utilizing advanced testing apparatus such as the ultraviolet spectrophotometer and the constant temperature incubator to analyze the nutrition contents and sulphur oxide, and to detect the growth rate and amount of microorganisms, as well as to verify and ensure that the composition and nutritional values of such raw material or products comply with PRC national standards. Such samples will also be sent to the relevant local authority established by AQSIQ for their inspection and a sanitary certificate will be issued to us if those samples satisfy the relevant PRC national standards. In addition, before the raw materials that we ordered are transferred to the sterile zone for production, such material will be transferred to a room where their packaging will be carefully removed and the raw material contents will be disinfected by an ultra violet disinfectant screen.

#### *Inspections at each step of our production process*

A full in-house quality test is performed by our suppliers' quality control teams and our in-house quality assurance department to ensure each batch of our products meets the high-quality standards that we set as well as applicable regulations of both the country of origin and the PRC. First the products are tested by our suppliers to confirm compliance with EU regulations. Upon shipment to the PRC, samples are also tested by the local authority established by AQSIQ to confirm compliance with all Chinese regulatory requirements. Before products are shipped to our distributors, we also test each batch to confirm it meets our standards.

Detailed assessments are performed where our quality control team performs full inspection of such products at respective stages when the nutrition substances are being added, by utilizing advanced testing equipment to measure and detect all nutrition contents as required by relevant PRC regulatory standards as well as other groups of specific nutrients and substances. Such assessments are performed according to the requirements of the CFDA to comply with the standards as stipulated in the Appraisal Standard of Probiotics Healthy Food (益生菌保健食品評審規定) and List of Probiotics Applicable for Healthy Food (可適用於保健食品的益生菌種名單) promulgated by the MOH (Ministry of Health).

To fully comply with the appraisal standards set forth by the MOH or other applicable standards set forth by other relevant authorities on color, taste, nutrition levels and safety, a sample from each batch of our food products will undergo experiments that are performed by our suppliers' quality control teams and/or our in-house quality assurance department to verify and ensure that such requirements are fully complied with before proceeding to the final stage.

#### *Final inspections and delivery control*

As soon as we receive the relevant confirmation that our products have complied with all the applicable requirements and are ready to be produced, we will launch our final stage of the quality assurance program—the industrial trial. For our probiotic products, a CFDA confirmation will be granted if all of the CFDA's requirements are complied with. Such CFDA confirmation granted will last for five years and the CFDA will perform another check on such products once the five-year period expires for the extension of the CFDA confirmation validity.

For all products produced in our factory or products imported with original packaging, our quality control team performs testing on each batch of products to confirm the quality as well as the safety of our products and issues a test report. The in-house quality control teams of our raw material and product suppliers will also ensure that their raw materials or products are in compliance with international food safety standards, including the Western European Union's prohibition on the use of hormonal growth promotants on dairy cows, before their raw materials or products are delivered to us.

We conduct our manufacturing and packaging processes in a GMP (Good Manufacturing Practice) certified plant, where the production of domestic infant formula products, probiotic supplement products, vegetable powder and baby cereals is conducted under class 10,000 and class 100,000 air cleanliness levels, respectively. The air-conditioning level meets the required GMP standard, all production facilities are cleaned and disinfected regularly, and production workers have to strictly follow disinfection rules by disinfecting their outfits and hands regularly and conduct each production and packaging process in accordance with the standard operating procedures. All of the above are designed to preserve any ingredients or raw materials from any contamination.

*Full compliance with laws and regulations and rigorous implementation of our quality assurance program*

Although our products are not sold to the United States currently (except for our Healthy Times™ brand acquired in 2015), we also comply strictly with the organic food production requirements and standards under the Organic Food Production Act of 1990 during the production of our organic nutritional products. We believe that by setting a high standard for the quality of our products we will gain consumer trust and confidence in our brands, which in turn may boost our sales.

The production process of those products made in China is conducted in our GMP-certified plant to meet applicable national quality standards of China. Our Certificate of GMP for Health Food, with certificate number BGMP20080048, was issued by the Guangdong Food and Drug Administration on 2008, renewed in 2012 and is valid as of the date of this offering memorandum. Its scope of inspection covers the production of our probiotic products. While our quality control team will conduct assessments on our suppliers and incoming raw materials, inspections at each stage of the production process in our GMP-certified plant will also be carefully monitored and regular sample testing of each batch of our products are conducted. Final inspection will also be performed for each batch of products to ensure the quality of our products.

Our employees, in particular staff from our production and quality assurance department, frequently take part in internal training and external educational programs. We believe that through rigorous implementation of our quality assurance program, we will be able to achieve a reputation for maintaining a consistently high product quality and safety, which is a reputation that will allow us to retain existing consumers and attract new consumers among industry leaders in the premium pediatric nutritional products segment and baby care products market.

We also follow strict government regulations on safety in the workplace and require all employees to comply with safety rules at all times. We also provide safety-related trainings to our employees and have established safety standards which are specific to each stage of our production process. We have also maintained a full body injury insurance coverage for all of our employees.

*Adult nutrition and care products*

For our adult nutrition and care products, we are focused on using the highest quality ingredients in our products and we retain complete control over product inputs. Ingredients are selected based on a demanding criteria and vetted by a rigorous quality testing process that exceeds the regulatory minimums in all jurisdictions that we operate in. This includes the Australian TGA which has some of the most stringent requirements in the world for vitamin, minerals and supplements which are equivalent to those of pharmaceutical products. We research emerging trends and intelligence for botanical and herbal extracts, looking for adulterants, authenticity and bulking-agent trends and work closely with our key raw material suppliers to validate these, by identifying material taxonomy, conducting macroscopic identification and HPLC/HPTLC (high performance liquid chromatography/high performance thin layer chromatography) identification. We also perform random testing for authenticity and adulterants, including heavy metals and pesticides.

We are more heavily involved in process validation at contract manufacturers than is required by GMP. Normally a contract manufacturer performs process validation according to their own requirements under GMP. However, we are involved in the set up of process validation protocols and review of reports. Prior to engaging in business with a new contract manufacturer, we perform supplier qualification process by site visit, desktop audit and on-site audit. We require all contract manufacturers, through the quality agreement, to maintain procedures and processes including (i) change control management, which require our approval for all changes to raw materials, testing, limits, product attributes, etc., and (ii) product quality review, which require the contract manufacturer must provide Swisse a periodic report on all quality aspects on according to an agreed schedule). Our quality agreement with key contract manufacturers is more detailed and specific in content than is required by GMP, and we require quality assurance oversight of all operational matters at our contract manufacturers.

We also have large stability testing program involving a number of key manufacturers. This program exceeds TGA and GMP requirements for our complimentary medicine products. This testing and monitoring helps to assure the quality of our full range of vitamin, mineral and herbals products by quantifying the underlying compounds rather than just allowing visual and physical stability to be performed on the final product.

### **Insurance**

We maintain insurance policies with insurance companies with respect to properties, equipment, and inventories covering loss due to fire, explosion, earthquake, typhoon, flood and certain other risks.

As of the date of this offering memorandum, we have product liability insurance for all our products. However, such policies only cover the direct costs of damages that may be paid to consumers, and do not cover regulatory fines and reputational damage in the event of a safety issue relating to our products. While we believe our insurance policies to be adequate and in line with respective industry norms in the relevant markets, significant damage to any of our manufacturing facilities, whether as a result of fire or other causes, could have a material adverse effect on us. In addition, we do not require insurance from our suppliers and distributors.

### **Legal proceedings**

We are not currently involved in any material litigation, arbitration or claim pending or threatened against us or any of its subsidiaries. However, we may become involved from time to time in various claims and lawsuits in the ordinary course of our business, such as product liability claims, disputes with our suppliers and intellectual property disputes.

In 2013, we were fined RMB162.9 million (US\$25.1 million) by NDRC in connection with price-fixing allegations on our infant formula products. A total of six infant formula importers, including Mead Johnson, Abbott and Fonterra, were also fined. We have paid the fine in full.

### **Intellectual property**

Intellectual property rights are of fundamental importance to our business since we rely significantly on consumer recognition of our brand names, such as Biostime<sup>TM</sup> or Swisse<sup>TM</sup> in order to market our products. We have registered, or applied for the registration of, a number of domain names, trademarks, service marks and copyrights through the relevant PRC and Australian authorities in the European Union as well as in such countries as the United States, the PRC, Hong Kong, Taiwan, Thailand, Malaysia, Singapore, Indonesia, France, England, Denmark and New Zealand. As of March 31, 2016, we possessed 1,080 registered trademarks in the PRC and 38 registered trademarks in Australia and New Zealand. We renew our registrations, which vary in duration, as necessary.



Our products are generally not protected by patents. However, we have know-how related to our products, their formulations and production which is protected by confidentiality agreements with our suppliers and employees, and agreements with some of our key suppliers and manufacturers which prohibit them from using our formulas for competitive products. We believe that a significant portion of the value of our business is in our brand and we are vigilant in protecting our brand from counterfeiters and infringement, including by instituting verification systems so that our consumers can confirm they are purchasing our products. However, we may have limited recourse, particularly in the PRC, against infringers and counterfeiters.

As of the date of this offering memorandum, we believe that we possess all material trademarks and other intellectual rights required for our businesses, and we are not aware of any material intellectual property infringements.

### **Information technology**

We believe that our information technology systems play an important role in our operations. We have enterprise resource planning, or ERP, systems covering all segments of our operations. Our ERP systems support various functional units, including marketing, finance, production, and human resources. We intend to implement a new ERP system during 2016 and 2017 to upgrade our systems and integrate Swisse's systems with ours.

Other key systems include, among others:

- *Membership point accumulation system:* our membership point accumulation system records sales of our products through registering with our Hotline, our website, our app or POS machines which are located in most of the retail sales organizations. Our POS machines are designed to support the use of our membership point accumulation cards. Through such system, our management is able to review sales in a real-time basis.
- *CRM system:* our CRM system can record the data related to consumption conducted by the consumer, consumption history and pattern and communication with the consumer, participation of each consumer in our promotion activities and benefits enjoyed by the consumer. We also use the system to analyze the consumers based on sex, location and preferences and conduct promotion activities for and proactively communicate with our targeted consumers.
- *Real-time logistics management system:* We print computerized logistics bar codes on the packaging material to facilitate the delivery and retail of our products. We also install bar code scanners in our and regional distributors' warehouses to scan all logistics bar codes before delivery of our products. We also require our regional distributors to scan all logistics bar codes before their distribution of our products. The inclusion of these intricate bar code details is aligned with the logistics needs of our products. We can easily trace the destination where the products are sold and calculate bonus points for each consumer when he/she buys our products.

### **Environmental matters**

For information on environmental matters in relation to our business, please refer to "Regulation."

## REGULATION

*This section summarizes the most significant PRC regulations governing the Group's business activities in China and Australian regulations governing the Group's business activities in Australia.*

### **The People's Republic of China**

#### ***Regulation on infant milk formula and food and dairy products***

##### *Regulations on production safety*

The Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products (《乳品質量安全監督管理條例》) was issued and implemented by the State Council of the PRC on October 9, 2008, pursuant to which dairy animal breeders, fresh milk purchasers, and dairy products businesses and sellers are held responsible for the quality and safety of their products. These producers and sellers must assume responsibility for the quality and safety of the dairy products which they produce, purchase, transport and sell. Fresh milk and dairy products must comply with national safety standards for the quality of dairy products. These national safety standards are developed by the health department of the State Council and amended from time to time in accordance with the results of risk monitoring assessments. The addition of non-edible chemical substances or other substances which may be harmful to human health during the production process of dairy products is prohibited.

The Provision on Supervision and Inspection of Producers of Infant Milk Formula (《嬰幼兒配方乳粉生產企業監督檢查規定》), which was promulgated by the CFDA and came into effect on November 27, 2013, sets out responsibilities for the quality and safety of infant milk formula as well as the procedure for the supervision and inspection of infant milk formula producers. Infant milk formula producers must establish a quality and safety management mechanism and authorize an individual to ensure the quality and safety of infant milk formula within their line of production.

##### *Registration and filing*

According to the Food Safety Law, a producer of infant formula food must submit information on the raw materials of food, food additives, product formulas, labeling of food products, among other things, to the food and drug administration of its relevant province, autonomous region or municipality for record filing. The product formula of infant milk formula must be registered with the CFDA and the research and development report, along with other materials proving the safety of such formula, which must be submitted at the time of the registration.

According to the draft Regulations for the Implementation of the Food Safety Law, which was released by the CFDA for public comment on December 9, 2015, the infant milk formula manufacturing company should not manufacture or distribute infant milk formula in China with only the product's trademark, company name or address is registered abroad, and the product formula to be registered should be developed in accordance with relevant laws and regulations and national food safety standards. Infant milk formula products for the same age group from the same company should have significant differences with each other, and one company in principle should not have more than three series of infant milk formula products and nine product formulas. It is uncertain when this draft regulation will be officially promulgated.

##### *Production permit review*

The Rules for the Review of Production Permit of Infant Formula Milk Powder (2013 version) (《嬰幼兒配方乳粉生產許可審查細則(2013版)》), which was issued by the CFDA and took effect on December 16, 2013, specifies the rules and standards for the review of renewal applications for the production of infant formula milk powder, review of production permit requirements and new business production permit review. The different status and stages of production must be in compliance with

several national standards, such as the National Standards for Food Safety Raw Milk (《食品安全國家標準生乳》)(GB 19301)), the National Standards for Food Safety Milk Powder (《食品安全國家標準乳粉》)(GB 19644)), the National Standards for Food Safety Powdery Infant Formula Food Good Manufacturing Practice (《食品安全國家標準粉狀嬰幼兒配方食品良好生產規範》)(GB 23790)), and the National Standards for Food Safety Infant Formula Food (《食品安全國家標準嬰兒配方食品》)(GB 10765)).

### *Imports and exports*

Pursuant to the Regulations on Administration of Registration of Overseas Producers of Imported Food (《進口食品境外生產企業註冊管理規定》), which were promulgated by AQSIQ on March 22, 2012 and came into effect on May 1, 2012, and the Implementation Catalogue of Registration of Overseas Producers of Imported Food (《進口食品境外生產企業註冊實施目錄》), which are issued periodically by AQSIQ, the producers of dairy products including formula milk powder are required to register with the PRC's exit-entry inspection and quarantine authorities.

The Provisions on Record-Filing Administration of Importers and Exporters of Imported Food (《進口食品進出口商備案管理規定》), which were issued by AQSIQ on April 5, 2012 and came into effect on October 1, 2012, set forth the rules of record-filing management for foreign exporters or agents that export food to the PRC and domestic recipients of imported food.

The Measures for the Supervision and Administration of Inspection and Quarantine of Imported and Exported Dairy Products (《進出口乳品檢驗檢疫監督管理辦法》), which were promulgated by AQSIQ on January 24, 2013, and took effect on May 1, 2013, set out rules and requirements on the management of inspection and quarantine of imported and exported dairy products. The relevant authorities of countries or regions which export dairy products to the PRC for the first time must provide information on the laws and regulations system of veterinary hygiene and public hygiene, veterinary services system, safety and hygiene control system, and residue monitoring system for AQSIQ's review.

Pursuant to the Announcement on the Strengthening Management of Imported Infant Formula Milk Powder(《關於加強進口嬰幼兒配方乳粉管理的公告》), which was issued by the AQSIQ on September 23, 2013, and came into effect on May 1, 2014, the infant milk formula of producers which have not been registered under the Regulations on Administration of Registration of Overseas Producers of Imported Food (《進口食品境外生產企業註冊管理規定》), the Implementation Catalogue of Registration of Overseas Producers of Imported Food (《進口食品境外生產企業註冊實施目錄》) and the Measures for the Supervision and Administration of Inspection and Quarantine of Imported and Exported Dairy Products(《進出口乳品檢驗檢疫監督管理辦法》) is not allowed to be imported. Since April 1, 2014, Chinese labels of imported infant milk formula must be printed directly on the sales package before they are imported.

### *Food hygiene and safety laws and regulations*

#### *Food safety and hygiene*

The principal laws governing food safety and hygiene in the PRC are the Food Safety Law of the PRC (《中華人民共和國食品安全法》) (“Food Safety Law”) and the Regulations for the Implementation of the Food Safety Law (《中華人民共和國食品安全法實施條例》) (“Regulations on Food Safety”). The Food Safety Law was promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) (“Standing Committee of NPC”) on February 28, 2009 and came into effect on June 1, 2009. Subsequent amendments to the Food Safety Law were promulgated on April 24, 2015 and came into force on October 1, 2015. The Regulations on Food Safety were promulgated by the State Council (國務院) on July 20, 2009 and came into effect that same day. Additional amendments to the Regulations on Food Safety came into effect on February 6, 2016.

The Food Safety Law standards are compulsory and cover the following areas, among others:

- (i) provisions on the quantitative limits of pathogenic micro-organisms, pesticide residues, veterinary medicine residues, biotoxins, heavy metals, and other pollutants, as well as other substances harmful to human health that are contained in food, food additives and food-related products;
- (ii) allowable types and dosages of food additives, and the products such additives can be used in;
- (iii) nutritional ingredient requirements of staple and supplementary foods used exclusively for infants and other specified groups of people;
- (iv) requirements for labels, markings and instructions relevant to health, nutrition and other food safety requirements;
- (v) hygiene requirements for food production and operation;
- (vi) quality requirements relating to food safety;
- (vii) methods and procedures for food inspection and testing with respect to food safety; and
- (viii) other matters that shall be formulated as food safety standards.

National food safety standards are formulated by the Health Administrative Department of the State Council (國務院衛生行政部門) in concert with the Food and Drug Administration of the State Council (國務院食品藥品監督管理部門). In the absence of national food safety standards regulating local specialty food, the health administrative departments of all provinces, autonomous regions and municipalities in the PRC (collectively referred to as “Health Authorities”) formulate local food safety standards which are submitted to the Health Administrative Department of the State Council for filing. Local food safety standards can be repealed or overridden by the promulgation of national food safety standards. Additionally, businesses that engage in the production of food are encouraged to formulate enterprise standards that are more stringent than national or local food safety standards and are applicable to their specific enterprises. These enterprise standards can then be reported to the Health Authorities.

Under the Food Safety Law, food production and operation are subject to the following hygiene requirements:

- (i) Food production premises must be suitable for raw food materials disposal and food processing; packaging and storage must be sufficient for the variety and quantity of food under production or operation; premises must be kept clean and tidy; and certain distances between such premises and toxic or hazardous sites or other sources of contamination must be maintained;
- (ii) appropriate production and operation equipment or facilities that are sufficient for the variety and quantity of food under production or operation must be provided, as well as corresponding equipment or facilities for disinfection, dressing, washing, lighting, illumination, ventilation, anti-corrosion, dust-proofing, fly-proofing, rat-proofing, insect-proofing, cleaning and sewage disposal, garbage and other waste storage;
- (iii) full-time or part-time professional food safety technicians and management personnel must be employed, and they must follow the applicable rules and regulations that ensure food safety;
- (iv) a reasonable equipment layout and technical process must be adopted to prevent cross-contamination between food to be processed and ready-to-eat food and between raw materials and finished products, and to prevent food from being in contact with toxic and unclean substances;

- (v) tableware utensils, drinking glasses, utensils and containers for ready-to-eat food must be washed and disinfected before use; cooking utensils and other utensils must also be washed after use and kept clean;
- (vi) containers, utensils and equipment used for storage, transportation, and loading and unloading of food must be kept safe, harmless and clean to prevent food contamination and must conform to certain regulatory specifications such as temperature, humidity or other special controls required to ensure food safety; the storage and transportation of food together with toxic and hazardous substances must be avoided;
- (vii) clean and non-toxic packaging materials, tableware utensils, drinking glasses, and other containers must be used for ready-to-eat food;
- (viii) personnel engaging in food production and operation must maintain their personal hygiene, wash their hands and wear clean working uniforms and headgear in the course of food production and operation, and must use non-toxic and clean containers, utensils and equipment for the sale of ready-to-eat food without packaging;
- (ix) water used must conform to the national hygiene standards for drinking water;
- (x) detergents and disinfectants used must be safe and harmless to human health; and
- (xi) certain other requirements prescribed by food safety laws and regulations.

Additionally, according to the Regulations on Food Safety, food producers and merchants must act in accordance with all laws, regulations and food safety standards, establish and improve their food safety management systems and adopt effective measures to ensure that their food products are safe.

#### *Food production licensing*

Prior to 2013, the General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) (“AQSIQ”) was responsible for centralized administration of industrial products licensing in accordance with the Administrative Regulations of the PRC on Production License for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》) (the “Production Licenses Regulations”), which were promulgated by the State Council and came into effect on September 1, 2005, and the Implementing Measures for the Administrative Regulations of the PRC on Production License for Industrial Products (《中華人民共和國工業產品生產許可證管理條例實施辦法》), which were promulgated by AQSIQ and came into effect on November 1, 2005 and amended on both April 21, 2010, and April 21, 2014. At the local level, other competent authorities were responsible for issuing licenses for industrial production within their own jurisdictions, as well as imposing penalties for activities that violate industrial production licensing requirements. Under the aforementioned laws and regulations, food, especially the dairy products, shall be deemed as “industrial products” and therefore, any company that manufactures food in China shall obtain production license for industrial products (“工業產品生產許可證”).

Since 2013, the CFDA has been responsible for centralized administration of food manufacturing. On August 31, 2015, CFDA promulgated the Administrative Measures for Food Production Licensing (《食品生產許可管理辦法》), which came into effect on October 1, 2015. Pursuant to the Administrative Measures for Food Production Licensing, any company that manufactures food in China must obtain a food production license (“食品生產許可證”), which is valid for five years. The food manufacturers must also file license renewal applications with the local food and drug administrative authorities which originally issued their license up to 30 working days prior to its expiration.

Some of our PRC subsidiaries still operate with valid and effective production licenses for industrial products. Under the relevant regulation and based on our anonymous consultation with the competent

authorities, we believe our PRC subsidiaries are allowed to operate such licenses until expiry. Upon expiry of such licenses, our relevant PRC subsidiaries will be required to apply for the new food production license. Currently, Adimil (Changsha) Nutrition Products Limited (“Adimil (Changsha)”) has an approval on producing food and food additives, with which we expect that it can obtain the relevant food production license upon expiry of existing license and three production licenses for industrial products, one of which will expire on March 13, 2017 and the other two on September 16, 2016. Biostime (Guangzhou) Health Products Limited has four food production licenses, one of which will expire on February 10, 2018, and the other three on December 22, 2017.

#### *Food import and export regulatory system*

Under the Food Safety Law, imported food, food additives and food-related products must comply with the PRC’s national food safety standards. Imported food and food additives must pass testing by the entry-exit inspection and quarantine authorities in accordance the laws and administrative regulations on entry-exit inspection of imported and exported commodities. These commodities must also be accompanied by documents of testing compliance.

Under the Regulations on Administration of Registration of Overseas Producers of Imported Food (《進口食品境外生產企業註冊管理規定》), which was promulgated by AQSIQ on March 22, 2012 and came into effect on May 1, 2012, and the Implementation Catalogue of Registration of Overseas Producers of Imported Food (《進口食品境外生產企業註冊實施目錄》), which is issued periodically by AQSIQ, certain overseas exporters of designated food products that are set forth in the implementation catalogue are required to register with the PRC’s exit-entry inspection and quarantine authorities.

Under the Law on Import and Export Commodity Inspection of the PRC (《中華人民共和國進出口商品檢驗法》), which was promulgated on October 1, 2002 and amended on June 29, 2013, as well as its implementation regulations (《中華人民共和國進出口商品檢驗法實施條例》), which came into effect on December 1, 2005 and were amended on July 18, 2013 and February 6, 2016, AQSIQ has set out a list of imported and exported commodities that require mandatory inspection. Exit-entry inspection and quarantine authorities will carry out inspections on commodities that are on the list, as well as on other imported and exported commodities that are required to be inspected under other laws and administrative regulations. Commodities which require inspection will be inspected in accordance with the mandatory requirements of the national technical specifications. Commodities which do not have such mandatory requirements are regulated by the relevant overseas standards designated by AQSIQ. Imported commodities which require inspection cannot be sold or used before such inspections have been completed. Pursuant to the Measures on the Administration of Inspection and Quarantine of Entry-exit Express Deliveries (《出入境快件檢驗檢疫管理辦法》), effective November 15, 2001, cross-border personal mails that contain self-used items are exempted from inspection from the AQSIQ.

#### *Food operation licensing*

Pursuant to the Administrative Measures for Food Distribution Permits (《食品流通許可證管理辦法》) (“Measures for Food Distribution Permits”), which were issued by the State Administration for Industry and Commerce of the PRC (中華人民共和國國家行政管理總局) (“SAIC”) and became effective on July 30, 2009, operators engaging in the food business along the chain of food distribution can obtain a food distribution permit that remains valid for up to three years.

The Administrative Measures for Food Operation Licensing (《食品經營許可管理辦法》) (“Measures for Food Operation Licensing”) were promulgated by the CFDA on August 31, 2015 and came into effect on October 1, 2015. According to the Measures for Food Operation Licensing, any operator that engages in food selling within the territory of the PRC must obtain a food operation license which remains valid for up to five years.

On November 10, 2015, the Measures for Food Distribution Permits were abolished by the SAIC and replaced by the CFDA's Announcement on Launching the Use of Food Business License (《關於啟用〈食品經營許可證〉的公告》), which came into effect on September 30, 2015. These new requirement stated that existing food distribution permits issued under the Measures for Food Distribution Permits (i) will continue to be valid if they do not expire; (ii) will be replaced by a replacement food operation license under the relevant provisions by the licensing authority if a food operator with an existing license under the Measures for Food Operation Licensing applies for a replacement; and (iii) will be de-registered upon their expiration.

With respect to our certain PRC subsidiaries, Biostime (Guangzhou) Health Products Limited obtained a food distribution permit on August 19, 2014 which will expire on August 18, 2017; Adimil (Changsha) obtained a food distribution permit on March 23, 2015 which will expire on March 22, 2018. Biostime, Inc. (Guangzhou) obtained a food operation license on March 3, 2016 which will expire on March 29, 2021. Upon expiry, our PRC subsidiaries will be required to renew the food operation license or apply for a new food operation license (if the PRC subsidiary is holding a food distribution permit).

#### *Product quality and consumer protection*

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) (“Product Quality Law”), which was promulgated by the Standing Committee of the NPC on February 22, 1993 and amended on July 8, 2000, and August 27, 2009, sets out the food product quality provisions that food producers and sellers must abide by.

Under the Product Quality Law, responsibilities and obligations for food producers include:

- (i) being responsible for the quality of products they produce;
- (ii) ensuring that labels on the products or the packages thereof are authentic and genuine;
- (iii) not producing any products that have been outlawed by PRC laws or decrees;
- (iv) not forging the place of origin or fraudulently using the names and addresses of other producers;
- (v) not forging or fraudulently using other producers' authentication marks or other product quality marks;
- (vi) not mixing impurities or imitation ingredients into the products; substituting a fake product for a genuine one, a defective product for a high-quality one; or passing off a substandard product as a qualified one; and
- (vii) ensuring that, for products that are fragile, inflammable, explosive, toxic, erosive or radioactive, products that cannot be placed upside down in the process of storage or transportation, or products for which there are other special requirements, packaging meets the corresponding PRC legal and regulatory requirements with respect to quality, display of warnings written in Chinese or other written instructions for storage or transportation.

Under the Product Quality Law, responsibilities and obligations for food product sellers include:

- (i) adopting a check-for-acceptance system for stock replenishment and examination of quality certificates and other marks;
- (ii) taking measures to maintain good quality of the products for sale;
- (iii) not selling any expired and deteriorated products or products that have been outlawed by government orders;
- (iv) not selling products with certain labels that have specified by relevant provisions;

- (v) not forging the place of origin or fraudulently using the names and addresses of other producers;
- (vi) not forging or fraudulently using other producers' authentication marks or other product quality marks; and
- (vii) not mixing impurities or imitation ingredients into the products; substituting a fake product for a genuine one, a defective product for a high-quality one; or passing off a substandard product as a qualified one.

Any producer or seller found to be in breach of the responsibilities and obligations specified under the Product Quality Law may be liable to civil penalties. If bodily injury is caused by a defect in a product, the producer or seller may be responsible for paying medical expenses, nursing expenses during medical treatment and lost income due to the absence from work. If bodily injury caused by a defect in a product has resulted in disability, the producer or seller may also be responsible for paying subsistence allowances, disability compensation, expenses related to self-care equipment and living expenses necessary for other individuals who were supported by the injured party. Where bodily injury caused by a defect in a product results in death, the producer or seller may be responsible for paying for funeral expenses, monetary compensation and living expenses necessary for other individuals who were supported by the deceased party. Additionally, the relevant authorities may order the suspension of production or sale, confiscate the products illegally produced or sold, impose a fine and seize any unlawful proceeds. In serious cases, business licenses may be revoked. When production and sale of defective products involves a criminal offense, the responsible parties may be subject to criminal penalties.

The Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》) (“Consumer Protection Law”), which was promulgated by the Standing Committee of the NPC on October 31, 1993, amended on October 25, 2013 and came into effect on March 15, 2014, sets out standards of behavior for business operators in their dealings with consumers.

Under the Consumer Protection Law, any consumer whose legal rights or interests are impaired in the course of the purchase or use of goods may claim compensation from the seller. When the liability lies with the manufacturer or supplier, the seller, after adequately compensating the consumer, has the right to recover such compensation from that manufacturer or supplier. Consumers or other parties who suffer personal injury or property damage arising from product defects may claim compensation from the either manufacturer or the seller. When the liability lies with the manufacturer, the seller, after adequately compensating the consumer, has the right to recover such compensation from the manufacturer, and *vice versa*.

#### *Food standardization*

The principal laws governing the food standardization is the Standardization Law of the PRC (《中華人民共和國標準化法》), which came into force on April 1, 1989 and its implementation regulations (《中華人民共和國標準化法實施條例》) and interpretation provisions (《中華人民共和國標準化法條文解釋》), which became effective on April 6, 1990 and July 23, 1990, respectively. Under the aforesaid laws and regulations, standards in relation to protecting personal health and the safety of persons and property are imposed as “mandatory standards”. Food hygiene standards are also part of the mandatory standards.

#### *Food identification management system*

Under the Food Identification Management Requirements (《食品標識管理規定》), which were promulgated by AQSIQ on August 27, 2007 and which came into effect on September 1, 2008, as well as amendments dated October 22, 2009, food identification labels must state the name, place and date of production, expiry date, net content, list of ingredients, names and addresses and contact information of the producers, and the standardization numbers of national standards, industry standards, local standards or enterprise standards for those which have been filed with the appropriate



authorities. Food components or ingredients are required to be disclosed on food labels. Nutritional ingredients and their percentages are required to be placed on labels for staple and supplementary food for babies, infants or other specified groups of people. Food labels with wordings such as “nutrition” or “strengthened” in their names or descriptions are required to state the nutrition and calories of such food and comply with the quantity identification required by the national standards. Food which is under the production licensing management scheme is required to show its food production license number and QS mark on the food label.

#### *Food recall system*

The PRC has established a food recall system under the requirements of the Food Safety Law of the PRC. On August 27, 2007, AQSIQ issued the Provisions on the Administration of Food Recall (《食品召回管理規定》), and on March 11, 2015, CFDA issued the Administrative Measures for the Food Recall (《食品召回管理辦法》) which came into effect on September 1, 2015. Pursuant to the Administrative Measures for the Food Recall, food recall is categorized into three grades based on the severity and urgency of food safety risks. Food can be recalled voluntarily or by administrative order. The grade-one recall is the most severe where, for instance, a food product has caused or is likely to cause serious health damage or even death, and the grade-three recall is the least severe applying to, for instance, any food product with false labels or incorrect identification information. A food producer may take the initiative to recall one of its food products once it becomes aware that the food product is unsafe either through self-examination and self-testing, complaints and tip-offs from the public, or information provided by business operators and supervisory and administrative departments, among other means. The relevant CFDA at or above the county level may order the food producer to recall the unsafe food product if it fails to proactively do so despite being so required.

Starting from the date on which the food producer was first made aware of food safety risks, the relevant food producer may activate recall procedures and report its recall plan to the relevant local CFDA at or above the county level. These procedures must be activated within 24 hours for a grade-one recall, within 48 hours for a grade-two recall and within 72 hours for a grade-three recall.

When an unsafe food product is sold within a province, autonomous region or municipality, its food recall announcement may be published on the website of the relevant provincial CFDA or via major provincial media outlets. When an unsafe food product is sold in two or more provinces, autonomous regions or municipalities, its food recall announcement may be published on the website of the CFDA or via major national media outlets.

After it publishes a food product recall announcement, the food producer must complete the recall within 10 working days for a grade-one recall, within 20 working days for a grade-two recall, and within 30 working days for a grade-three recall.

#### *Supervision of use of food additives*

Under the Food Safety Law, no food additive may be used in food unless it has been deemed necessary and has been proven to be safe and reliable after passing risk assessments. Relevant national food safety standards may be revised in a timely manner according to technical necessity and food safety risk assessment results. Food producers and business operators may use food additives in accordance with national food safety standards.

A food producer must inspect the license and product compliance certification document from a supplier when purchasing raw materials for producing food, food additives and food-related products. For any supplier who is unable to provide a compliance certification document, an inspection of the raw materials for producing food must be implemented in accordance with applicable food safety standards. Raw materials for food, food additives or food-related products which do not comply with the national food safety standards may not be purchased or used. A food production business must establish an inspection record system for the raw materials purchased for producing food, food additives and food-related products. This inspection system should record information such as the

names, specifications, quantities, production date or batch numbers, shelf life and purchase date of the raw materials for producing food, food additives and food-related products, as well as the names, addresses, contact details and relevant certificates of the business's suppliers. Records and certificates must be kept for at least six months after the expiration of the shelf life of the product. If the product has no shelf life, records and certificates must be kept for at least two years.

Under the Measures for the Administration of New Varieties of Food Additives (《食品添加劑新品種管理辦法》) (“Measures for Food Additives”), which were promulgated by the Ministry of Health (衛生部) (“MOH”) and became effective on March 30, 2010, “new varieties of food additives” provided under the Measures for Food Additives refer to those varieties of food additives that are not regulated by food safety national standards, not listed in the permitted use catalog published by the MOH, or are not one of the food additive varieties whose scope or dosage has been proscribed. The MOH is responsible for considering applications submitted by businesses or individuals who engage in the production, operation, use or importation of new varieties of food additives. In accordance with the technical features and food safety risk analysis of new varieties of food additives under the Measures for Food Additives, the MOH may announce permitted food additives varieties and designate the scope of use and dosage under national food safety standards with respect to these additives. The MOH may make a timely reassessment when new food varieties are found to pose a safety risk either by scientist research or by other means, or if the technical usage of the additive is proven to no longer be essential to food production. Approved varieties of food additives may be revoked and the scope of use and dosage may be revised by the MOH if an applicant fails the re-examination process.

The Notice of Recent Rectification Work for the Nationwide Combating of the Illegal Addition of Non-edible Substances and Abused Use of Food Additives (《全國打擊違法添加非食用物質和濫用食品添加劑專項整治近期工作重點及要求》), jointly issued by nine authorities including the MOH on March 6, 2009, states that no non-edible substances, such as leather hydrolyte, melamine,  $\beta$ -lactamase, and sodium sulfocyanate, may be added into milk and dairy products, and that the use of thickeners, fragrance and color agents, among other enumerated substances, may not be abused in the production of milk and dairy products.

### *Regulation on health food*

#### *Domestic health food manufacturing approval*

The Food Safety Law, the Measures on the Administration of Health Food (《保健食品管理辦法》), which was promulgated on March 15, 1996 and came into effect on June 1, 1996, and the Good Manufacturing Practices for Health Food (《保健食品良好生產規範》), which was promulgated on May 5, 1998 and came into effect on January 1, 1999, make up the principal laws and regulations governing the manufacture of health food in China. These three regulations require domestic health food manufacturers to have the appropriate technology, equipment, facilities, personnel and quality control systems, and should maintain an up-to-date Health Food Manufacturer Hygienic Certificate from the relevant provincial food and drug administration.

#### *Registration and filing of health food*

The Interim Administrative Measures on the Registration of Health Food (《保健食品註冊管理辦法(試行)》, “Registration Measures”), which were promulgated by the CFDA on April 30, 2005 and came into effect on July 1, 2005, requires all health food, whether manufactured in or imported into China, to be registered with CFDA before entering into the Chinese market. Some procedural requirements for registering health food under the Registration Measures include research and development, manufacturing of samples, testing and technical review by an examination institute designated by the CFDA and final review by the CFDA. Successful applicants for registration will be granted a Domestic Health Food Approval Certificate and an Imported Health Food Approval Certificate, for domestic health food and imported health food, respectively.

On February 26, 2016, the CFDA issued the Administrative Measures for the Registration and Filing of Health Food (《保健食品註冊與備案管理辦法》, “Registration and Filing Measures”), which lay out rules and regulations governing health food that are contained in the Food Safety Law and will replace the Registration Measures after coming into effect on July 1, 2016. The Registration and Filing Measures introduces a dual-track registration and filing system for health food. Under the Registration and Filing Measures, the registration system, as was in place previously, applies to health food: (i) made from ingredients not covered by the Health Food Ingredient Catalogue (“Ingredient Catalogue”); and (ii) imported into China for the first time (excluding nutritional supplements, such as vitamins and minerals). The filing system, which is newly adopted by the Registration and Filing Measures is applicable for health food: (i) made from ingredients covered by the Ingredient Catalogue; and (ii) containing nutritional supplements that are imported into China for the first time, on the condition that such nutrients should be substances included on the Ingredient Catalogue. Health food entered into the filing system will be exempted from onsite inspection and technical review by the CFDA as well as other onerous procedures under the registration system. Additionally, if application documents are deemed to be satisfactory by the CFDA, the CFDA will approve the filing of the health food immediately upon receiving the application. The CFDA has yet to publish the official Ingredient Catalogue. A partial draft of the Ingredient Catalogue relating to nutritional supplements was published for public comment on February 15, 2016.

#### *Special rules on probiotic health food*

In addition to following the registration and filing rules generally applicable to all health food, probiotic health food must comply with several other specifically promulgated regulations, including the Notice of Circulating the Appraisal Standard of Fungal and Probiotic Healthy Food (《關於印發真菌類和益生菌類保健食品評審規定和通知》), which was promulgated by the former Ministry of Health on March 23, 2001 and came into effect on the same day, and the Interim Provision on Declaration and Evaluation of Probiotics Health Food (《益生菌類保健食品申報與審評規定(試行)》), which was promulgated by the CFDA on May 20, 2005 and came into effect on July 1, 2005. These regulations set forth a list of categories of probiotics that can be used to manufacture probiotic health food, and provided for additional procedural and documentary requirements for the registration and manufacture of probiotic health food.

#### ***Regulations on cross border e-commerce and import of personal postal articles***

##### *Cross border e-commerce*

The Notice on the Cross-border E-commerce Retailing Import Tax Policies (關於跨境電子商務零售進口稅收政策的通知, “Circular 18”), which was jointly promulgated by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on March 24, 2016 and took effect on April 8, 2016, provides that cross-border ecommerce import will be treated as general trade, and be subject to customs duty, import VAT and consumption tax (if applicable) based on the retail price but with a quota based exemption and reduction. The Ministry of Finance in association with several other governmental authorities issued the Announcement on Promulgation of the Catalog of Goods Imported under Cross-border E-commerce Retailing (關於公佈跨境電子商務零售進口商品列表的公告) and the Announcement on Promulgation of the Second Catalog of Goods Imported under Cross-border E-commerce Retailing(關於公佈跨境電子商務零售進口商品列表的公告(第二批)) (together, the “Positive List”) on April 6, 2016 and April 15, 2016, respectively, which became effective on April 6, 2016 and April 16, 2016, respectively, and outlines a total of 1,293 items of tariff lines and covers a variety of products ranging from food and beverages, cosmetics to a host of other goods and the new tax policy under Circular 18 is only applicable to goods on the Positive List. The Ministry of Finance, after consultation with the CFDA, issued two official explanations in respect of the Positive List on April 13, 2016 and April 15, 2016, respectively, and provides that (i) formula of infant milk formula imported through cross-border ecommerce should be registered with the CFDA from January 1, 2018 onwards; (ii) health food imported through cross-border ecommerce should be registered or filed with the CFDA from July 1, 2016 onwards; and (iii) cosmetics imported through cross-border ecommerce should be immediately approved by the CFDA.

On May 24, 2016, the General Administration of Customs issued the Notice on Matters regarding the Implementation of New Administrative Measures on the Cross Border E-commerce Retailing Import (關於執行跨境電子商務零售進口新的監管要求有關事宜的通知), which provides that during a one-year transitional period until May 11, 2017 (i) for goods purchased through the channel of bonded cross border e-commerce, the customs will not check the CIQ clearance certificate when such goods are entering the bonded warehouses, and the requirement that goods listed on the Positive List (cosmetic, infant milk formula and health food, etc.) shall be registered or filed in China will be suspended; and (ii) for goods purchased through the direct-shipping channel, the requirement that goods listed on the Positive List (cosmetic, infant milk formula and health food, etc.) shall be registered or filed in China will be suspended. On May 25, 2016, the Ministry of Finance issued a statement on the above customs notice which provides that the new taxation policy under Circular 18 will continue to be effective during the transitional period.

#### *Import of Personal Postal Articles*

Pursuant to the Import and Export Tariff Regulations (進出口關稅條例), which was promulgated by the State Council on November 23, 2003 and subsequently amended on January 8, 2011, December 7, 2013 and February 6, 2016, inbound personal postal articles that do not exceed a reasonable amount and are for personal use (as opposed to the commercial nature of general trade) will be subject to the personal postal articles tax, which combines the customs duty, import VAT and consumption tax into one form of import tax.

On March 16, 2016, the Customs Tariff Committee of the State Council issued the Notice concerning the Adjustment of Import Tax of Inbound Articles (關於調整進境物品進口稅有關問題的通知, “Circular 2”), which took effect on April 8, 2016 and abolished the Notice concerning the Adjustment of Tax Items and Rates of Inbound Articles (關於調整進境物品進口稅稅目稅率的通知, “Circular 3”) . Circular 2 replaces the four items of taxes for personal postal articles under Circular 3 with three items of taxes, i.e. 15% (applying to food and beverage, books and computer, etc.), 30% (applying to sports equipment and textiles, etc.) and 60% (applying to cigarettes, alcohol and cosmetics, etc.).

#### *Environmental Protection*

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the “Environmental Protection Law”), which was promulgated by the Standing Committee of the NPC on December 26, 1989 and came into effect on the same date and was then amended on April 24, 2014, and came into effect on January 1, 2015, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The Environmental Protection Law requires any facility that produces pollutants or other hazards to adopt environmental protection measures in its operations and establish an environmental protection responsibility system. Enterprises that are in violation of the Environmental Protection Law may be subject to a warning, payment of damages, imposition of a fine, or limitation or suspension of production depending on the seriousness of the case. If a criminal offense is committed, the offender may be subject to criminal penalties.

The PRC Law on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was promulgated by the Standing Committee of the NPC with the latest amendments coming into effect on June 1, 2008, the PRC Law on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), which was promulgated by the Standing Committee of the NPC with the latest amendments coming into effect on January 1, 2016, and the PRC Law on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), which was promulgated by the Standing Committee of the NPC on October 29, 1996 and came into effect on March 1, 1997, as well as the PRC Law on Prevention and Control of Environmental Pollution Caused

by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), which was promulgated by the Standing Committee of the NPC with the latest amendments coming into effect on April 24, 2015, prescribe procedures for the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution.

The PRC Law on Environment Impact Assessment (《中華人民共和國環境影響評價法》), which was promulgated by the Standing Committee of the NPC on October 28, 2002 and came into effect on September 1, 2003, the Administrative Regulations on the Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which was promulgated by the State Council and came into effect on November 29, 1998, and the Administrative Measures for the Examination and Approval of Environmental Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated by the former State Environmental Protection Administration of the PRC (中華人民共和國國家環境保護總局) on December 27, 2001 and came into effect on February 1, 2002, require businesses planning construction projects to engage qualified professional institutions to provide assessment reports on the environmental impact of such projects. The assessment reports must be approved by the competent environmental protection authorities prior to commencement of any construction work. Businesses must file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

### ***Foreign Exchange Administration***

The principal law governing foreign currency exchange in the PRC is the PRC Administrative Regulations on Foreign Exchange (《中國外匯管理條例》) (“Foreign Exchange Regulations”). The Foreign Exchange Regulations was enacted by the State Council on January 29, 1996 and implemented on April 1, 1996. On January 14, 1997 and August 5, 2008, the State Council amended the Foreign Exchange Regulations. According to the Foreign Exchange Regulations, the RMB is freely convertible for “current account transactions,” which include, among other things, dividend payments, interest and royalties payments, trade and service-related foreign exchange transactions. For “capital account transactions” which principally include direct investments, loans, securities investments and repatriation of investments, prior approval of and registration with SAFE or its local branches is generally required.

Pursuant to the Administrative Regulation of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》), which was promulgated on June 20, 1996 by the People’s Bank of China (the “PBOC”) (中國人民銀行) and came into effect on July 1, 1996, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account transactions, obtaining approval from SAFE or its local branches. Capital investments by foreign-invested enterprises, such as some of our PRC subsidiaries, Biostime, Inc. (Guangzhou), Biostime (Guangzhou) Health Products Limited and BMcare Baby Products Inc. (Guangzhou) (“BMcare (Guangzhou)”) outside of China are also subject to limitations, which include approvals by SAFE, the PBOC and other PRC governmental agencies.

On August 29, 2008, the SAFE promulgated the Notice of the General Affairs Department of the SAFE on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) (the “SAFE Circular 142”), a notice regulating the conversion by a foreign-invested company such as some of our PRC subsidiaries, Biostime, Inc. (Guangzhou), Biostime (Guangzhou) Health Products Limited and BMcare (Guangzhou), of foreign currency into RMB that restricts how the converted RMB may be used. Pursuant to SAFE Circular 142, the RMB funds obtained from the settlement of foreign currency denominated registered capital of a foreign-invested enterprise may only be used for purposes within the business scope as approved by the applicable governmental authority, and cannot be used for equity investments within the PRC unless such investments are otherwise provided for in the

enterprise's duly approved business scope. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company. The use of such RMB capital may not be altered from the original purposes for the conversion as reported to SAFE without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of SAFE Circular 142 could result in severe monetary penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulation.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資金結匯管理方式的通知》) (the "SAFE Circular 19"), which came into effect on June 1, 2015 and replaced the SAFE Circular 142. Under the SAFE Circular 19, a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account, i.e., a bank account opened by a foreign-invested enterprise where the foreign shareholder(s) are required to remit and deposit the amount of respective capital contributions, for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). Meanwhile, the use of such Renminbi should still comply with the restrictions set in this circular in that it cannot be directly or indirectly used for making payments beyond the business scope of the enterprise or payments prohibited by national laws and regulations, investing in securities unless otherwise provided by laws and regulations, granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) repaying the bank loans in Renminbi that have been lent to a third party, and paying the expenses related to the purchase of real estate not for self-use, except for the foreign-invested real estate enterprises.

### ***Dividend distribution***

The principal laws governing dividend distributions by our PRC Subsidiaries include the PRC Company Law (《中華人民共和國公司法》), which was promulgated on December 29, 1993, and came into effect on July 1, 1994, and was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, and December 28, 2013. Dividend distribution by wholly foreign-owned enterprises ("WFOE") and Sino-foreign equity joint ventures ("EJV") are further governed by the Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》), which was promulgated on April 12, 1986, and amended on October 31, 2000, and its Implementation Regulations (《中華人民共和國外資企業法實施細則》) promulgated on December 12, 1990 and subsequently amended on April 12, 2001, and February 19, 2014, the PRC Law on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》) promulgated on July 8, 1979 and subsequently amended on April 4, 1990, and March 15, 2001, and its Implementation Regulations (《中華人民共和國中外合資經營企業法實施條例》) promulgated on September 20, 1983, and amended on July 22, 2001, January 8, 2011 and February 19, 2014.

Under these laws and regulations, PRC companies, including WFOEs and EJVs, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting principles. In addition, PRC companies, including domestic companies, WFOEs and EJVs are required to set aside each year at least 10% of their after-tax profit based on PRC accounting principles to their statutory general reserves funds until the cumulative amount of such reserve fund reaches 50% of their registered capital. These reserves are not distributable as cash dividends. Furthermore, EJVs and WFOEs in the PRC may also be required to set aside individual funds for employee welfare, bonuses and development, at the discretion of such PRC companies and as stipulated in their articles of association. These reserves or funds are not distributable as dividends.

### ***Circular No. 37***

The "Circular on Related Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment and Financing and in Round-trip Investment via Special Purpose

Companies” (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular No. 37”) was promulgated by the State Administration of Foreign Exchange (國家外匯管理局) (“SAFE”) and came into effect on July 4, 2014. Subject to the Circular 37, PRC residents, individuals or institutions, are required to register with the bureau of foreign exchange administration before they invest in a special purpose vehicle (the “SPV”) with legitimate assets or equity interests inside and outside the PRC. In addition, any PRC resident that is a shareholder of an offshore SPV is required to amend its SAFE registration in a timely manner after any major changes of the offshore SPV being made, such as any increase or decrease of capital, stock right assignment or exchange, or merger or division. Failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions being imposed on the subsequent foreign exchange activities of the relevant PRC residents, including the remitting back of dividends and profits. PRC residents who invest in an SPV with legitimate assets or equity interests inside and outside the PRC prior to the implementation of the Circular 37, but fail to conduct the foreign exchange registration of overseas investments, must submit an explanatory statement and state the reasons for doing so to SAFE. SAFE may allow complementary registration under the principles of legality and legitimacy. In the event of any violation of foreign exchange regulations by the PRC resident that applies for complementary registration, administrative penalties could be imposed in accordance with relevant laws.

According to the Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (“SAFE Circular 13”) which was promulgated by SAFE on February 13, 2015 and came into effect on June 1, 2015, registrations under Circular 37 will be handled directly by the bank that has obtained the financial institution identification codes issued by the foreign exchange regulatory authorities and that has opened the capital account information system at the foreign exchange regulatory authority in the place where it is located. Foreign exchange regulatory authorities will perform indirect regulation over the direct investment-related foreign exchange registration via the banks.

### ***Employee Stock Option Plans***

On February 15, 2012, SAFE issued the Circular on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Publicly - Listed Companies (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the “Share Option Rules”).

Under the Share Option Rules, PRC citizens or residents habitually residing in the PRC continuously for over one year, with a few exceptions, and who have been granted shares or share options by an overseas listed company according to its employee share option or share incentive plan, are required to appoint a qualified PRC agent, register with SAFE or its local counterparts and complete certain other procedures related to the shareholding plan, share option plan or other similar share incentive plans. Concurrent with registration with SAFE or its local counterparts, the qualified PRC agent is required to obtain an approval from SAFE for an annual allowance for the foreign exchanges in connection with shareholding or the exercise of a share option, and an approval for opening a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with share purchases or share option exercises, returned principals or profits upon sale of shares, dividends issued on the stock and any other income or expenditures approved by SAFE. Currently, foreign exchange income of the participating PRC residents received from the sale of share and dividends distributed by the overseas listed company are required to be fully remitted into such special domestic foreign currency account before distribution to such participants. In addition, the PRC agents are required to amend or deregister the registrations with SAFE or its local counterparts in case of any material change in, or termination of, the share incentive plans within the time periods provided by the Share Option Rules.

### ***Taxation***

#### ***Enterprise Income Tax (“EIT”)***

According to the PRC EIT Law (《中華人民共和國企業所得稅法》), which was promulgated on March 16, 2007 and came into effect on January 1, 2008, the income tax for both domestic and

foreign-invested enterprises is at a uniform rate of 25%. The Regulation on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “EIT Rules”) was promulgated on December 6, 2007 and came into effect on January 1, 2008. Pursuant to the PRC EIT Law and the EIT Rules, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the PRC. An organization or establishment set up by a non-resident enterprise in the PRC is subject to enterprise income tax for the income derived in the PRC and the income derived from outside the PRC but with actual connection with such organization or establishment in the PRC. For a non-resident enterprise which has not set up an organization or establishment in the PRC, or has set up an organization or establishment in the PRC but the income it derives has no actual connection with such organization or establishment, only its income derived from the PRC will be subject to enterprise income tax.

The enterprise income tax is being levied at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or a non-resident enterprise which has set up a permanent establishment in the PRC whose earning income is not connected with the abovementioned permanent establishment will only be subject to tax on its PRC-sourced income. The income for such enterprise will be taxed at the reduced rate of 10%.

Pursuant to the PRC EIT Law and the EIT Rules, income from equity investment between qualified resident enterprises such as dividends and bonuses, which refers to investment income derived by a resident enterprise from direct investment in another resident enterprise, is tax-exempt income. Moreover, pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), a PRC resident enterprise which distributes dividends to its Hong Kong shareholders should pay income tax according to PRC law; however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests of the aforementioned enterprise (i.e. the dividend distributor), the tax levied shall be 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity interests of the aforementioned enterprise, the tax levied shall be 10% of the distributed dividends. Meanwhile, the Circular of the State Administration of Taxation on the Interpretation and the Determination of the “Beneficial Owners” in the Tax Treaties (《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》), promulgated by the State Administration of Taxation (the “SAT”) on October 27, 2009, and came into effective on the same date, has stipulated some factors that are unfavorable to the determination of “beneficial owner.”

In addition, under the Circular of the SAT on Relevant Issues concerning the implementation of Dividend Clauses in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated by the SAT on February 20, 2009, and came into effect on the same date, all of the following requirements should be satisfied where a tax resident of the counterparty to the tax treaty needs to be entitled to such tax treatment specified in the tax treaty for the dividends paid to it by a Chinese resident company: (i) such tax resident who obtains dividends should be a company as provided in the tax treaty; (ii) the equity interests and voting shares of the Chinese resident company directly owned by such a tax resident reach a specified percentage; and (3) the capital ratio of the Chinese resident company directly owned by such a tax resident reaches the percentage specified in the tax treaty at any time within 12 months prior to acquiring the dividends.

#### *Regulations on PRC enterprise income tax on indirect transfer of non-resident enterprises*

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (關於加強非居民企業股權轉讓所得企業所得稅管理的通知), or Circular 698, issued by the SAT on December 10, 2009, with retroactive effect from January 1, 2008, when a non-PRC resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposing of the equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5%; or (ii) does not tax foreign income of its residents, the non-PRC resident enterprise,



being the transferor, shall report this Indirect Transfer to the competent tax authority of the PRC resident enterprise. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if the Indirect Transfer lacks a reasonable commercial purpose and is arranged for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax at a rate of up to 10%. Circular 698 also provides that in the event that a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than their fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction. In addition, SAT released SAT Public Notice (2011) No. 24, or Public Notice 24, which took effect on April 1, 2011, to clarify several issues related to Circular 698. Under Public Notice 24, the term “effective tax rate” refers to the effective tax rate on the gain derived from a disposition of any equity interest of an overseas holding company. There is uncertainty as to the application of Circular 698.

On February 3, 2015, the SAT issued the Announcement of the State Administration of Taxation on Certain Issues Concerning the Enterprise Income Tax on the Indirect Transfer of Properties by Non-resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告), or Circular 7, which abolishes certain provisions of Circular 698 and Public Notice 24 and also provides more guidance on a number of issues in Circular 698. Circular 7 stipulates that when a non-resident enterprise transfers the assets (including equity interests) in an overseas holding company which directly or indirectly owns PRC taxable properties, including shares in a PRC company (or PRC Taxable Assets), for the purposes of avoiding PRC enterprise income taxes through an arrangement without reasonable commercial purpose, such indirect transfer should be reclassified and recognized to be a direct transfer of the assets (including equity interests) of a PRC resident enterprise in accordance with the Enterprise Income Tax Law, unless the overall arrangements relating to an indirect transfer of PRC Taxable Assets fulfill one of the following conditions:

- (i) Where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling equity interests of a listed overseas company on a public market; and
- (ii) Where the non-resident enterprise had directly held and transferred such PRC Taxable Assets, the income from the transfer of such PRC Taxable Assets would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement.

### ***Labor protection***

The Labor Contract Law of the People’s Republic of China (中華人民共和國勞動合同法), which was promulgated by the Standing Committee of the NPC on June 29, 2007 and became effective on January 1, 2008 and whose amendments made on December 28, 2012 took effect on July 1, 2013, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employment contract. The Labor Contract Law stipulates that employment contracts must be in writing and signed. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees.

Under applicable PRC laws and regulations, including the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated by the Standing Committee of the NPC on October 28, 2010 and became effective on July 1, 2011, and the Regulations on the Administration of Housing Accumulation Fund (住房公積金條例), which was amended by the State Council on March 24, 2002, employers and/or employees (as the case may be) are required to contribute to a number of social security funds, including funds for basic pension insurance, employment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and employers who fail to contribute may be fined and ordered to rectify within a stipulated time limit.

## ***Regulations on intellectual properties***

### *Trademarks*

Registered trademarks are protected under the Trademark Law (商標法) adopted on August 23, 1982 (effective on March 1, 1983) and amended on February 22, 1993 (effective on July 1, 1993), October 27, 2001 (effective on December 1, 2001) and August 30, 2013 (effective on May 1, 2014). The Trademark Office of the State Administration of Industry and Commerce, or the Trademark Office, is responsible for the registration and administration of trademarks throughout China and grants a term of 10 years to registered trademarks. The Trademark Law has adopted a “first-to-file” principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark that has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark shall not prejudice the existing right of others obtained by priority, nor shall any person register in advance a trademark that has already been used by another person and has already gained “sufficient degree of reputation” through that person’s use. After receiving an application, the Trademark Office will make a public announcement if the relevant trademark passes the preliminary examination. Within three months after such public announcement, any person may file an opposition against a trademark that has passed a preliminary examination. The Trademark Office’s decisions on rejection, opposition or cancellation of an application may be appealed to the Trademark Review and Adjudication Board, whose decision may be further appealed through judicial proceedings.

If no opposition is filed within three months after the public announcement period or if the opposition has been overruled, the Trademark Office will approve the registration, issue a registration certificate and make an announcement, upon which the trademark is registered and will be effective for a renewable ten-year period, unless otherwise revoked. In the case of a trademark infringement, where the actual loss suffered by the right holder is as a result of the infringement and the profits earned by the infringing party from the violation of the trademark and the royalties of the registered trademark concerned are difficult to determine, the people’s court will render a judgment on awarding damages of up to RMB3 million depending on the circumstances of the infringing acts.

### *Copyright*

The Copyright Law of the People’s Republic of China (中華人民共和國著作權法) was promulgated in September 7, 1990 (later amended on October 27, 2001 and February 26, 2010) and Implementation of the Copyright Law of PRC (中華人民共和國著作權法實施條例) was promulgated on August 2, 2002 (later amended on January 8, 2011 and January 30, 2013) by the State Council. These laws and regulations provide the Classification of Works and the obtaining and protection of copyright in China.

### *Patent*

Patents in the PRC are mainly protected under the Patent Law (專利法), which was passed by the Standing Committee of the NPC on March 12, 1984 and amended on September 4, 1992, August 25, 2000 and December 27, 2008, and its Implementation Rules (專利法實施細則), which were promulgated by the State Council on June 15, 2001 and amended on December 28, 2002 and January 9, 2010. The Patent Law and its Implementation Rules provide for three types of patents, “invention”, “utility model” and “design.” “Invention” refers to any new technical solution relating to a product, a process or improvement thereof; “utility model” refers to any new technical solution relating to the shape, structure, or their combination, of a product, which is suitable for practical use; and “design” refers to any new design of the shape, pattern, color or the combination of any two of them, of a product, which creates an aesthetic feeling and is suitable for industrial application. The duration of a patent right for “invention” is 20 years, and the duration of a patent right for “utility model” or “design” is 10 years, from the date of application.

## **Australia**

### ***Therapeutic Goods Administration***

In Australia, Swisse is principally regulated under the Therapeutic Goods Act 1989 (Cth) (and subordinate legislation under that Act) (the “TG Act”). The Therapeutic Goods Administration (the “TGA”) is Australia’s regulatory agency for therapeutic goods, including ‘complementary medicines’ such as vitamins and nutritional supplements.

Key elements to the TGA’s regulation of the industry in which Swisse operates include:

- manufacturing;
- product registration; and
- advertising.

### ***Manufacturing***

Swisse only contracts with suppliers and manufacturers who have been approved by the TGA. Manufacturers are required to have their production processes and facilities approved by the TGA and to hold a manufacturing license.

### ***Registration for supply***

All therapeutic goods, including complementary medicines, must be registered or listed on the Australian Register of Therapeutic Goods (“ARTG”) before they can be imported into, supplied in or exported from Australia (unless specifically exempted).

All products sold by Swisse that are required to be registered or listed under the TG Act are registered or listed on the ARTG.

Medicines that are higher risk are “registered” on the ARTG, whereas lower risk medicines, containing ingredients evaluated by the TGA as low risk, are ‘listed’ on the ARTG. Generally, “listed” medicines are limited to indications relating to health maintenance or enhancements or non-serious conditions, and cannot refer to treating or preventing a serious disease, condition, ailment or defect listed in the Therapeutic Goods Advertising Code without TGA approval.

Most complementary medicines are included on the ARTG as “listed” medicines and accordingly have a lower cost and streamlined application and validation process for inclusion on the ARTG. For example, listed medicines are not evaluated by the TGA prior to inclusion on the ARTG. To be “listed,” the medicine must be either already included in Schedule 4 of the Therapeutic Goods Regulations 1990 (Cth) or listed after the publication of a Therapeutic Goods Listing Notice which specifies the relevant ingredients in the medicine.

In applying for listing on the ARTG, the sponsor (the person who applies for and holds the ARTG registration) must certify that the medicine meets certain regulatory requirements, including that the sponsor holds evidence to support indications and claims made in relation to complementary medicines.

If a complementary medicine does not qualify for “listing” on the ARTG, it must be “registered” on the ARTG. In this case, the application for registering on the ARTG must be supported by a dossier of relevant safety, quality and efficacy data which is then evaluated by the TGA prior to registration.

## ***Labeling***

There are regulations under the TG Act and under state and territory legislation in relation to labeling of therapeutic goods.

## ***Advertising***

Advertising of therapeutic goods is regulated by the TG Act, certain industry Codes of Conduct and other legislation. Subject to this regulation, advertising non-prescription medicines to consumers is generally permitted, but prior approval is required for advertisements to consumers that are to appear in the mainstream media (e.g., newspapers, magazines, television and radio). This approval may be delegated to industry associations.

This process involves the relevant decision maker (usually the industry peak body, the Complementary Healthcare Council or in some cases, the TGA) requiring Swisse to hold supporting information to justify the claims made by Swisse in its advertisements and ensuring that evidence exists to support these claims, as well as ensuring the advertisement promotes quality use of medicines.

Advertisements also cannot make “restricted representations” without approval of the TGA.

A restricted representation is any reference (including on a label) to a serious disease, condition, ailment or defect which is generally accepted to be not appropriate to be diagnosed or treated without consulting a suitably qualified health professional, and which is beyond the ability of the average consumer to evaluate accurately and to treat safely without regular supervision by a qualified health professional.

## ***Therapeutic goods product issues***

Notices under section 31 of the TG Act

Under section 31 of the TG Act, the TGA can request from a person, in relation to whom therapeutic goods are registered, information regarding, among other things, the formulation, quality and presentation of goods.

Swisse receives section 31 notices from the TGA from time to time and it maintains an incidents register which records details of the notices received, and any adverse events investigated by the TGA.

The TGA conducts compliance reviews on complementary medicines, including:

- reviews of randomly selected newly listed complementary medicines; and
- targeted reviews for medicines on the ARTG with potential non-compliance issues.

If non-compliance is found, regulatory actions may include a proposal to cancel from the ARTG, suspension or cancellation from the ARTG and recall.

## ***Adverse reactions***

Swisse is required, as a condition of listing on the ARTG, to report certain information, including reports of serious adverse reactions to its products that are communicated to it by consumers, to the TGA.

## ***Regulation of food products and businesses***

### *Australia New Zealand Food Standards Code*

Food regulation in Australia involves a cooperative scheme between the Commonwealth government, the states and territories.

One of the key regulatory documents is the Australia New Zealand Food Standards Code (“Code”). The Code is developed and administered by Food Standards Australia New Zealand.

Other than where expressly exempted, the Code applies to food products:

- sold or prepared for sale in Australia or New Zealand; and
- imported into Australia or New Zealand.

The Code is a collection of individual food standards (“Standards”). Each of the individual Standards are legislative instruments under the Legislative Instruments Act 2003 (Cth) of Australia.

The Code groups the Standards into four chapters:

- general food standards — covering issues such as labeling, substances added to food, contaminants and residues, foods requiring pre-market clearance, microbiological and processing requirements and health claims in relation to food;
- food product standards — specific standards relating to particular food types (e.g. cereals, dairy products and ‘special purpose foods’);
- food safety standards (for Australia only) — including matters such as requirements for food safety programs, food safety practices and requirements for food premises and equipment; and
- primary production standards (for Australia only).

### *Legal force and enforcement of the Code*

In Australia, the following Acts contain provisions mandating compliance with the Code:

- Food Act 1984 (Vic).
- Food Act 2001 (ACT).
- Food Act 2001 (SA).
- Food Act 2003 (NSW).
- Food Act 2003 (Tas).
- Food Act 2004 (NT).
- Food Act 2006 (Qld).
- Food Act 2008 (WA).
- Imported Food Control Act 1992 (Cth).

As an example, section 16 of the Food Act 1984 (Vic) says:

”A person must comply with any requirement imposed on the person by a provision of the Food Standards Code in relation to the conduct of a food business or to food intended for sale or food for sale.

Penalty: A\$40,000 in the case of an individual and A\$200,000 in the case of a corporation.”

Various agencies and departments within the different jurisdictions are responsible for food surveillance and enforcement of the Code requirements.

### *Food legislation*

The Code must be considered in conjunction with state and territory food legislation. The specific registration and other regulatory requirements for a food business will depend on the specific nature of the business and the jurisdiction in which it operates.

State and territory food legislation regulates matters such as food handling, handling and selling unsafe or unsuitable food, false description of food, misleading conduct relating to the sale of food, the registration of food businesses/premises, inspection of premises, food safety and record keeping, as well as other items.

### ***Skincare regulation overview***

#### *Overview*

Swisse has a number of skincare products which are regulated as “cosmetics” in Australia. Cosmetics are regulated as industrial chemicals under the Industrial Chemicals (Notification and Assessment) Act 1989 (Cth) of Australia (“ICNA Act”). Cosmetics are products intended for external use on the human body for, among other things, cleansing it, maintaining it in good condition and protecting it, but excluding therapeutic goods.

The ICNA Act established the National Industrial Chemicals Notification and Assessment Scheme (“NICNAS”), which is administered by the Australian Government Department of Health. The focus of NICNAS is on worker safety, users of the products and public health and impact on the environment from use and disposal.

Key elements of NICNAS relevant to Swisse cosmetic products include:

- (i) business registration;
- (ii) the definition of “relevant industrial chemical”; and
- (iii) audit, inspections and investigations.

#### *NICNAS business registration*

All importers and manufacturers of cosmetics (unless “naturally occurring”) are required to register their business on the NICNAS Register of Industrial Chemical Introducers. A yearly registration fee and a charge for the value of the chemical imported or manufactured applies.

Failure to register is an offense. Enforcement under the ICNA Act includes injunctions restraining the importation or manufacture and monetary penalties.

There are certain notification requirements if a registered body corporate ceases to exist or forms a new body corporate as a result of a merger.

### *Exemption for “naturally occurring” chemicals*

The registration requirement does not apply for importers/manufacturers of only “naturally-occurring chemicals” which are defined as:

- (i) an unprocessed chemical occurring in a natural environment; or
- (ii) a chemical occurring in a natural environment, being a substance that is extracted by:
  - manual, mechanical or gravitational means;
  - dissolution in water;
  - flotation;
  - a process of heating for the sole purpose of removing uncombined water, or
- (iii) without chemical change in the substance.

If the chemical is naturally occurring, but is extracted by other means, e.g., steam distillation, solvent extraction, or it has undergone further processing, the chemical won't be exempted from the business registration requirement.

### *Assessments of chemicals*

The Australian Inventory of Chemical Substances (“AICS”) lists the chemicals available for industrial use in Australia. There are approximately 40,000 currently listed. If a chemical is included in the AICS, under the *ICNA Act* it may be imported into or manufactured in Australia, without obtaining an assessment certificate or permit (subject to any conditions set out in the AICS).

If the chemical is not on the AICS, the chemical must be scientifically assessed by NICNAS before it can be imported into or manufactured in Australia (unless it is naturally occurring as set out above, or an exemption applies).

NICNAS may also review chemicals already used in Australia (and listed on AICS) on a priority basis where there are specific concerns about potential health or environmental effects.

### *Audit, inspections and investigations*

NICNAS may:

- (i) review manufacturers' and distributors' operations, obtain information, review records, test chemicals;
- (ii) require registrants to justify the basis for determining the total value of industrial chemicals imported and/or manufactured for the purpose of registration fees and charges; and
- (iii) give warnings, seize goods and prosecute offences.

### *Cosmetic Standard 2007*

Cosmetics of certain types must comply with the Australian Cosmetics Standard 2007, made under the ICNA Act. The Cosmetics Standard currently only applies to the following types of products:

- (i) tinted bases or foundations, lip products or moisturizing products, in each case with sunscreen;
- (ii) sun-bathing products with an SPF between 4 and 15;
- (iii) anti-bacterial skin products;
- (iv) anti-acne products (preventing acne only through cleansing, moisturizing, exfoliating or drying the skin);
- (v) certain oral hygiene products; and
- (vi) anti-dandruff products.

### *Labeling*

Cosmetics must have full ingredient disclosure in accordance with the Australian Trade Practices (Consumer Product Information Standards) (Cosmetics) Regulations 1991 (Cth) which is administered by the Australian Competition and Consumer Commission (“ACCC”). This regulation prescribes the mandatory standard—cosmetics & toiletries—ingredients labeling which sets out the standards, the responsibilities of suppliers and retailers, and the ACCC’s role in enforcing cosmetic and toiletries ingredients labeling. Consistent with cosmetic products not being therapeutic goods, the products should not be presented as preventing, diagnosing, curing or alleviating a disease, ailment, defect or injury in people.

### **Other laws and regulations**

For our baby nutrition and care products, including infant formula, probiotic supplements, dried baby food and nutrition supplements and baby care products, we mainly operate in China, and our business activities outside China are limited to the sourcing of raw materials and products from foreign countries, mainly from France, Denmark and the United States. See “Business.” Our relevant operating subsidiaries were established in the PRC and are therefore mainly subject to the laws and regulations of the PRC. See “—The People’s Republic of China.” As we mainly conduct our business in the PRC for our baby nutrition and care products, and only import relevant goods, products and raw materials produced and manufactured in France, Denmark and the United States into the PRC, we believe that we are not subject to any material French, Danish, United States laws or any other material laws of other jurisdiction in our capacity as an importer. In addition, SARL Biostime, a company established under the laws of France, does not conduct any business in France. As such, apart from basic French commercial codes and relevant corporate regulations, it is not subject to material French laws or regulation given its current lack of business activity in France.



For our adult nutrition and care products, we mainly operate in Australia and China, with minor sales activity in New Zealand. Sales of our adult care and nutrition products are also made in Singapore, the United Kingdom, the Netherlands and Italy through our international distribution agreement with PGT. See “Business.” Our relevant operating subsidiaries were established in Australia and are therefore mainly subject to the laws and regulation of Australia. See “—Australia.” As we mainly conduct our business in Australia and China for our adult nutrition and care products, and only import relevant products produced and manufactured primarily in Australia, Italy and Germany into Australia and China, we believe that we are not subject to any material laws of such jurisdictions or any other laws of other jurisdictions in our capacity as an importer other than Singapore, the United Kingdom, the Netherlands and Italy, where our adult nutrition and care products are distributed by PGT.

Based on our directors’ actual and best knowledge derived from our raw material and product suppliers selection process, each of our raw material and product suppliers has obtained all necessary regulatory permits and licenses required for the production of the goods and products that were exported to us and has complied with the applicable relevant domestic laws and regulation in all material aspects. Our supply agreements generally require that our suppliers comply with local legal requirements in their jurisdiction in relation to the products or ingredients we source from them.

## MANAGEMENT

### Our directors

The following table sets forth certain information with respect to our directors as of the date of this offering memorandum.

Name	Age	Title
Mr. Luo Fei .....	52	Executive Director and Chief Executive Officer
Mr. Radek Sali.....	39	Executive Director
Dr. Zhang Wenhui.....	51	Non-executive Director
Mr. Wu Xiong.....	60	Non-executive Director
Mr. Luo Yun .....	55	Non-executive Director
Mr. Chen Fufang.....	52	Non-executive Director
Dr. Ngai Wai Fung.....	54	Independent non-executive Director
Mr. Tan Wee Seng.....	60	Independent non-executive Director
Professor Xiao Baichun.....	68	Independent non-executive Director

Our board currently consists of nine directors, three of whom are independent non-executive directors. Mr. Luo Fei was appointed as the executive director of our Company in April 2010. Mr. Radek Sali was appointed as the chief executive officer of Swisse in 2007. Dr. Zhang Wenhui was appointed as a non-executive director of our Company in June 2012. Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang were appointed as non-executive directors of our Company in May 2010. Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Professor Xiao Baichun were appointed as independent non-executive directors of our Company in July 2010.

### Executive directors

**Mr. Luo Fei (羅飛)**, 52, is an executive Director and chief executive officer of the Company. Mr. Luo has approximately 20 years' experience in the biotechnology industry. From June 1989 to October 1990, Mr. Luo was employed by Kanghai Enterprise Development Company of Guangzhou Economic and Technological Development Zone (廣州經濟技術開發區康海企業發展公司) as an assistant engineer. In February 1993, Mr. Luo established Guangzhou Baixing Bioengineering Co., Ltd. (廣州百星生物工程有限公同) and acted as its legal representative and general manager. In December 1994, Mr. Luo established Guangzhou Biohope Co., Ltd. ("Guangzhou Biohope"), a company engaged in the import and distribution of raw materials for personal care and household cleaning products, and acted as Guangzhou Biohope's legal representative from December 1994 to June 2010, and as a director of Guangzhou Biohope from December 1994 to date. In August 1999, Mr. Luo established Biostime Guangzhou and has served as its general manager since then. Mr. Luo received a bachelor's degree in microbiological engineering in July 1985 and a master's degree in industrial fermentation in June 1988 from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院). Mr. Luo has also completed the China Europe Business School (中歐國際工商學院) EMBA program and was awarded a master's degree in business administration in September 2008.

**Mr. Radek Sali**, 39, is currently the chief executive officer and a director of Swisse. Mr. Sali currently serves on the advisory board of the National Institute of Integrative Medicine. Mr. Sali has over 10 years' experience in the health and wellness products industry. He joined Swisse in 2005 and has assumed the role of chief executive officer since 2007. Prior to joining Swisse, Mr. Sali had served various roles as general manager, regional manager and country manager at Village Roadshow Limited (and its related entities), an Australian media company with interests in cinema, theme parks, film production and distribution, for 11 years. Mr. Sali received a bachelor's degree from La Trobe University in Melbourne. He also obtained a Diploma of Business from the University of New England. In addition, he has obtained a certificate in Finance and a certificate in Leadership from Melbourne Business School.

**Dr. Zhang Wenhui** (張文會), 51, is a non-executive Director of the Company. Dr. Zhang has almost 18 years' experience in the biotechnology industry, through teaching in universities and working for several biotechnology companies. Dr. Zhang was a lecturer in bioengineering at South China University of Technology (華南理工大學) from August 1994 to August 1996. From December 2000 to August 2003, Dr. Zhang was employed as an assistant research professor in the department of chemical engineering in the University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States. Subsequently, Dr. Zhang was employed as a scientist in the process development department of Xoma (US) L.L.C. in the United States from September 2003 to September 2005. Dr. Zhang joined the Group in October 2005 as the chief technology officer of Biostime Guangzhou and became a general manager of the technology centre of Biostime Health in December 2010, where he was primarily responsible for the research and development, product quality control and technology support, and held this position until June 24, 2012. Dr. Zhang was also the chief technology officer and head of the Quality Assurance Department of the Company until June 24, 2012, and a director of the Company's subsidiaries — Biostime Guangzhou, Biostime Health and BMcare Guangzhou — until September 2, 2012.

Dr. Zhang received a bachelor's degree in biochemical engineering from East China University of Science and Technology (華東理工大學), formerly known as East China College of Chemical Engineering (華東化工學院), in July 1985, and a master's degree in industrial fermentation and a doctorate in fermentation engineering from South China University of Technology (華南理工大學) in July 1988 and September 1994, respectively. From October 1996 to September 1997, Dr. Zhang completed an international post-graduate university course in microbiology at Osaka University (大阪大學).

**Mr. Wu Xiong** (吳雄), 60, is a non-executive Director of the Company. Mr. Wu has been the legal representative and general manager of Hainan Fangsheng Industry Development Co., Ltd. (海南方盛實業發展有限公司) since December 2009 and is responsible for the overall management of its business operations. Mr. Wu worked in the Administration for Industry and Commerce of Haikou City (海口市工商行政管理局) between December 1980 and December 1997. From December 1997 to December 2000, Mr. Wu was employed by Haikou Market Properties Development Co., Ltd. (海口市市場物業發展有限公司). From December 2000 to December 2009, Mr. Wu was the legal representative and general manager of Hainan Junjie Automobile Sale Co., Ltd. (海南駿捷汽車銷售有限公司) and was responsible for its overall business operations. Mr. Wu graduated from Haikou No.1 Middle School (海口市第一中學) in July 1975.

**Mr. Luo Yun** (羅雲), 55, is a non-executive Director of the Company. From 1980 to 1993, Mr. Luo was employed by Haikou Qionshan Medical Co., Ltd. (海口瓊山醫藥公司). Mr. Luo was employed as a sales manager for Guangzhou Biohope from December 1994 to August 1999. From August 1999 to September 2009, Mr. Luo held various positions in Biostime Guangzhou, including sales director and director in charge of the Mama100 membership centre. From September 2009 to December 2011, Mr. Luo was the general manager and director of a company formerly known as Biostime Health and Nutrition (Guangzhou) Limited (now known as Leseil Health and Nutrition (Guangzhou) Limited),

where he was responsible for overall strategy and business development. Mr. Luo graduated from the Continuing Education School of Jinan University (暨南大學成人教育學院) in July 1987 with a degree in business and economic management. Mr. Luo has also completed the EMBA course at Fudan University (復旦大學) in Shanghai, and was awarded an EMBA degree in 2012.

**Mr. Chen Fufang (陳富芳)**, 52, is a non-executive Director of the Company. Mr. Chen has been a director and the general manager of Guangzhou Biohope since March 1999, and its legal representative since June 2010, where he oversees overall business operations and management. Prior to that, Mr. Chen worked for Guangdong Textile Industry Group Company (廣東省紡織工業總公司), a company engaged in the import and export of textile products and apparel, where he held roles including chemical fiber assistant engineer (化纖助理工程師) (from 1988 to 1997) and chemical fiber engineer (化纖工程師) (from March 1988 to November 1992). Mr. Chen graduated from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院), with a bachelor's degree in chemical fibers in July 1985, and a master's degree in chemical fibers in June 1988.

**Dr. Ngai Wai Fung (魏偉峰)**, 54, is an independent non-executive Director of the Company. Dr. Ngai was appointed as an independent non-executive Director on July 12, 2010, and is chairman of the Company's Audit Committee. Dr. Ngai is the managing director of MNCOR Consulting Limited (formerly known as MN Consulting Limited) and the chief executive officer of SW Corporate Services Group Limited, a company specializing in providing corporate governance and compliance services to companies in both pre-IPO and post-IPO stages. Dr. Ngai serves as an independent director of LDK Solar Co., Ltd., a manufacturer of photovoltaic (PV) products. Dr. Ngai also previously served as president of the Hong Kong Institute of Chartered Secretaries (the "HKICS") and the Adjunct Professor of Law of Hong Kong Shue Yan University. Dr. Ngai was a director and head of Listing Services of an independently operating corporate services provider (formed by the former corporate and commercial divisions of KPMG and Grant Thornton). Prior to that, Dr. Ngai held various senior management positions, including executive director, chief financial officer and company secretary, in a number of companies listed in Hong Kong, including Cosco Group, China Unicom Limited (中國聯通股份有限公司) and Industrial and Commercial Bank of China (Asia) Limited (中國工商銀行(亞洲)有限公司). Dr. Ngai was an independent non-executive director of China Life Insurance Company Limited (中國人壽保險股份有限公司) from December 2006 to May 2009, and an independent non-executive director of Franshion Properties (China) Limited (方興地產(中國)有限公司) from May 2007 to June 2011.

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

**Mr. Tan Wee Seng (陳偉成)**, 60, is an independent non-executive Director of the Company. Mr. Tan was appointed as an independent non-executive Director on July 12, 2010 and is chairman of the Company's Remuneration Committee. Mr. Tan is also a non-executive director of Xtep International Holdings Limited, an independent non-executive director of Sa International Holdings Limited, and an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited, all of which shares are listed on the Main Board of the SEHK. In addition, Mr. Tan is an independent director of ReneSola Ltd, the shares of which are listed on the New York Stock Exchange ("NYSE"). Mr. Tan is also a board member and chairman of the finance committee of Beijing City International School, an academic institution in Beijing. Mr. Tan was an independent

director and chairman of the audit committee of 7 Days Group Holdings Limited, listed on the NYSE, between November 2009 and July 2013, until the Group was privatized. He was the chairman of the special committee for the privatization of 7 Days Group Holdings Limited from October 2012 to July 2013.

Mr. Tan has over 30 years' financial management, corporate finance, merger and acquisition, business management and strategy development experience. Mr. Tan has held various management and senior management positions in a number of multinational corporations. Mr. Tan was previously the managing director of AFE Computer Services Limited, a Reuters subsidiary located in Hong Kong which was mainly engaged in domestic equity and financial information services; a director of Infocast Pty Limited, a Reuters subsidiary in Australia; and the regional finance manager of Reuters East Asia. From 1999 to 2002, Mr. Tan was the senior vice president of Reuters for the China, Mongolia and North Korea regions, and the chief representative of Reuters in China. From 2003 to 2008, Mr. Tan was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the SEHK. Mr. Tan is a professional accountant and a fellow member of the Chartered Institute of Management Accountants in the United Kingdom, and a member of the Hong Kong Institute of Directors.

**Professor Xiao Baichun (蕭柏春)**, 68, is an independent non-executive Director of the Company. Professor Xiao was appointed as an independent non-executive Director on July 12, 2010. Professor Xiao currently serves as a member of the board of directors of Nanjing University (南京大學). Professor Xiao was employed by Seton Hall University as an assistant professor in September 1990 and was subsequently promoted as an associate professor in April 1994, and to professor in March 1999. He was also chairman of the computing and decision sciences department of Seton Hall University from 1995 to 1997. Since September 1998, Professor Xiao has been employed at Long Island University, where he is currently a senior professor and has been chairman of the department of management since 2003. Professor Xiao has previously been appointed by various universities in China as either a chair professor or a visiting professor; for example, he has been a faculty member of Peking University (北京大學) since 2004, a visiting professor of the Chinese University of Hong Kong (香港中文大學) since 2004, a guest professor and a director of the Chinese American Center for service and operations management in Southwest Jiaotong University (西南交通大學) from 2004 to 2010, a distinguished professor of the EMBA program at Fudan University (復旦大學) since 2005, and a lifetime professor of the management school of Sichuan University (四川大學) since May 2000.

## Senior management of the Group

### Biostime

The following table sets forth certain information with respect to our senior management as of the date of this offering memorandum:

Name	Age	Title
Mr. Luo Fei .....	52	Chief Executive Officer
Mr. Wang Yidong (王亦東).....	42	Chief Finance Officer
Ms. Laetitia Garnier (安玉婷) ....	35	General Manager of group strategy and international business department
Dr. Patrice Malard .....	62	Chief Scientific Officer and Chief Technology Officer
Mr. Zhu Dingping (朱定平).....	40	General manager for Baby Nutrition and Care business department (the “BNC”)
Mr. Liu Shifeng (劉世鋒).....	37	General Manager of the northern district of the BNC business department
Mr. Peng Jiahua (彭家華).....	39	General Manager of the southern district of the BNC business department
Mr. Hu Xiaocheng (胡曉成) .....	39	Director of the E-commerce business department
Mr. Tang Haigang (湯海剛).....	44	Managing Director of the operations center
Mr. Zhang Qizhang (張琦章).....	32	Director of the integrated marketing center
Ms. Yang Wenyun (楊文筠).....	32	Director of Corporate Affairs and Human Resources department, and Joint Company Secretary
Ms, Liao Wenqi (廖文琪).....	32	Marketing Director of the BNC business department

For further information on Mr. Luo Fei, see “— Our directors — Executive directors.”

**Mr. Wang Yidong (王亦東)**, 42, joined the Group in May 2016. He is the chief finance officer of the Group and has over 18 years’ experience in financial management, accounting and corporate finance. Before joining the Company, Mr. Wang was the Asia Pacific vice president and chief finance officer of Henkel AG & Co. KGaA, a German consumer goods giant (“Henkel”), responsible for Henkel’s financial management, business and operations also controlling Mergers and Acquisitions (“M&A”)-related tasks in 14 countries in the Asia Pacific region. Before that, he worked at Henkel’s headquarters in Germany as global director of business Development and M&A for the adhesive business department, and previously worked as Henkel’s Greater China chief finance officer and Asia Pacific treasurer. Mr. Wang has also had various financial management and banking roles with L.Philips and JPMorgan Investment Bank in Hong Kong and New York, respectively. He began his career with China’s Ministry of Commerce and participated in the negotiations for China’s entry into the World Trade Organization. Mr. Wang was awarded “China CFO of the Year” (“中國CFO年度人物”) in 2011 by the national judging committee affiliated to China’s Ministry of Finance. He has been featured in finance publications including Finance Asia, Harvard Business Review, The Asset, TMI and The Asian Banker Journal. Mr. Wang obtained a master’s degree in business administration from New York University’s Stern School of Business, and a bachelor’s degree in arts from China Foreign Affairs University. He is a member of the American Institute of Certified Public Accountants (the “AICPA”) and a member of the Association of Chartered Certified Accountants (the “ACCA”).

**Ms. Laetitia Garnier (安玉婷)**, 35, joined the Group in July 2010. She is the General Manager of Group strategy and international business department of the Group since October 2015 and is mainly responsible for Group strategy, acquisitions and investments, investor relations and management of

the Group's international operations and business development. From December 2003 to July 2010, she worked for the French Trade Commission in South China and was mainly responsible for providing lobbying and support to French companies partnering, exporting from and investing in China, especially in the field of consumer goods and health sectors. In July 2003, she obtained a master's degree in business administration and corporate strategy from the Institute of Political Studies in Paris.

**Dr. Patrice Malard**, 62, joined the Group as our chief scientific officer and general manager of Biostime Pharma (a subsidiary of the Company located in France) in October 2010, and was appointed as the chief technology officer of the Company, as well as general manager of the technology center of Biostime Health, in June 2012. He is responsible for research and development, product quality control and technology development. He was a scientific consultant of Biostime Guangzhou from March 1, 2008 to September 30, 2010. Dr. Malard has approximately 30 years' experience in the nutrition products industry. From October 1981 to March 1990, he worked for Gist Brocades SA as a science director in the field of industrial enzymes. From April 1990 to June 1991, he was employed by CPIAA SA, an agri-consulting group, as a manager. From June 1991 to November 1994, he was a strategy and development director of the French subsidiary of Pioneer Hi-Bred in agri-seeds. He also has worked as a director of Silab Sarl in cosmetic ingredients and sales and Business development director of Lallemand SAS Human Nutrition division, from February 1995 to October 2007. From March 2008 to date, he has owned Kloarys Développement Sarl and acted as its general manager. He obtained his Ph.D. in molecular and cellular Biology from Lille University of Science and Technology in 1981.

**Mr. Zhu Dingping (朱定平)**, 40, joined the Group in February 2007 and has been the general manager for the project department of the BNC business unit of the Group since October 2015. Previously, Mr. Zhu was our senior sales director and was mainly responsible for the overall sales. Prior to joining the Group, he had over 10 years' experience in the pharmaceutical industry mainly obtained from working for companies in that industry. He was with Guangdong Minglin Pharmaceutical Co., Ltd. (廣東明林藥業有限公司) as a regional sales manager from August 1996 to December 2006. He had completed the EMBA courses of Management School, Jinan University (暨南大學管理學院) and obtained an EMBA in December 2015. He currently serves as a part-time researcher at the enterprise institute of Jinan University.

**Mr. Hu Xiaocheng (胡曉成)**, 39, joined the Group in November 2004, and has been director of the E-commerce business department of the Group since October 2015. Previously, Mr. Hu was our retail sales organization channel director. His experience is mainly in marketing and sales. He worked as a sales specialist for the Beijing sales branch of Jiangxi Tecom Science Co., Ltd. (江西特康科技有限公司) from 2000 to 2003, and was mainly responsible for selling products to hospital clients in Northern China. He joined us as manager of our Shangrao sales office in Jiangxi Province. He was promoted to sales manager for Ningbo City in February 2005, regional sales manager for Shanghai in February 2006, and senior manager for sales administration in February 2007. Mr. Hu was appointed as our senior key accounts manager in May 2010 and promoted to be our retail sales organization channel director in September 2011. He is now responsible for our sales channel of retail sales organizations. Mr. Hu received a junior college diploma in computer accounting from Jiangxi Radio and TV University (江西廣播電視大學) in July 1999.

**Mr. Liu Shifeng (劉世鋒)**, 37, has been appointed the general manager of the northern district of the Group's BNC business department since October 2015. He joined the Group in May 2004 as supervisor in charge of the Shaoxin office, and was promoted to provincial manager of Hubei province in August 2005, manager of the Hubei and Henan provinces in August 2006, director of the Hubei and Henan provinces in July 2012, area director for Hubei province in 2013, and director of the brand project department of "ADiMIL" in January 2014. Mr. Liu studied in the Jinggangshan Medical College (井岡山醫學高等專科學校) from September 1997 to July 2000 majoring in clinical medicine.

After graduation, he was employed by the Guangzhou Division of Wangson Biotechnology Groups Inc. (美國華盛集團廣州分部) as an OTC supervisor from August 2000 to April 2001. Mr. Liu worked for Guangzhou Xiangxue Pharmaceutical Co., Ltd. (廣州市香雪制藥) as an OTC supervisor in 2001, and was promoted to be a district supervisor in 2002.

**Mr. Peng Jiahua (彭家華)**, 39, has been the general manager of the southern district of the Group's BNC business department since October 2015. He joined the Group in May 2003 as supervisor in charge of the Dongguan office, and was promoted to be the provincial manager of Jiangxi province in September 2005, manager of the Hunan and Jiangxi provinces in March 2005, director of the Hunan, Jiangxi and Guangxi provinces in July 2012, and area director for Hunan and Jiangxi provinces in 2013. Mr. Peng studied at the Jinggangshan Medical College (井崗山醫學高等專科學校) from September 1997 to July 2000 majoring in clinical medicine. After graduating, he was employed by the Shantou office of Jiangxi Ban Bian Tian Pharmaceutical Co., Ltd. (江西半邊天藥業) as a terminal promotion representative from August 2000 to January 2001. Mr. Peng worked in the Dongguan office of Huahong Pharmaceutical Co., Ltd. (花紅藥業) as an OTC supervisor in 2001.

**Mr. Tang Haigang (湯海剛)**, 44, joined the Group as supply chain director in October 2014 and was appointed managing director of the operations center of the Group in October 2015. Mr. Tang has a strong background in sourcing and quality assurance, as well as wide-ranging experience in general management. He worked as a quality engineer in Effem Foods (Beijing) Co., Ltd. (愛芬食品(北京)有限公司) from July 1994 to February 1998. He then joined Procter & Gamble (China) Co., Ltd. (寶潔(中國)有限公司) as a QA Manager, and appointed its senior purchasing manager, from March 1998 to February 2003. From March 2003 to December 2004, Mr. Tang worked as Deputy General Manager at Intercos Cosmetics (Suzhou) Co., Ltd. (瑩特麗化妝品(蘇州)有限公司). He then joined Johnson & Johnson and served as its associate sourcing director (Asia Pacific) until July 2012. Before joining the Group, Mr. Tang worked for Revlon China as Asia Pacific Sourcing Director from August 2012 to May 2014. Mr. Tang holds an MBA degree from Jinan University and a bachelor's degree in Engineering (Machine Design and Manufacturing) from South China University of Technology.

**Mr. Zhang Qizhang (張琦章)**, 32, joined the Group in June 2014. He was appointed director of the integrated marketing center of the Group in April 2015. Previously, he was director in charge of marketing of the Biostime Business Unit, and assumed additional responsibility as Director of the Corporate Innovation Marketing Center. Mr. Zhang received his bachelor's degree in public management from Renmin University of China (中國人民大學) in June 2007. After graduating, he was employed by Procter & Gamble (China) Co., Ltd. (寶潔(中國)有限公司), as a brand manager in its marketing department, until May 2014.

**Ms. Yang Wenyun (楊文筠)**, 32, joined the Group in August 2005 and was appointed as one of the joint company secretaries of the Company on July 12, 2010. She has been director of the Corporate Affairs and Human Resources department in October 2015. Before that, she was the senior manager of the Listing Affairs and Risk Management Department, and was promoted to be the director of the Department in January 2014. Ms. Yang began her professional career with the Group and has obtained substantial experience in administration, corporate governance, legal affairs, risk management and public relations during her nine years with the Group. From August 2005 to December 2008, she was an assistant of public affairs, mainly responsible for the legal affairs and public relations of the Group. Concurrently, she was also an assistant to the general manager from November 2006, responsible for certain administrative affairs of the Group. From December 2008 to February 2010, she was the legal manager of the Group, responsible for its overall legal affairs and public relations. In February 2010, she assumed the responsibility of leading the risk control department. Ms. Yang is now mainly in charge of administrative, listing and legal matters, and internal audits of the Group. Ms. Yang received a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2005.

**Ms. Liao Wenqi (廖文琪)**, 32, joined the Group in 2015 and was appointed as a marketing director at Biostime for the BNC business unit in charge of managing Biostime™, ADiMIL™ and BMCare™ brands. Ms. Liao has experience in brand building and previously worked at Procter & Gamble from 2007 to 2012.



At P&G, she was involved in various businesses including hair care, skin care and personal cleaning care. In 2013, she joined a Chinese fashion company, Trendy group, which was previously invested by LVMH. Ms. Liao received a master’s degree in statistics and a bachelor’s degree in accounting from Sun Yat-sen University in July 2007.

## Swisse

Name	Age	Title
Mr. Radek Sali .....	39	Chief executive officer of Swisse
Mr. Adem Karafili .....	38	Chief operating officer of Swisse
Mr. Tom Coleman .....	43	Chief financial officer of Swisse
Mr. Michael Howard .....	40	Director of sales and marketing
Mr. George Livery .....	50	Director of strategy and corporate development
Mr. Ulrich Irgens .....	40	Director of international business
Mr. Catherine Crowley .....	52	Director of people and culture

For further information about Mr. Radek Sali, see “—Executive directors.”

**Mr. Adem Karafili**, 38, is the chief operating officer of Swisse since 2013. He joined Swisse as the chief financial officer in 2009. He has over 14 years’ experience in Finance and Operations. Before joining Swisse, he was a managing director of UBC Commercial and finance and commercial manager at Toll Holdings. Mr. Karafili received a bachelor’s degree in accounting from the Royal Melbourne Institute of Technology.

**Mr. Tom Coleman**, 43, is the chief financial officer of Swisse since March 2016. He has over 22 years’ experience in financial management, accounting and corporate finance. Before joining Swisse, he served as the chief financial officer at Fusion Retail Brands, chief information and planning officer at Rip Curl International and the chief financial officer at Rip Curl Europe. He received a bachelor’s degree in accounting from the University of South Australia and obtained his qualification as chartered accountant.

**Mr. Michael Howard**, 40, is the director of sales and marketing of Swisse since 2014. He has over ten years’ experience in the Luxury goods industry. Before joining Swisse, he was the general manager at Tissot Australia in the Swatch Group, general manager of Fortis Swisse Watches in Australia and New Zealand, and brand manager of Dior Watches in Australia and New Zealand, a subdivision of LVMH. Mr. Howard received a bachelor’s degree in business administration from Monash University.

**Mr. George Livery**, 50, is the director of strategy and corporate development of Swisse since 2014 and was appointed company secretary in 2016. He joined Swisse as a commercial director in 2011. He has over 20 years’ experience as senior executive or director. Before joining Swisse, he served as the chief executive officer at Village Cinemas Australia. Mr. Livery is a fellow of Marketing Institute of Australia.

**Mr. Ulrich Irgens**, 40, is the director of international business of Swisse since 2011. He has over 15 years’ experience in nutritional supplements and consumer health. Before joining Swisse, he was the global industry director of dietary supplements, pharmaceutical and infant nutrition division at Du Pont and a business director of health and nutrition in Europe and Asia at Lallemand.

**Ms. Catherine Crowley**, 52, is the director of people and culture since 2011. She has over 30 years’ experience in the leisure, retail and hospitality industries across functions spanning operations, leadership, human resources and education. Before joining Swisse, she served as the head of education at Mecca Cosmetics.

## **Board Committees**

### **Audit Committee**

The Audit Committee comprises two independent non-executive Directors—Dr. Ngai Wai Fung (Chairman of the Audit Committee) and Mr. Tan Wee Seng—and one non-executive Director, Mr. Luo Yun. In compliance with rule 3.21 of the Listing Rules of SEHK, Dr. Ngai Wai Fung and Mr. Tan Wee Seng possess the appropriate professional qualifications or accounting or related professional qualifications or accounting or related financial management expertise required. None of the Audit Committee members is a member of the previous or existing auditors of the Company.

### **Remuneration Committee**

The Remuneration Committee currently comprises two independent non-executive Directors—namely, Mr. Tan Wee Seng (Chairman of the Remuneration Committee) and Dr. Ngai Wai Fung—and one executive director, Mr. Luo Fei.

The primary duties of the Remuneration Committee principally include making recommendations on the Company's remuneration policy, structures for the remuneration of Directors and senior management, and having the delegated responsibility to determine the specific remuneration packages of executive Directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structures to ensure that no Director or any of his or her associates will participate in deciding his or her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

### **Nomination Committee**

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

The Nomination Committee is accountable to the Board and regularly reports upon its work. The primary duties of the Nomination Committee are mainly: to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis, and to make recommendations to the Board regarding any proposed changes; to identify individuals that are suitably qualified to become Board members and to select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of independent non-executive Directors of the Company; and to make recommendations to the Board on relevant matters relating to the appointment or reappointment of Directors of the Company and succession planning for Directors of the Company, in particular the Chairman and the Chief Executive Officer.

## PRINCIPAL SHAREHOLDERS

The Company is an exempted company with limited liability in the Cayman Islands and is listed on the SEHK. The Company is controlled by Biostime Pharmaceuticals (China) Limited which owns 450,000,000 shares of the Company representing 71.40% of the total number of shares in the Company as of March 31, 2016.

The following table and related footnotes represent and detail the holdings of our principal shareholders as of March 31, 2016:

<b>Name of shareholder</b>	<b>Number of ordinary shares</b>	<b>Percentage of issued share capital<sup>(2)</sup></b>
Biostime Pharmaceuticals (China) Limited <sup>(1)</sup> .....	450,000,000	71.40%

(1) This represents the shareholdings of Mr. Luo Fei, Mr. Luo Yun, Mr. Wu Xiong, Mr. Chen Fufang, Dr. Zhang Wenhui and Ms. Kong Qingjuan. Mr. Luo Fei and Mr. Luo Yun indirectly own 31.0% and 16.7%, respectively and in total, 47.71% of Biostime Pharmaceuticals (China) Limited with the remaining shareholdings indirectly owned by Mr. Wu Xiong, Mr. Chen Fufang, Dr. Zhang Wenhui and Ms. Kong Qingjuan who own 26.0%, 11.9%, 9.99% and 4.4%, respectively.

(2) As of March 31, 2016, the total number of the issued shares of the Company was 630,266,515.

Except as disclosed herein, none of the directors know of any person (not being a director or chief executive of the Company) who has an interest or short position in the shares or underlying shares of the Company as representing 5% or more of the nominal value of shares comprised in the relevant share capital of the Company.

## THE SWISSE SHAREHOLDERS' AGREEMENT

On September 17, 2015, Biostime Healthy Australia Investment Pty Ltd, an indirect subsidiary of the Company (the "Purchaser"), and the Company, as the Purchaser's guarantor, agreed to acquire an 83% shareholding in Swisse Wellness Group Pty Ltd ("Swisse") from the selling shareholders (the "Acquisition"). The total purchase consideration for the Acquisition was A\$1,449.9 million (US\$1,056.4 million). This acquisition consideration was paid in cash except for A\$50 million (US\$36.4 million), which was paid by way of the issuance of 20,513,085 shares of the Company to the sellers at an issue price of HKD13.5 (US\$1.7) each, representing approximately 3.4% of the existing shares of the Company. The Acquisition was completed on September 30, 2015.

### **The Swisse Shareholders' Agreement**

In connection with the Acquisition, the Purchaser, the Company and holders of the remaining 17% outstanding shares of Swisse (the "Minority Shareholders") and Swisse entered into a shareholders' agreement and certain waivers related thereto (collectively, the "Shareholders' Agreement"). The principal terms of the Shareholders' Agreement are set out below.

#### *Composition of the Board of Swisse*

The Shareholders' Agreement provides for a maximum of five directors comprised of (i) one director appointed by the Minority Shareholders (insofar as they in aggregate hold at least 50% of the shares in Swisse that they held immediately after completion of the Acquisition); (ii) Mr. Radek Sali, the chief executive officer of Swisse (for so long as Mr. Radek Sali remains in that role); and (iii) three directors appointed by the Purchaser. Board meetings will be quorate provided there is at least one director appointed by the Purchaser and one director appointed by the Minority Shareholders (unless there is only one Swisse director) present.

#### *Swisse Guarantee Limitation*

The Shareholders' Agreement provides that financial assistance (including security and guarantees) by Swisse subsidiaries and their direct and indirect holding companies (excluding the Company) are limited to an aggregate amount of US\$450 million. As a result, the Subsidiary Guarantees provided by those Subsidiary Guarantors that are Swisse subsidiaries and their direct and indirect holding companies (excluding the Company) are limited to an aggregate amount of US\$450 million. This overall limit is also applicable to the guarantees and other obligations of such companies under the US\$450 million Senior Credit Facility, which obligations are secured and rank senior to the senior subordinated guarantees of the Subsidiary Guarantors of the Notes. For further information, see "Description of certain financing arrangement — Senior Facility".

#### *Restrictions on Disposals*

The Shareholders' Agreement provides that the Purchaser may dispose of its shares in Swisse at any time, subject to compliance with the Minority Shareholders, tag-along rights, as discussed further below.

The Minority Shareholders may not dispose of their shares in Swisse except in a limited number of circumstances which include: (i) in the exercise of their tag-along rights, in an initial public offering of Swisse (an "IPO") or when compelled to in accordance with the Purchaser's drag-along rights (each as described below); (ii) where the transferee controls (in the case of an individual) or is controlled by (in the case of a corporate entity) the relevant Minority Shareholder; (iii) where the disposal is first approved by (a) the Purchaser and (b) the Minority Shareholders holding an aggregate of at least 50% of the shares in Swisse that they held immediately after completion of the Acquisition ("Substantial Shareholder Approval"); or (iv) in the exercise of the Roll-Up Call Option (as described below).

### ***Anti-Dilution***

The Shareholders' Agreement contains provisions to prevent dilution of the current Swisse shareholders but does provide for the issuance of securities in Swisse under certain circumstances including (i) if such securities are issued as consideration for an acquisition permitted under the Shareholders' Agreement on an arms' length basis and for fair market value; and (ii) as otherwise approved by a Substantial Shareholder Approval.

### ***Tag-Along Rights***

If the Purchaser proposes to transfer any of its shares in Swisse, or any direct or indirect holding company of the Purchaser excluding the Company or any holding company of the Company (each a "Biostime Holding Company") proposes to dispose of any shares of any holding company of the Purchaser, excluding the Company or any holding company of the Company ("Biostime Holding Company Shares") to any third party (subject to certain exceptions including any transfer to a wholly-owned affiliate or the enforcement of security related to financing the Acquisition, or refinancing such debt), each Minority Shareholder may require the Purchaser to make it a condition of such transfer that the third party buyer purchase up to all of the relevant Minority Shareholder's shares in Swisse on a *pro rata* basis.

### ***Drag-Along Rights***

If the Purchaser proposes to transfer all of its shares in Swisse or any Biostime Holding Company to any third party, it may require each of the Minority Shareholders to transfer all of their shares in Swisse on the same terms and conditions.

### ***Matters Reserved for Substantial Shareholder Approval***

The Shareholders' Agreement provides for certain specific matters to be subject to Substantial Shareholder Approval including the borrowing or financial accommodation which results in Swisse's ratio of net debt to EBITDA equalling 3.5x or above.

### ***Non-Compete***

The Minority Shareholders and the Purchaser have agreed in the Shareholders' Agreement to certain non-compete undertakings to protect the business of Swisse.

### **The Roll-up Call Option Deed**

In connection with the Acquisition, we also entered into a roll-up call option deed (the "Roll-Up Call Option Deed"). Under the Roll-Up Call Option Deed, we have the right, exercisable in our sole discretion and subject to the satisfaction of certain conditions, to require the Minority Shareholders to sell all of the shares that they continue to hold in Swisse, in exchange for shares representing an equivalent stake in Biostime Australia Holdings, at any time prior to the third anniversary of completion of the Acquisition (the "Roll-Up Option"). On completion of the exercise of the Roll-Up Option, Biostime Australia, Biostime Australia Holdings and the Minority Shareholders' will enter into an agreed form shareholders' agreement and the Shareholders' Agreement would terminate.

Pursuant to the terms of the Senior Facility Agreement we must exercise and complete the Roll-Up Option within six months of April 27, 2016. The Roll-Up Option Deed also prevents Swisse from declaring or paying any dividend or making any other distribution on its profits until the Roll-Up Option is exercised, the Roll-Up Option Deed is otherwise terminated or consent is provided by the Minority Shareholders. The Roll-up Option Deed provides that if the Roll-up Option is not exercised by September 30, 2018, the Minority Shareholders can drag the Company into an exit.

Upon completion of the exercise of the Roll-Up Option and as part of the new shareholders' agreement the Purchaser will grant put options to each of the Minority Shareholders to require the Purchaser to buy all of the Swisse shares held by the relevant Minority Shareholder for a fair market value as determined by a third-party expert upon exercise of the put option. The put option will be exercisable on the third, fifth, sixth, seventh and eighth anniversaries of completion of the Acquisition and in the event of certain change of control transactions. However, on April 1, 2016 in connection with our entry into the Senior Credit Facility, a majority of the Minority Shareholders (representing 11.7% of the outstanding shares of Swisse) provided a consent under the Roll-Up Option to us whereby their put options will only be exercisable on the third anniversary of completion of the acquisition to the extent the Company has or can raise sufficient resources to satisfy the put share purchase. Thereafter, the relevant Minority Shareholders may exercise the option at the earlier of (i) the fifth anniversary of March 20, 2017; (ii) the refinancing of the Notes; or (iii) one month after the maturity date of the Notes.

## RELATED PARTY TRANSACTIONS

*We enter into transactions with our principal shareholders and other entities owned by, or affiliated with, our principal shareholders in the ordinary course of business. The following discussion is a brief summary of certain material arrangements, agreements and transactions we have with related parties. For further information on our principal shareholders, see “Principal shareholders.”*

The following table summarizes our related party transactions for the periods indicated.

(RMB in thousands)	Year ended December 31,		
	2013	2014	2015
Purchases of raw materials from a company under the common control of directors .....	5,630	6,377	1,916
Purchases of finished goods from an associate .....	—	25,498	84,876
Loan to an associate .....	—	40,000	—
<b>Total</b> .....	<b>5,630</b>	<b>71,875</b>	<b>86,792</b>

### **Purchases of raw materials from a company under the common control of directors**

Purchases of raw materials from a company under the common control of directors related to our purchases from Guangzhou Biohope Co., Ltd (“Guangzhou Biohope”) of raw materials including surfactants, organic flower waters, natural vegetable oils and tapioca starch used in the production of certain of our baby care products. These transactions were conducted in accordance with mutually agreed terms and we expect to continue these transactions in the ordinary course of business.

### **Purchases of finished goods from an associate**

Purchases of finished goods from an associate related to our purchases from Hangzhou Coamie Personal Care Products Co., Ltd. (“Coamie”) of baby diapers. Coamie operates the manufacturing facility where these baby diapers are produced and the manufacturing facility itself was established by a joint venture between Hangzhou Coco Healthcare Products and ourselves on January 10, 2014. These transactions were conducted in accordance with mutually agreed terms and we expect to continue these transactions in the ordinary course of business.

### **Loan to an associate**

Loan to an associate related to the RMB40 million (US\$6.2 million) loan which we lent to Coamie. The loan is unsecured, bears interest at 3% per year and is due October 31, 2016.

## DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

### Intercreditor Agreement

To establish the relative rights of certain of our creditors under our various financing arrangements, Biostime International Holdings Limited (as the “Company” or “HK Listco”), Biostime Healthy Australia Investment Pty Ltd, the borrower under the Senior Facility Agreement (as the “Borrower” or “Aus BidCo”) and other intragroup creditors and obligors under our indebtedness entered into an intercreditor agreement on April 24, 2016, as amended and restated on or around the Closing Date, with, among others, the Common Security Agent as agent for the Common Transaction Security (defined below), creditors under the Senior Facility Agreement, the agent under the Senior Facility Agreement (the “Senior Agent”) and certain secured hedging counterparties (the “Intercreditor Agreement”). On the Closing Date the Trustee under the Indenture and the trustee under the trust deed governing the Convertible Bonds each will accede to the Intercreditor Agreement. The Intercreditor Agreement is governed by English law and sets out, among other things, the relative ranking of certain elements of our debt, when payments can be made in respect of such debt, when enforcement action can be taken in respect of that debt, the terms pursuant to which certain elements of that debt will be subordinated upon the occurrence of certain insolvency events and turnover provisions, as well as other customary intercreditor provisions governing similar debt instruments.

### General

By accepting a Note, the holder thereof shall be deemed to have agreed to, and accepted the terms and conditions of, the Intercreditor Agreement. The following description is a summary of certain provisions, among others, contained in the Intercreditor Agreement that relate to the rights and obligations of the holders of the Notes and our other creditors. This description does not restate the Intercreditor Agreement in its entirety nor does it describe provisions relating to the rights and obligations of holders of other classes of our debt. As such, you are urged to read the Intercreditor Agreement in its entirety because it is that agreement, and not this description, which defines certain rights of the holders of the Notes in relation to our other creditors as well as the Company and the Subsidiary Guarantors. In this description, capitalized terms have the meanings given to them in the Intercreditor Agreement unless the contrary is otherwise stated or the context otherwise requires.

### Ranking and Priority

#### *Introduction*

The Notes and the Convertible Bonds are senior liabilities of the Company and the Subsidiary Guarantees of the Notes are subordinated liabilities of the Subsidiary Guarantors. The Notes and the Convertible Bonds are secured on a first-ranking basis by the Escrowed Property (which is referred to as “Independent HK Listco Transaction Security” in the Intercreditor Agreement) and on a second-ranking basis by the floating charge on the Company’s assets (other than assets located in the PRC and Capital Stock of subsidiaries) (which is referred to as “Common Transaction Security” in the Intercreditor Agreement). The Notes liabilities, the Convertible Bond liabilities, the Notes Trustee liabilities, the Notes Agent liabilities, the Convertible Bond Trustee liabilities and the Convertible Bond Agent liabilities are referred to as the “Pari Passu Liabilities”.

#### *Primary Creditor Liabilities*

Subject to the paragraphs below titled “Transaction Security” and “Pari Passu Liabilities and “Transaction Security,” each of the parties to the Intercreditor Agreement have agreed that:

- (i) the liabilities owed by the debtors (other than the Company) to (a) the lenders under the Senior Facility Agreement, the agent under the Senior Facility Agreement, the arrangers under the Senior Facility Agreement and certain secured hedge counterparties (collectively, the “Senior Creditors”); and (b) the Noteholders, the Notes Trustee, the Notes Agents, the



holders of the Convertible Bonds and the trustee and agents for the Convertible Bonds (collectively, the “Pari Passu Creditors” and, together with the Senior Creditors, the “Primary Creditors”) shall rank in right and priority of payment in the following order and are postponed and subordinated to any prior ranking liabilities as follows:

- a. firstly, (1) the Senior Facility liabilities, certain hedging liabilities, the Senior Agent liabilities (collectively, the “Senior Liabilities”) and (2) the Notes Trustee liabilities, the Notes Agent liabilities, the Convertible Bond Trustee liabilities and the Convertible Bond Agent liabilities (collectively, the “Senior Pari Passu Liabilities”), *pari passu* and without any preference between them; and
  - b. secondly, the Pari Passu Liabilities (other than Senior Pari Passu Liabilities) *pari passu* and without any preference between them.
- (ii) liabilities owed by the Company to the Primary Creditors shall rank *pari passu* and without any preference between them.

#### *Transaction Security*

Each of the parties agrees that the security for the benefit of the Senior Creditors, including the security described below under the following section titled “Senior Facility,” shall rank and secure the Senior Liabilities and without any preference between them.

Each of the parties agrees that the security over the Escrowed Property under the Escrow Agreement (the “Independent HK ListCo Transaction Security”) shall rank and secure the Pari Passu Liabilities and without any preference between them.

Each of the parties agrees that the floating charge on certain of the assets of the Company securing the Primary Creditors (the “Common Transaction Security”) shall rank and secure the following liabilities in the following order:

- (i) firstly, the liabilities owed to the agents for the Common Transaction Security and the agents for the Senior Creditors and the Pari Passu Creditors, *pari passu* and without any preference between them;
- (ii) secondly, the Senior Facility liabilities and certain hedging liabilities *pari passu* and without any preference between them; and
- (iii) third, the Pari Passu Liabilities (other than, for the avoidance of doubt, any liabilities related to the agents for the Pari Passu Creditors) *pari passu* and without any preference between them.

#### *Pari Passu Liabilities and Transaction Security*

The Pari Passu Creditors agree that, until the date on which all Senior Liabilities have been fully and finally discharged (the “Senior Discharge Date”), they may not take any steps to appropriate the assets of the Company subject to the Security Documents in respect of the Common Transaction Security, the Independent HK ListCo Transaction Security and the Senior Secured Transaction Security in connection with any enforcement action, other than as expressly permitted by the Intercreditor Agreement. For the avoidance of doubt, this does not impair the right of the Pari Passu Creditors to institute suit for the recovery of any payment due by the Company in respect of the Pari Passu Liabilities.

### *Senior Payment Block Event and Issue of Pari Passu Payment Stop Notice*

At any time prior to the Senior Discharge Date, if a Senior Payment Block Event (which refers to the occurrence of an Event of Default under the Senior Facility Agreement or certain Hedging Agreements relating to non-payment of an amount constituting principal, interest or fees or an other aggregate amount in excess of US\$250,000) has occurred and is continuing, except with the consent of the Majority Senior Creditors, then payments may not be made in respect of the Notes (other than a payment expressly permitted under the Intercreditor Agreement).

At any time prior to the Senior Discharge Date, if a Pari Passu Payment Stop Event (which refers to an Event of Default (other than Event of Default due to nonpayment) under the Senior Facility Agreement or certain Hedging Agreements) has occurred and is continuing, except with the prior consent of the Majority Senior Creditors and the Majority Pari Passu Creditors, and subject to the paragraph titled “Effect of an Insolvency Event” below, the Company shall procure that the Subsidiary Guarantors shall not make, and no Pari Passu Creditor may receive from any Subsidiary Guarantor, any payment in respect of the Notes (other than a payment expressly permitted under the Intercreditor Agreement) from the date on which the relevant Senior Agent or a Hedge Counterparty (the “Relevant Representative”) delivers a notice (“Pari Passu Payment Stop Notice”) to the Company, the Borrower, the Common Security Agent, each other Senior Agent, each Hedge Counterparty and each Pari Passu Creditor Representative specifying the events or circumstances relating to that Pari Passu Payment Stop Event until the earliest of:

- (i) the date falling 179 days after delivery of that Pari Passu Payment Stop Notice;
- (ii) in relation to payments of the Notes, if a Pari Passu Standstill Period is in effect at any time after delivery of that Pari Passu Payment Stop Notice, the date on which that Pari Passu Standstill Period expires;
- (iii) the date on which the relevant Pari Passu Payment Stop Event is no longer continuing and, if the relevant Senior Liabilities have been accelerated, such acceleration has been rescinded, revoked or waived provided that at such time no other Event of Default is continuing under the Senior Facility Agreement or Hedging Agreement;
- (iv) the date on which the Relevant Representative which issued the Pari Passu Payment Stop Notice (and, if at such time a Pari Passu Payment Stop Event is continuing (other than in relation to the debt in respect of which the notice was given) the relevant creditor representative in respect of that other debt) delivers a notice to the Company, the Borrower, the Common Security Agent, each Senior Agent, each Hedge Counterparty and the relevant Pari Passu Creditor Representative cancelling the Pari Passu Payment Stop Notice; and
- (v) the date on which the Pari Passu Creditors or the Pari Passu Creditor Representative(s) in respect of the Convertible Bonds and the Notes, as the case may be, are permitted to take any enforcement action under the Intercreditor Agreement. In respect of the Common Transaction Security, or the Pari Passu Creditors or the Pari Passu Creditor Representative in respect of the Notes are permitted to take any enforcement action under the Intercreditor Agreement against a Subsidiary Guarantor.

### *Restrictions on Enforcement by Pari Passu Creditors; Standstill*

At any time prior to the Senior Discharge Date, the HK Listco Notes Creditors are restricted from taking enforcement action in relation to the Subsidiary Guarantees unless:

- (i) an event of default on the Notes has occurred and is continuing (the “Relevant Event of Default”);

- (ii) each of the Security Agent and the creditor representatives with respect to the Senior Facility Agreement and any Hedging Agreements has received a notice of the Relevant Event of Default specifying the event or circumstance in relation to the Relevant Event of Default from the relevant representative (an “Enforcement Notice”);
- (iii) the relevant Pari Passu Standstill Period (as defined below) has elapsed or otherwise terminated; and
- (iv) the Relevant Event of Default is continuing at the end of the relevant Pari Passu Standstill Period.

“Pari Passu Standstill Period” means, in relation to a Relevant Event of Default, the period beginning on the date (the “Pari Passu Standstill Start Date”) any Senior Agent or Hedge Counterparty serves an Enforcement Notice on the relevant creditor representative and the Common Security Agent (with a copy to the Company) in respect of such Relevant Event of Default and ending on the earliest to occur of:

- (i) the date falling 179 days after the Pari Passu Standstill Start Date;
- (ii) the date the relevant Senior Agent takes any enforcement action against any Subsidiary Guarantor provided that if a Pari Passu Standstill Period ends pursuant to this clause (ii), the Pari Passu Creditors may only take the same enforcement action in relation to the Subsidiary Guarantee (and only against the same entity) as the enforcement action taken by the relevant Senior Agent against such Subsidiary Guarantor and may not take any other enforcement action against any other Subsidiary Guarantor;
- (iii) the date of an insolvency event (other than an insolvency event directly caused by any action taken by or at the request or direction of a Pari Passu Creditor) in relation to the Company or a particular Subsidiary Guarantor, provided that if a Pari Passu Standstill Period ends pursuant to this clause (iii), the Pari Passu Creditors may only take enforcement action against the Company or that particular Subsidiary Guarantor (as the case may be);
- (iv) the expiry of any other Pari Passu Standstill Period outstanding at the date such first mentioned Pari Passu Standstill Period commenced (unless that expiry occurs as a result of a cure, waiver or other permitted remedy);
- (v) the date of a Relevant Event of Default resulting from a failure to pay principal, interest or any other amount of the Notes at the final maturity of the Notes; and
- (vi) the date on which the Majority Senior Creditors give their consent to an early termination of the Pari Passu Standstill Period.

Similar restrictions on enforcement by the Pari Passu Creditors apply to the Company Floating Charge that comprises the Common Transaction Security.

#### *Subordinated and Intra-Group Liabilities*

Each of the parties to the Intercreditor Agreement have agreed that certain intra-group obligations (the “Intra-Group Liabilities”) and any subordinated liabilities (the “Subordinated Liabilities”) are postponed and subordinated to the liabilities owed by the Company and its subsidiaries to the Primary Creditors.

### *Limited Recourse to Australian Subsidiaries*

Each of the parties to the Intercreditor Agreement have agreed that so long as the shareholders agreement described under the section titled “The Swisse Shareholders’ Agreement” remains in force, the guarantees of any member of the Swisse Group shall be limited to US\$450 million with respect to all Primary Creditors.

### *Payment of Note Liabilities*

Prior to any event of default under the Senior Liabilities, the Company and its subsidiaries may make payments of interest or additional amounts on the Notes in accordance with the terms and conditions of the Indenture and the Notes. On or after the occurrence of any event of default under the Senior Liabilities, the Company and the Subsidiary Guarantors will make all payments in relation to the Notes to the Common Security Agent and the Common Security Agent shall apply such payments as set forth under the caption titled “Proceeds of Disposals—Application of Proceeds.”

### **Effect of an Insolvency Event**

#### *Distributions*

After the occurrence of an event of insolvency in relation to the Company or its material subsidiaries, any party entitled to receive a payment or distribution out of the assets of that entity, (in the case of receipt by (i) a Pari Passu Creditor of a payment or distribution of assets of the Company, only to the extent subject to the Common Transaction Security; and (ii) a Senior Creditor of a payment or distribution of assets of the Company or its subsidiaries, only to the extent that such amount constitutes proceeds of enforcement) in respect of liabilities owed to that party shall, to the extent it is able to do so, direct the person responsible for the distribution of the assets of that entity to pay that distribution to the Common Security Agent until the liabilities owing to the secured creditors have been paid in full provided that with respect to an insolvency event in relation to the Company, this provision will not apply to the Pari Passu Creditors except to the extent that such distribution relates to the Common Transaction Security. The Common Security Agent shall apply distributions paid to it under the provisions of this paragraph in the manner described in the paragraph below titled “—Application of Proceeds.”

Subject to certain exceptions provided for multi-account overdraft facilities and certain hedging arrangements, to the extent that any liabilities of the Company (to the extent relating to the Common Transaction Security) or its subsidiaries are discharged by way of set-off (mandatory or otherwise) after the occurrence of an insolvency event in relation to the Company or its subsidiaries, any creditor that benefited from that set-off will (in the case of a Senior Creditor, only to the extent that such amount constitutes proceeds of enforcement) pay an amount equal to the amount of the liabilities owed to it that were discharged by that set-off to the Common Security Agent for application in the manner described in the paragraph below titled “—Application of Proceeds.”

If the Common Security Agent or any other Secured Creditor receives a distribution in a form other than in cash, the liability owed to the Common Security Agent or such Secured Creditor, as the case may be, will not be reduced by that distribution until and except to the extent that the realization proceeds are actually applied towards such liability.

### *Filing of Claims and Creditor's Actions*

After the occurrence of an insolvency event in relation to the Company or any of its subsidiaries, each creditor party to the Intercreditor Agreement will irrevocably authorize the Common Security Agent on its behalf, to:

- take any enforcement action (in accordance with the terms of the Intercreditor Agreement) against the Company (in connection with the Common Transaction Security) or that member of the group;
- demand, sue, prove and give receipt for any or all of the Company or that member of the group's liabilities;
- collect and receive all distributions on, or on account of, any or all of that member of the group's liabilities; and
- file claims, take proceedings and do all other things reasonably necessary to recover the Company or that member of the group's liabilities.

In addition, the Intercreditor Agreement provides that each creditor will (i) do all things that the Common Security Agent requests in order to give effect to the provisions described in this section titled "Effect of an Insolvency Event" and (ii) if the Common Security Agent is not entitled to take any of the actions contemplated by the Intercreditor Agreement or if the Common Security Agent requests that a creditor take that action, undertake that action itself in accordance with the instructions of the Common Security Agent or grant a power of attorney to the Common Security Agent (on such terms as the Common Security Agent may reasonably require) to enable the Common Security Agent to take such action.

For the purposes of the Intercreditor Agreement, the Common Security Agent shall act (i) on the instructions of the group of Primary Creditors entitled, at that time, to give instructions as set forth in the section below titled "—Enforcement" or (ii) in the absence of any such instructions, as the Common Security Agent sees fit.

In addition, the Intercreditor Agreement provides that each Pari Passu Creditor will (i) do all things that the Security Agent for the Notes and the Convertible Bond (the "Notes Security Agent") requests in order to give effect to the provisions described in this section titled "Effect of an Insolvency Event" section and (ii) if the Notes Security Agent is not entitled to take any of the actions contemplated by the Intercreditor Agreement or if the Notes Security Agent requests that a creditor take that action, undertake that action itself in accordance with the instructions of the Notes Security Agent or grant a power of attorney to the Notes Security Agent (on such terms as the Notes Security Agent may reasonably require) to enable the Notes Security Agent to take such action.

For the purposes of the Intercreditor Agreement, the Notes Security Agent shall act (i) on the instructions of the group of Pari Passu Creditors entitled, at that time, to give instructions as set forth out in the section below titled "—Enforcement" or (ii) in the absence of any such instructions, as the Notes Security Agent sees fit.

## Turnover

Subject to certain limited exceptions in the Intercreditor Agreement, if, at any time prior to the date on which all Senior Liabilities, if any, are fully paid and discharged, any creditor receives or recovers any proceeds from enforcement relating to the Senior Secured Transaction Security or the Common Transaction Security except in accordance with the section below titled “—Application of Proceeds,” the relevant creditor will:

- (i) in relation to receipts and recoveries not received or recovered by way of set-off:
  - a. hold an amount of that receipt or recovery equal to the amount owed to such creditor (or, if less, the amount received or recovered) on trust for the Common Security Agent and promptly pay that amount to the Common Security Agent for application in accordance with the terms of the Intercreditor Agreement; and
  - b. promptly pay an amount equal to the amount (if any) by which the receipt or recovery exceeds the amount owed to such creditor to the Common Security Agent for application in accordance with the terms of the Intercreditor Agreement; and
- (ii) in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Common Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Subject to the immediately preceding paragraph and certain limited exceptions in the Intercreditor Agreement, if at any time prior to the date on which all Senior Liabilities and Pari Passu Liabilities are fully paid and discharged, any Pari Passu Creditor receives or recovers:

- (i) any payment or distribution of, or on account of or in relation to, any of the Liabilities which is not either (a) a Permitted Payment (as defined in the Intercreditor Agreement, and including interest and Additional Amounts, if any, with respect to the Notes); or (b) made in the manner described below under the section below titled “—Application of Proceeds”;
- (ii) other than as set forth above under the heading “—Distributions,” any amount by way of set-off in respect of any of the liabilities owed to it that does not give effect to a Permitted Payment;
- (iii) notwithstanding the preceding provisions, and other than as set forth above under the heading “—Distributions,” any amount (a) paid to a creditor (A) after the occurrence of certain distress events or (B) as a result of any other litigation or proceedings against the Company or any of its subsidiaries (other than after the occurrence of an insolvency event in respect of that member of the group) or (b) by way of set-off in respect of any of the liabilities owed to it after the occurrence of certain distress events, (c) other than, in each case, any amount received or recovered in accordance with the provisions described below under “—Application of Proceeds”;
- (iv) the proceeds of any enforcement of the Common Transaction Security, except in accordance with the provisions described below under “—Application of Proceeds”; or
- (v) other than as set forth above under the second paragraph under the heading “—Effect of an Insolvency Event—Distributions,” any distribution on account of or in relation to, any of the liabilities owed by the Company or any member of the group which is not in accordance with the provisions described below under “—Application of Proceeds” and which is made as a result of, or after, the occurrence of an insolvency event in respect of the Company or that member of the group,

that creditor will:

- (i) in relation to receipts and recoveries not received or recovered by way of set-off:
  - a. hold an amount of that receipt or recovery equal to the amount owed to such creditor (or, if less, the amount received or recovered) on trust for the Common Security Agent and promptly pay that amount to the Common Security Agent for application in accordance with the terms of the Intercreditor Agreement; and
  - b. promptly pay or distribute an amount equal to the amount (if any) by which the receipt or recovery exceeds the amount owed to such creditor to the Common Security Agent for application in accordance with the terms of the Intercreditor Agreement; and
- (ii) in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Common Security Agent for application in accordance with the terms of the Intercreditor Agreement.

## **Enforcement**

### *Instructions*

For purposes of the Intercreditor Agreement an “Instructing Group” means: (i) at any time prior to the Senior Discharge Date (a) subject to (b), the Majority Senior Creditors (as defined in the Senior Facility Agreement); (b) in relation to instructions as to enforcement of the Common Transaction Security and the HK Listco Transaction Security (collectively, the “Transaction Security”), the group of Primary Creditors entitled to give such instructions; and (ii) on or after the Senior Discharge Date, the Majority Pari Passu Creditors (*pari passu* credit participations that aggregate more than 50% of the total *pari passu* credit participations at that time).

Subject to the provisions below, the Common Security Agent may refrain from enforcing the Senior Secured Transaction Security and/or Common Transaction Security unless instructed otherwise by an Instructing Group; or, prior to the Senior Discharge Date, if the Majority Senior Creditors have instructed the Common Security Agent to cease or not to proceed with enforcement or in the absence of instructions as to Enforcement from the Majority Senior Creditors, the Common Security Agent will give effect to any instructions to enforce the Common Transaction Security which the creditor representative(s) for the Pari Passu Creditors (acting on the instructions of the Majority Pari Passu Creditors).

Notwithstanding the provisions set out in the preceding paragraph, if at any time prior to the Senior Discharge Date the creditor representatives for the Pari Passu Creditors are entitled to give the Common Security Agent instructions to enforce the Common Transaction Security pursuant to the provisions set out in the preceding paragraph and the creditor representatives for the Pari Passu Creditors give such instruction, then the Majority Senior Creditors (as defined in the Senior Facility Agreement) may give instructions to the Common Security Agent as to enforcement in lieu of any instructions to enforce given by the creditor representatives for the Pari Passu Creditors and the Common Security Agent will act on the first such instructions received.

The creditor representative for the Pari Passu Liabilities may refrain from enforcing the Independent HK ListCo Transaction Security unless instructed otherwise by the CB/HK Creditor Representative (the Notes Trustee and the Convertible Bond Trustee). Subject to the Independent HK ListCo Transaction Security becoming enforceable in accordance with its terms, the Majority CB/HK Creditors (credit participations that aggregate more than 50% of the total aggregate outstanding principal amount of outstanding Notes and Convertible Bonds at that time) may give or refrain from giving instructions to the Security Agent for the Pari Passu Liabilities to enforce or refrain from enforcing the Independent HK ListCo Transaction Security as they see fit.

### *Manner of Enforcement*

If the Senior Secured Transaction Security or the Common Transaction Security is being enforced pursuant to the provisions set out above, the Common Security Agent will enforce the Common Transaction Security or the Senior Secured Transaction Security or take other action as to enforcement in such manner (including the selection of any administrator (or any analogous officer in any jurisdiction) of any debtor to be appointed by the Common Security Agent) as:

- (i) the Instructing Group shall instruct; or
- (ii) (in respect of the Common Transaction Security only) if, prior to the Senior Discharge Date:
  - a. the Common Security Agent has received instructions given by the Majority Pari Passu Creditors to enforce the Common Transaction Security; and
  - b. the Instructing Group has not given instructions as to Enforcement,

the Majority Pari Passu Creditors shall instruct, *provided* that (in the case of paragraph (i) above and prior to the Senior Discharge Date only) such instructions are consistent with the enforcement principles or, in the absence of any such instructions, as the Common Security Agent considers in its discretion to be appropriate and consistent with the enforcement principles.

If the Independent HK ListCo Transaction Security is being enforced pursuant to the final paragraph under “—Instructions” above, the Security Agent for the Pari Passu Liabilities shall enforce the Independent CB/HK Transaction Security in such manner as the Majority CB/HK Creditors shall instruct or in the absence of any such instructions, as the Security Agent for the Pari Passu Liabilities sees fit.

### *Exercise of Voting Rights*

Subject to the following two paragraphs, each creditor will cast its vote in any proposal put to the vote by or under the supervision of any judicial or supervisory authority in respect of any insolvency, pre-insolvency or rehabilitation or similar proceedings relating to the Company (insofar as it relates to the enforcement, protection or preservation of the Common Transaction Security and Senior Secured Transaction Security only) or any subsidiary as instructed by the Common Security Agent as instructed by the Instructing Group in accordance with “—Instructions” above.

Each Creditor (other than a Primary Creditor) will cast its vote in any proposal put to the vote by or under the supervision of any judicial or supervisory authority in respect of any insolvency, pre-insolvency or rehabilitation or similar proceedings relating to the Company (insofar as it does not relate to the enforcement, protection or preservation of the Common Transaction Security and Senior Secured Transaction Security) as instructed by the creditor representative acting on behalf of the Majority Pari Passu Creditors.

The foregoing does not entitle any party to exercise or require any other Primary Creditor to exercise such power of voting or representation to waive, reduce, discharge, extend the due date for (or change the basis for accrual of any) payment of or reschedule any of the liabilities owed to that Primary Creditor.

### *Waiver of Rights*

To the extent permitted under applicable law and subject to the provisions of the Intercreditor Agreement relating to enforcement instructions, manner of enforcement, distressed disposals and application of proceeds, the Intercreditor Agreement provides that each of the secured parties and the debtors shall waive all rights it may otherwise have to require that the Transaction Security be



enforced in any particular order or manner or at any particular time or that any sum received or recovered from any person, or by virtue of the enforcement of any of the Transaction Security or of any other security interest, which is capable of being applied in or towards discharge of any of the secured obligations is so applied.

## **Proceeds of Disposals**

### *Non-Distressed Disposals*

For purposes of the following summaries, “Non-Distressed Disposals” means a disposal of an asset of a debtor or an asset which is subject to the Transaction Security to a person or persons outside the group where:

- (i) the creditor representative in respect of each relevant debt document notifies the relevant security agent that that disposal is permitted or otherwise not prohibited under its debt documents;
- (ii) a director of the Company certifies for the benefit of the relevant security agent that the disposal and, if the disposal is of charged property, the release of Transaction Security:
  - a. in respect of the Independent HK ListCo Transaction Security, it is permitted or otherwise not prohibited under the relevant debt documents or the creditor representative in respect of the Indenture and the Convertible Bond Trust Deed authorizes the release; and
  - b. in respect of the Common Transaction Security, is permitted or otherwise not prohibited under (i) the terms of the Senior Liabilities (or the Senior Representative in respect of each relevant Senior Agreement authorizes the release) and (ii) the terms of the Pari Passu Liabilities (the creditor representative in respect of the Indenture and the Convertible Bond Trust Deed authorizes the release);

(*provided* that such certificate has been provided to the relevant creditor representative(s) and the relevant creditor representative(s) have not objected to such certificate within three business days of receipt of such certificate); and

- (iii) that disposal is not a Distressed Disposal described below.

If a disposal of an asset is a Non-Distressed Disposal, the relevant security agent is irrevocably authorized (at the cost of the debtors without any consent, sanction, authority or further confirmation from any creditor, other secured party or debtor) to release the security or any other claim over that asset. If any disposal proceeds are required to be applied in mandatory prepayment of any Senior Liabilities or any Pari Passu Liabilities, those disposal proceeds shall be applied in accordance with the applicable debt documents and no consent shall be required for such action.

### *Distressed Disposals*

For purposes of the following summaries, “Distressed Disposal” means a disposal of an asset or shares of a member of the group (other than the Company) which is (i) being effected at the request of an Instructing Group in circumstances where the Transaction Security has become enforceable, (ii) being effected by enforcement of the Transaction Security, (iii) being effected, after the occurrence of certain distress events, by a Debtor to a person or persons which is not a member of the group.

If a Distressed Disposal is being effected, the Common Security Agent is irrevocably authorized (at the cost of the Company and without any consent, sanction, authority or further confirmation from any creditor or debtor):

- (i) to release the Senior Secured Transaction Security and/or the Common Transaction Security (as applicable) or any other claim over the asset subject to the Distressed Disposal and execute and deliver or enter into any release of the Senior Secured Transaction Security and/or the Common Transaction Security (as applicable) or claim and issue any letters of non-crystallization of any floating charge;
- (ii) if the asset subject to the Distressed Disposal consists of shares in the capital of a debtor or a holding company of a debtor, to release the liabilities and any security subject to the Intercreditor Agreement of such entity and its subsidiaries and their respective assets;
- (iii) make facilitative disposals of liabilities on a share sale, subject to certain requirements;
- (iv) sell liabilities on a share sale, subject to certain requirements;
- (v) transfer obligations in respect of liabilities on a share sale, subject to certain requirements;

The net proceeds of each Distressed Disposal shall be paid, or distributed, to the Common Security Agent for application in accordance with the provisions described under the section below titled “Application of Proceeds” and, to the extent that any disposal of liabilities upon a share sale has occurred as set out above, as if that disposal had not occurred.

In the event of any Distressed Disposal of Pari Passu Liabilities (including the Subsidiary Guarantees) or Common Transaction Security or assets of a Subsidiary Guarantor or Company, the release is conditioned on either:

- (i) the approval by the Trustee and the Convertible Bond Trustee; or
- (ii) the following conditions are satisfied:
  - a. the proceeds are received in cash (or substantially in cash);
  - b. the proceeds are applied in accordance with the section below with respect to Common Recoveries;
  - c. the sale or disposal is made by way of a competitive sale process or the Common Security Agent has received a fairness opinion with respect thereto; and
  - d. the relevant Senior Creditors shall simultaneously release (or unconditionally transfer to the purchaser) all such liabilities by the relevant debtor to them and each of its direct and indirect subsidiaries.

#### *Application of Proceeds*

In general, all amounts from time to time received or recovered by the Common Security Agent in connection with the realization or enforcement of all or any part of the Senior Secured Transaction Security and/or the Common Transaction Security (the “Common Recoveries”) shall be held by the Common Security Agent on trust to apply them at any time as the Common Security Agent (in its discretion) sees fit, to the extent permitted by applicable law (and subject to the appropriate provisions of the Intercreditor Agreement), in the following order of priority:

- (i) in payment of any sums owing to the Common Security Agent, any receiver or any delegate and, in payment to the creditor representatives (for its own account);

- (ii) in discharging all costs and expenses incurred by any creditor representative or Primary Creditor in connection with any realization or enforcement of the Common Transaction and/or Senior Secured Transaction Security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Common Security Agent in accordance with certain provisions of the Intercreditor Agreement;
- (iii) in payment or distribution to:
  - a. each creditor representative in respect of a Senior Facility on its own behalf and on behalf of the Senior Creditors for which it is the creditor representative; and
  - b. certain hedge counterparties,

for application towards the discharge of the Senior Facility Liabilities and hedging liabilities;

- (iv) to (a) the Notes Trustee for the Notes Liabilities, on its own behalf and on behalf of the holders of the Notes Liabilities for application towards the discharge of the Notes Liabilities (in accordance with the terms of the Indenture); and (b) the Convertible Bond Trustee for the Convertible Bond liabilities, on its own behalf and on behalf of the holders of the Convertible Bond liabilities for application towards the discharge of the Convertible Bond liabilities (in accordance with the terms of the trust deed governing the Convertible Bond) on a *pro rata* basis and ranking *pari passu* among them;
- (v) if none of the debtors is under any further actual or contingent liability under any finance documentation applicable to the Senior Liabilities or Pari Passu Liabilities, in payment to any person to whom the Common Security Agent is obliged to pay in priority to any debtor; and
- (vi) the balance, if any, in payment or distribution to the relevant debtor.

In general, all amounts from time to time received or recovered by the Notes Security Agent in connection with the realization or enforcement of all or any part of the Independent HK ListCo Transaction Security (the “Independent HK ListCo Recoveries”) shall be held by the Common Security Agent on trust to apply them at any time as the Notes Security Agent (in its discretion) sees fit, to the extent permitted by applicable law (and subject to the appropriate provisions of the Intercreditor Agreement), in the following order of priority:

- (i) in payment of any sums owing to the Trustee, the Convertible Bond Trustee, the Notes Security Agent, any receiver or any delegate;
- (ii) in discharging all costs and expenses incurred by Notes Security Agent, Noteholders or Convertible Bond holders in connection with any realization or enforcement of the Independent HK ListCo Transaction Security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Notes Security Agent in accordance with certain provisions of the Intercreditor Agreement in payment or distribution to (a) the Notes Trustee for the Notes Liabilities, on its own behalf and on behalf of the holders of the Notes Liabilities for application towards the discharge of the Notes Liabilities (in accordance with the terms of the Indenture); and (b) the Convertible Bond Trustee for the Convertible Bond liabilities, on its own behalf and on behalf of the holders of the Convertible Bond liabilities for application towards the discharge of the Convertible Bond liabilities (in accordance with the terms of the trust deed governing the Convertible Bond) on a *pro rata* basis and ranking *pari passu* among them;

- (iii) if none of the debtors is under any further actual or contingent liability under any finance documentation applicable to the Senior Liabilities or Pari Passu Liabilities, in payment to any person to whom the Notes Security Agent is obliged to pay in priority to any debtor; and
- (iv) the balance, if any, in payment or distribution to the relevant debtor.

### **Equalization**

If (i) the Common Security Agent or a creditor representative is not entitled, for reasons of applicable law, to pay amounts received pursuant to the making of a demand under any guarantee, indemnity or other assurance against loss or the enforcement of the Common Transaction Security to the relevant Senior Creditors but is entitled to distribute those amounts to creditors (such creditors, the “Receiving Creditors”) who, in accordance with the terms of the Intercreditor Agreement, are subordinated in right and priority of payment to the Senior Creditors and (ii) the Senior Discharge Date has not yet occurred (nor would occur after taking into account such payments), then the Receiving Creditors shall make such payments or distributions to the relevant Senior Creditors as the Common Security Agent shall require to place the relevant Senior Creditors in the position they would have been had such amounts been available for application against the Senior Liabilities.

### **Consents**

Subject to the provisions below, that the Intercreditor Agreement may be amended or waived only with the consent of the creditor representatives, including the Trustee and Convertible Bond Trustee, the Majority Senior Creditors (as defined in the Senior Facility Agreement), and each Security Agent.

An amendment or waiver which relates to the equalization provisions may be amended or waived with the consent of the Common Security Agent and each Affected Party and shall not require the consent of any other Party which is not an affected party.

An amendment or waiver which relates to the enforcement instructions of the Common Transaction Security may be amended or waived with the consent of the Majority Senior Creditors (as defined in the Senior Facility Agreement) and the Common Security Agent and without the consent of: (A) any Pari Passu Creditor to the extent that amendment or waiver does not impose obligations on that Pari Passu Creditor; or (B) the Company, any debtor, any intra-group lender or any subordinated creditor to the extent that that amendment or waiver does not impose obligations on the Company, any debtor, any intra-group lender or any subordinated creditor.

An amendment or waiver which relates to certain hedging guarantees and indemnities of counter parties may be amended or waived with the consent of each Hedge Counterparty to the extent that that amendment or waiver complies with certain restrictions on security the hedge counterparties may take in the Intercreditor Agreement and does not affect the Senior lenders.

An amendment or waiver that has the effect of changing or which relates to (i) certain provisions regarding redistribution and the application of proceeds (ii) certain provisions relating to the giving of instructions to the Security Agent; (iii) the order of priority or subordination set out in the Intercreditor Agreement; (iv) certain provisions relating to turnover shall not be made without the consent of: (A) the creditor representatives; (B) the Senior lenders; (C) Note Trustee on behalf of the Noteholders in respect of which it is the creditor representative; (D) Convertible Bond Trustee on behalf of the Convertible Bond holders in respect of which it is the creditor representative; (E) each hedge counterparty (to the extent that the amendment or waiver would adversely affect the hedge counterparty); (F) each Security Agent; and (G) the Company.

## **Amendments and Waivers in Respect of the Transaction Security Documents**

Subject to the paragraphs below and unless the provisions of any debt document expressly provide otherwise, the relevant Security Agent may, if authorized by an Instructing Group in the case of the Common Transaction Security or the Majority Pari Passu Creditors in the case of the Independent HK ListCo Transaction Security, and if the Company consents, amend the terms of, waive any of the requirements of or grant consents under, any of the Transaction Security Documents which shall be binding on each party.

Subject to certain exceptions, any amendment or waiver of, or consent under, any Independent HK ListCo Transaction Security document which adversely affects the rights of the Primary Creditors that benefit from such Independent HK ListCo Transaction Security document or which has the effect of changing or which relates to: (i) the nature or scope of the Independent HK ListCo charged property; (ii) the manner in which the proceeds of enforcement of the Independent HK ListCo Transaction Security are distributed; or (iii) the release of any Independent HK ListCo Transaction Security, shall not be made without the prior consent of the Pari Passu Creditors pursuant to the Indenture and Convertible Bond Indenture.

Subject to certain exceptions, any amendment or waiver of, or consent under, any Common Transaction Security document which adversely affects the rights of the Primary Creditors that benefit from such Common Transaction Security document or which has the effect of changing or which relates to: (i) the nature or scope of the Common Transaction Security charged property; (ii) the manner in which the proceeds of enforcement of the Common Transaction Security are distributed; or (iii) the release of any Common Transaction Security, shall not be made without the prior consent of the required threshold of consenting Senior Lenders pursuant to the Senior Facility Agreement and the consent of the hedge counterparties and each Pari Passu creditor representative on behalf of the required threshold of consenting Pari Passu Creditors in respect of which it is the creditor representative.

Subject to the paragraph below, an amendment, waiver or consent which relates to the rights or obligations of a creditor representative, an arranger, any security agent (including, any ability of the Security Agent to act in its discretion under the Intercreditor Agreement) or a hedge counterparty may not be effected without the consent of that creditor representative or, as the case may be, that arranger, the security agent or that hedge counterparty.

The preceding paragraph shall not apply: (i) to any release of Transaction Security, claim or liabilities; or (ii) to any consent, which, in each case, a Security Agent gives in accordance with the applicable terms of the Intercreditor Agreement.

### **Override**

Unless expressly stated otherwise in the Intercreditor Agreement, the Intercreditor Agreement overrides anything in the Indenture to the contrary.

Notwithstanding anything to the contrary in the Intercreditor Agreement, the preceding paragraph will not cure, postpone, waive or negate in any manner any default or event of default (however described) under any debt document as provided in the relevant debt documents.

### **Refinancing**

The Intercreditor Agreement contemplates refinancing in whole or in part of the Senior Liabilities and the Pari Passu Liabilities, the releasing and relocating of security if so required and the continuance of the Intercreditor Agreement.

## Senior Facility

### Overview

On April 24, 2016, we entered into a syndicated facility agreement (the “Senior Facility Agreement”) providing for a US\$450 million term loan facility (the “Loan Facility”), with The Hongkong and Shanghai Banking Corporation Limited as agent and security agent and affiliates of Goldman Sachs (Asia) L.L.C., as mandated lead arranger and original lender. The borrower under the Senior Facility Agreement is Biostime Healthy Australia Investment Pty Ltd. (the “Borrower”).

The Loan Facility was made available to us in a single installment on April 27, 2016 (the “Closing Date”), the proceeds of which were used to refinance a US\$450 million Bridge Loan that was incurred by us for financing the acquisition of our 83% shareholding in Swisse. See “The Swisse Shareholders’ Agreement.”

### Repayments and prepayments

The Loan Facility will mature three years from the Closing Date. The principal amount of the Loan Facility will be repaid in six installments over the term of the Loan Facility, as described below:

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<b>Repayment date</b>	<b>Repayment installment</b>
Date falling six months after the Closing Date.....	US\$27.5 million
Date falling 12 months after the Closing Date .....	US\$27.5 million
Date falling 18 months after the Closing Date .....	US\$35 million
Date falling 24 months after the Closing Date .....	US\$35 million
Date falling 30 months after the Closing Date .....	US\$45 million
Date falling 36 months after the Closing Date .....	Remainder of the outstanding loan

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Subject to certain conditions, we may voluntarily prepay our utilization under the Loan Facility in a minimum amount of US\$2.5 million by giving not less than three business days’ prior notice to the agent under the Loan Facility. If we voluntarily prepay an amount under the Loan Facility, the amount of any repayment installment for each repayment date falling after that prepayment will reduce by the amount of the prepaid amount in such manner as we elect. We may not reborrow any part of the Loan Facility which is prepaid.

In addition to voluntary prepayment, the Senior Facility Agreement requires mandatory prepayment in full or in part in certain circumstances, including:

- (i) with respect to any lender, if it becomes unlawful for such lender to perform any of its obligations under the Loan Facility or to fund, issue or maintain its participation in the loan;

- (ii) upon the occurrence of:
  - a. any flotation of the Company or any subsidiary of the Company; or
  - b. a change of control; or
  - c. the sale of all or substantially all of the assets of the Company and its subsidiaries (the “Group”); and
- (iii) subject to certain criteria, from the net proceeds of disposals and from net insurance proceeds.

### **Interest and Fees**

The Loan Facility will initially bear interest at a rate per annum equal to LIBOR plus certain mandatory costs and a margin of 3.75% per annum. The margin may be reduced by reference to the net leverage ratio of the Group, subject to certain terms in the Senior Facility Agreement. We are also required to pay an arrangement fee and certain fees to the mandated lead arranger, the agent and the security agent in connection with the Loan Facility.

### **Security and Guarantees**

The Loan Facility is guaranteed on a joint and several basis by the Company and certain of the Company’s subsidiaries. The Loan Facility requires that each of our subsidiaries, whose EBITDA or gross assets represents 5% or more of the consolidated EBITDA or consolidated gross assets of the Group, guarantee the Loan Facility. In addition, the Loan Facility requires that the EBITDA and gross assets of all guarantors represent not less than 90% of the consolidated EBITDA and the consolidated gross assets of the Group.

The Loan Facility is secured by fixed and floating charges (in respect of Biostime Hong Kong Limited, a floating charge only) over all present and future assets of the Company and certain of the guarantors and assignments over the Company’s and certain of the guarantors’ rights to their material contracts and insurance policies. In addition, share pledges over the guarantors’ shares secured the obligations under the Loan Facility. All new shareholder loans and all intercompany loans, subject to certain criteria, are required to be subordinated and assigned by way of security.

### **Covenants**

The Loan Facility contains customary affirmative and restrictive covenants, including, but not limited to:

- covenants relating to obtaining required authorizations; compliance with laws and financial assistance legislation; payment of taxes; *pari passu* ranking of unsecured payment obligations; limitations on granting security, guarantees and indemnities; limitations on financial indebtedness; limitations on disposals, loans, acquisitions and joint ventures; limitations on share issue, dividends and share redemption; compliance with environmental laws; information about environmental claims; intellectual property; insurance and pensions; arm’s length transactions; preservation of assets; holding company restrictions; no change of business; entering into derivative transactions; guarantor coverage (as described above); sanctions, anti-corruption and anti-money laundering;
- information covenants relating to providing annual, semi-annual and quarterly financial statements of the Group and compliance certificates, granting the agent and the security agent access to the Company; and
- covenants relating to restrictions on repayment or prepayment of any subordinated debt.

## **Financial covenants**

The Loan Facility requires us to ensure that we maintain a certain net leverage ratio (as defined in the Senior Facility Agreement) for the Group, starting at 3.75:1 for the four quarter period ended June 30, 2016 and decreasing to 3.25:1 for periods expiring in 2017, and 3.00:1 thereafter. We are also required to ensure that we maintain a certain interest coverage ratio (as defined in the Senior Facility Agreement) of the Group, of 3.50:1 for the four quarter period ended June 30, 2016 and increasing to 4.00:1 for periods expiring in 2017 and thereafter. These financial covenants are to be tested quarterly on a rolling 12 month basis.

## **Events of Default**

The Loan Facility contains customary events of default (subject in certain cases to agreed grace periods, thresholds and other qualifications) which include, but are not limited to, the following:

- non-payment of any amount when due;
- failure to comply with financial covenants, conditions subsequent and other provisions of the Senior Facility Agreement;
- material inaccuracy of a representation or warranty when made;
- unlawfulness to perform obligations under the Senior Facility Agreement;
- cross-default to financial indebtedness;
- insolvency and related insolvency events of members of the Group;
- qualification of the audit report for audited annual consolidated financial statements of the Company;
- expropriation of assets of the Group;
- repudiation and rescission of the Senior Facility Agreement;
- cessation of business of the Group;
- material adverse change;
- material litigation; and
- delisting or suspension of trading of the Company.

The occurrence of any event of default which is continuing would, subject to agreed grace periods, thresholds and other qualifications, allow lenders, among other things, to declare that all or part of the loans, together with interest and any other amounts accrued, be immediately due and payable, and/or exercise or direct the security agent to exercise any rights, remedies, powers or discretions under the documents of the Loan Facility.

## **Governing Law**

The Senior Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.



## Convertible Bonds

On February 20, 2014, we issued the Convertible Bonds convertible (unless previously redeemed, converted or purchased and cancelled) at the option of the holder of the Convertible Bonds into fully paid ordinary shares of the Company (the “Shares”) with a par value of HK\$0.01 at an initial conversion price of HK\$90.84 per Share. As of March 31, 2016, the aggregate amount of the Convertible Bonds outstanding was RMB2,669.7 million (US\$412.1 million). The proceeds of the offering were used to finance expansion of existing businesses and for general corporate purposes. The Convertible Bonds will mature on February 20, 2019 (the “Convertible Bonds Maturity Date”).

The terms and conditions of the Convertible Bonds are governed by English law.

Unless previously redeemed, converted or purchased and cancelled, we may redeem each Convertible Bond at 115.34% of its principal amount on the Convertible Bonds Maturity Date. The Convertible Bonds may be, at the option of the holders of the Convertible Bonds, redeemed, in whole or in part of such holders’ Convertible Bonds on February 20, 2017 at their early redemption amount prior such date. The Convertible Bonds may also be, at the option of the holders of the Convertible Bonds, redeemed, in whole or in part of such holders’ Convertible Bonds at their early redemption amount if (i) the Shares cease to be listed or admitted to trading or suspended for a period equal to or exceeding 45 consecutive trading days on the relevant stock exchange or (ii) there is a change of control.

The Convertible Bonds also contain customary events of default, with customary exceptions and certain materiality thresholds. The Convertible Bonds may be accelerated in the event of, *inter alia*, a default relating to the Company or any of its subsidiaries in respect of indebtedness which equals or exceeds HK\$100,000,000.

The Convertible Bonds also require that the Company will not create, or have outstanding, any mortgage, charge, lien, pledge or other security interest upon the whole or any part of our present or future undertaking, assets or revenues (including any uncalled capital) to secure certain traded indebtedness, or any guarantee or indemnity in respect of any type of publicly traded debt instrument, without providing the same security for the Convertible Bonds. The security for the Notes will be shared with the Convertible Bonds on a *pari passu* basis.

The Convertible Bonds are listed on the SEHK effective on February 21, 2014.

The Convertible Bonds may be, in whole or in part (as applicable), repurchased, redeemed and/or repaid with the proceeds of this Offering that will be deposited into the Escrow Account. For further information, see “Use of Proceeds” and “Description of the Notes.”

## Other PRC borrowings

Certain of our PRC subsidiaries have entered into loan agreements with China Construction Bank. These loans are typically for working capital purposes and have terms less than one year. The principal amounts outstanding under our borrowings in the PRC generally bear interest at fixed rates which are generally payable either monthly or quarterly and must be paid on each payment date as provided in the particular loan agreement.

Some customary restrictive covenants included in such loan agreements include:

- without the prior consent of the lender, our subsidiary borrower may not undertake any restructuring or reorganization, transfer any equity, make any investment, sell, transfer, lend, lease out or otherwise dispose of a material part of its assets, substantially increase its indebtedness, provide guarantees in respect of indebtedness of any third party or grant security interests over its material assets;

- without the prior consent of the lender, our subsidiary borrower may not create or permit to exist any security interest over certain assets;
- the lender may require early repayment of the term loan upon the occurrence of any event that materially and adversely affects the lender's rights; and
- the lender may demand additional collateral or guarantees if it reasonably believes that the security and guarantees for the PRC term loans in question may be adversely affected.

As of March 31, 2016, the aggregate outstanding amount under the loan agreements our PRC subsidiaries have entered into was RMB430 million (US\$66.4 million). See "Capitalization."

## DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes”, the term “Company” refers only to Biostime International Holdings Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company that Guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, The Hongkong and Shanghai Banking Corporation Limited, as security agent (the “Security Agent”) and HSBC Bank USA, National Association, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees, the Security Documents and the Escrow Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees, the Security Documents and the Escrow Agreement. It does not restate those agreements in their entirety. We urge you to read the Indenture (including the forms of the Note) because the Indenture, and not this description, defines your rights as Holders of the Notes. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference.

### **Brief Description of the Notes**

The Notes will, upon issuance:

- be general secured obligations of the Company;
- be secured as set forth under “—Security”;
- be senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- be subordinated to all existing and future secured Indebtedness of the Company that is secured on a first-priority basis by assets that secure the Notes on a junior ranking basis (including the Indebtedness under the Credit Agreement and certain Hedging Obligations) or secured by assets of the Company that do not secure the Notes (including PRC assets and share pledges), to the extent of the value of the assets securing such Indebtedness;
- be guaranteed by the Subsidiary Guarantors on a senior subordinated basis, subject to the terms of the Intercreditor Agreement or any Additional Intercreditor Agreement, and to the limitations described below under “—The Subsidiary Guarantees” and in “Risk Factors—Risks Relating to the Notes, the Subsidiary Guarantees and the Collateral”; and
- be effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below).

The Notes will mature on June 21, 2021, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “—Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will bear interest at 7.25% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on December 21 and June 21 of each year (each an “Interest Payment Date”), commencing December 21, 2016. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Interest on the Notes will be paid to the Holders of record at the close of business on December 1 or June 1 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of, premium (if any) on, or interest on, the Notes is not a Business Day (as defined below), then payment of principal, premium (if any) or interest need not be made in such place on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of the Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be an office of the Paying Agent, currently located at 452 Fifth Avenue—8E6, New York, NY 10018, United States of America, Attention: Corporate Trust and Loan Agency), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed (at the expense of the Company) to the address of the Holders as such address appears in the Note register maintained by the Note Registrar or by wire transfer. Interest payable on the Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day following payment thereof.

### **The Subsidiary Guarantees**

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of the Company’s Restricted Subsidiaries that are obligors under the Credit Agreement, other than Restricted Subsidiaries organized under the laws of the PRC. The initial Subsidiary Guarantors will be Biostime International Investment Limited, Biostime Hong Kong Limited, Biostime Healthy (BVI) Limited, Biostime Healthy (Cayman) Limited, Biostime Healthy II (BVI) Limited, Biostime Healthy Hong Kong Limited, Biostime Healthy Australia Investment Pty Ltd, Biostime Healthy Australia Pty Ltd, Biostime Healthy Australia Holdings Pty Ltd, Swisse Wellness Group Pty Ltd, SWG Holdco Pty Ltd and Swisse Wellness Pty Ltd.

As described below under “—Certain Covenants—Limitation on Issuances of Guarantees by Restricted Subsidiaries” and subject to the Intercreditor Agreement, or any Additional Intercreditor Agreement, certain Restricted Subsidiaries that guarantee the Credit Agreement in the future or certain other Indebtedness permitted under the Indenture shall also enter into a supplemental indenture as Guarantor of the Notes and accede to the Intercreditor Agreement (or any Additional Intercreditor Agreement). Each Restricted Subsidiary that Guarantees the Notes after the Original Issue Date is referred to as a “Future Subsidiary Guarantor” and, upon execution of the applicable supplemental indenture to the Indenture, will be a “Subsidiary Guarantor.”

No existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries that are not Subsidiary Guarantors

(“Non-Guarantor Subsidiaries”) may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

The Subsidiary Guarantee of each Subsidiary Guarantor will each:

- be a senior subordinated obligation of such Subsidiary Guarantor;
- be effectively subordinated to the secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor, including the assets securing the Credit Agreement and certain Hedging Obligations;
- be subordinated in right of payment to any of such Subsidiary Guarantor’s existing and future Senior Indebtedness, including its guarantee under the Credit Agreement; and
- rank at least *pari passu* with all other unsecured, senior subordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, senior subordinated Indebtedness pursuant to applicable law); and
- be senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- be effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, and subject to the limitations set out below, each of the Subsidiary Guarantors will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

The Subsidiary Guarantees will, upon issuance be senior subordinated indebtedness, which means that, pursuant to the terms of the Intercreditor Agreement, the Subsidiary Guarantees will rank behind, and will be expressly subordinated to, all existing and future Senior Indebtedness of the Subsidiary Guarantors, including any obligations under the Credit Agreement and any other Indebtedness ranking *pari passu* with or senior to such Indebtedness incurred after the Original Issue Date. The ability to take enforcement action against the Subsidiary Guarantors will be subject to significant restrictions imposed by the Intercreditor Agreement, and potentially any Additional Intercreditor Agreements entered into after the Original Issue Date. In addition, the Subsidiary Guarantees will be subject to release under certain circumstances, including, but not limited to, the sale of a Restricted Subsidiary pursuant to an enforcement of security over shares of a Restricted Subsidiary taken by the Security Agent acting at the direction of an instructing group of senior secured creditors (including the lenders under the Credit Agreement). See “Description of Certain Financing Arrangements—The Intercreditor Agreement.” It is therefore likely that holders of Senior Indebtedness and other creditors (including trade creditors) of the Subsidiary Guarantors would recover disproportionately more than the holders of the Notes recover in any insolvency or similar proceeding relating to such entity. In any such case,

there may be insufficient assets, or no assets, remaining to pay the principal of or interest on the Notes after the repayment in full of all Senior Indebtedness. See “Risk Factors—Risks Relating to the Notes, the Subsidiary Guarantees and the Collateral—The Subsidiary Guarantees of the Notes will be subordinated to our existing and future senior debt.”

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be Guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, unfair preference, financial assistance, absence or inadequacy of corporate benefit, insolvency or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including Guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor’s liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See “Risk Factors—Risks Relating to the Notes, the Subsidiary Guarantees and the Collateral—Enforcing your rights as a holder of the Notes or under the Guarantees or the Collateral across multiple jurisdictions may be difficult.”

The Subsidiary Guarantees to be granted by Biostime Healthy (BVI) Ltd and its Subsidiaries, including the SWG Subsidiary Guarantors, will be subject to a maximum aggregate amount of US\$450.0 million, which amount will be reduced by any recoveries under the Credit Agreement and Hedging Obligations. In addition, in the event of a Qualifying SWG IPO or a Qualifying SWG Private Sale, the Subsidiary Guarantees granted by certain of the SWG Subsidiary Guarantors will be released.

#### **Release of the Subsidiary Guarantees**

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance or discharge as described under “—Defeasance—Defeasance and Discharge”;
- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- in the case of any Restricted Subsidiary, that, after the Original Issue Date, is required to Guarantee the Notes pursuant to the covenant described under “—Certain Covenants—Limitation on Issuances of Guarantees by Restricted Subsidiaries,” upon the release or discharge of all Guarantees by such Restricted Subsidiary (other than its Subsidiary Guarantee) which resulted in the obligation to Guarantee the Notes;
- as described under “—Amendments and Waiver”;
- in the case of the Subsidiary Guarantees of the SWG IPO Entity and any of its Subsidiaries that are Subsidiary Guarantors, upon the consummation of a Qualifying SWG IPO or a Qualifying SWG Private Sale;
- as provided for in the Intercreditor Agreement and/or any Additional Intercreditor Agreement;
- upon a transaction in compliance with the terms of the Indenture (including the covenants under “—Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”, “—Certain Covenants—Limitation on Asset Sales” and “—Consolidation, Merger

and Sale of Assets”) resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary; or

- as otherwise permitted in accordance with the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the holders of the Notes until the Company has delivered to the Trustee an Officers’ Certificate stating that all requirements relating to such release have been complied with and such release is authorized and permitted by the terms of the Indenture.

As of the date of the Indenture, all of the Company’s Subsidiaries will be “Restricted Subsidiaries.” However, under the circumstances described below under “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries”, the Company will be permitted to designate Restricted Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will not be subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries will not Guarantee the Notes.

### **Escrow of Proceeds**

Concurrently with the closing of the offering of the Notes on the Original Issue Date, the Company will enter into the Escrow Agreement with the Trustee and the Escrow Agent, pursuant to which an amount equal to the net proceeds of this offering of the Notes will be deposited with the Escrow Agent. The initial funds deposited in the Escrow Account, and all other funds, securities, interest, dividends, distributions and other property and payments credited to the Escrow Account (less any property and/or funds paid in accordance with the Escrow Agreement) are referred to, collectively, as the “Escrowed Property.”

The Company will grant to the Security Agent for the benefit of the Trustee and the holders of the Notes and the trustee and the holders of the Convertible Bonds a security interest over the Escrow Account pursuant to an escrow charge dated the Original Issue Date between the Company and the Security Agent (the “Escrow Charge”). The Company shall be entitled to release the relevant amount of the Escrowed Property from the Escrow Account (and the Lien on such amount of funds under the Escrow Charge) from time to time and in such amounts as shall be specified in the relevant CB Funding Notice (as defined herein) delivered by the Company to the Trustee. The Escrow Charge shall be released when the Convertible Bonds have been repurchased, repaid and/or redeemed in full. Neither the Trustee nor the Escrow Agent nor the Security Agent shall be responsible to any person for release of the Escrowed Property from the Escrow Agreement (or the Lien under the Escrow Charge) upon receipt of the CB Funding Notice or for monitoring or investigating the conditions of release of the Escrowed Property.

In order for the Company to cause the Escrow Agent to release the Escrowed Property from time to time to the Company (the “Release”), the Escrow Agent and the Trustee shall have received from the Company, on or prior to five Business Days from the date of the specified release date, a written notice in the form of an Officer’s Certificate, to the effect that, the Company is required (or otherwise obligated) to make a payment in respect of the Convertible Bonds (including in connection with any mandatory or optional redemption, repayment or repurchase of the Convertible Bonds) and the amount of such required payment or that the Convertible Bonds have been repaid in full and discharged, the amount of such Release, and the date of such Release (each such notice, a “CB Funding Notice”). If any amounts remain in the Escrow Account after the Convertible Bonds have been repurchased, redeemed and or repaid in full, such amounts shall be paid to the Company.

No provisions of the Escrow Agreement and, to the extent such provisions relate to the Company's obligations under the Escrow Agreement and the Escrow Charge, the Indenture, may be waived or modified in any manner materially adverse to the holders without the consent of holders of a majority of the outstanding Notes. By accepting a note, each holder will be deemed to have agreed to be bound by the terms of the Escrow Agreement and have irrevocably authorized the Trustee to take all the actions set forth in the Escrow Agreement and the Escrow Charge without the need for further direction or notice from holders under the Indenture.

## Security

Pursuant to the Security Documents to be entered into on or prior to the Original Issue Date, and the Intercreditor Agreement, the Notes will be secured by (i) the Escrow Charge and (ii) on a second-ranking basis (pursuant to the terms of the Intercreditor Agreement), a floating charge over the assets of the Company (other than any assets located in the PRC or Capital Stock of subsidiaries) (the "Company Floating Charge") (together, the "Collateral").

The collateral under the Company Floating Charge will also secure, on a (i) first-priority basis (pursuant to the terms of the Intercreditor Agreement), liabilities under the Credit Agreement, hedging agreements and certain other future Indebtedness and (ii) second-priority basis, liabilities under the Convertible Bonds.

The Escrowed Property under the Escrow Charge will also secure, on a first-priority basis and *pari passu* with the Notes, liabilities under the Convertible Bonds.

Subject to certain conditions, including compliance with the covenant described under "—Certain Covenants—Impairment of Security Interest," the collateral under the Company Floating Charge may also secure other Indebtedness, including on a basis senior to, junior to or *pari passu* with the Notes, and the Company and its Restricted Subsidiaries are permitted to grant security over such Collateral in connection with future issuances of their Indebtedness as permitted under the Indenture and the Intercreditor Agreement (or any Additional Intercreditor Agreement). See "Description of Certain Financing Arrangements—Intercreditor Agreement" and "—Certain Covenants—Limitation on Liens" below.

The enforcement of the Security Documents will be subject to the procedures set forth in the Intercreditor Agreement (or any Additional Intercreditor Agreement). In general, the rights of the Security Agent (acting on its behalf or on behalf of the holders of the Notes) to take enforcement action under the Security Documents in respect of the collateral under the Company Floating Charge will be subject to certain standstill provisions, payment blockage and other limits on enforcement. The ability to enforce may also be restricted by similar arrangements in relation to future Indebtedness that is secured by the Collateral in compliance with the Indenture and the Intercreditor Agreement (or any Additional Intercreditor Agreement). See "Description of Certain Financing Arrangements—Intercreditor Agreement." The proceeds from enforcement of the Collateral may not be sufficient to satisfy the obligations owed to the holders of the Notes.

The Collateral may be released, and the Security Agent and the Trustee shall take any action required to effectuate any release of the Collateral (without the consent of the holders of the notes) as required by the Indenture, the Intercreditor Agreement (or any Additional Intercreditor Agreement) or the Security Documents:

- in the case of the Escrow Charge, upon the release of all of the Escrowed Property;
- if a Subsidiary Guarantor is released from its Guarantee pursuant to the Indenture;
- if the Company designates any Restricted Subsidiary to be an Unrestricted Subsidiary following release of the property and assets and Capital Stock of such Unrestricted Subsidiary;



- in connection with any transaction permitted under “—Consolidation, Merger and Sale of Assets” or upon a disposition not prohibited by the provisions described under “—Certain Covenants—Limitation on Asset Sales;
- upon the defeasance or discharge of the Notes as provided in “—Defeasance” in accordance with the terms of the Indenture;
- as described under “—Amendments and Waiver;”
- as described under “—Certain Covenants—Impairment of Security Interests;”
- in accordance with the second paragraph under “—Certain Covenants—Limitation on Liens;”
- as provided for in the Intercreditor Agreement or any Additional Intercreditor Agreement; and
- as otherwise permitted in accordance with the Indenture.

No release of Collateral (other than as described under “—Escrow of Proceeds”) shall be effective against the Trustee or the holders of the Notes until the Company has delivered to the Trustee and the Security Agent an Officer’s Certificate and an Opinion of Counsel stating that all requirements relating to such release have been complied with and that such release has been authorized by, permitted by and made in accordance with the provisions of the Indenture, the Intercreditor Agreement and the relevant Security Documents.

**Further Issues**

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees and the Security Documents) in all respects (or in all respects except for the issue date, issue price and the first interest period and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that, the issuance of any such Additional Notes will then be permitted under the “Limitation on Indebtedness” covenant described below and the other provisions of the Indenture; and, *provided further* that, any Additional Notes which are consolidated and form a single series with previously outstanding Notes must be fungible with the previously outstanding Notes for U.S. federal income tax purposes.

**Optional Redemption**

On or after June 21, 2018, the Company may on any one or more occasions redeem all or any part of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the applicable redemption date, if redeemed during the twelve-month period beginning on June 21 of the years indicated below (subject to the rights of holders of Notes on the relevant Record Date to receive interest on the relevant Interest Payment Date):

Year	Redemption Price
2018 .....	103.6250%
2019 .....	101.8125%
2020 and thereafter .....	100.0000%

The Company may at its option redeem the Notes, in whole but not in part, at any time prior to June 21, 2018, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the applicable redemption date (subject to the rights of holders of Notes on the relevant Record Date to receive interest on the relevant Interest Payment Date). Neither the Trustee nor the Paying Agent shall be responsible for calculating or verifying the Applicable Premium.

At any time prior to June 21, 2018, the Company may at its option, on any one or more occasions, redeem up to 40% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in one or more Equity Offerings or of Common Stock of the SWG IPO Entity in a Qualifying SWG IPO at a redemption price of 107.25% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the applicable redemption date (subject to the rights of holders of Notes on the relevant Record Date to receive interest on the relevant Interest Payment Date); *provided* that at least 60% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the Equity Offering or the Qualifying SWG IPO, as the case may be.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Notes will be selected for redemption as follows:

- (1) if the Notes are listed on any securities exchange or are held through the clearing systems, in compliance with the requirements of the principal securities exchange on which the Notes are listed or in compliance with the requirements of the clearing systems; or
- (2) if the Notes are not listed on any securities exchange or are not held through the clearing systems, on a *pro rata* basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate unless otherwise required by law.

No Note of US\$200,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. With respect to any Certificated Note, a new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

### **Repurchase of Notes Upon a Change of Control Triggering Event**

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date (as defined in clause (2) of the definition of "Offer to Purchase").

The Credit Agreement provides that the occurrence of certain events that could also constitute a Change of Control Triggering Event under the Indenture will require that the facility under the Credit Agreement be cancelled and that all outstanding amounts under the Credit Agreement shall become immediately due and payable. The Credit Agreement and the Intercreditor Agreement also do not permit the repayment of the Notes prior to the repayment of the Credit Agreement. The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit the repurchase of the Notes or is unable to obtain the requisite consents of

the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

The Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner, at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors—Risks Relating to the Notes, the Subsidiary Guarantees and the Collateral—We may not be able to repurchase the Notes upon a change of control triggering event."

The definition of Change of Control includes a phrase relating to the sale of "all or substantially all" the assets of the Company. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group may be uncertain and will depend upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Company has occurred.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control Triggering Event has occurred and shall not be liable to any person for any failure to do so.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The existence of a Holders' right to require the Company to repurchase Notes upon the occurrence of a Change of Control Triggering Event may deter a third party from seeking to acquire the Company or its Subsidiaries in a transaction that would constitute a Change of Control Triggering Event.

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of such compliance.

The provisions of the Indenture relating to the Company's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of Holders of a majority in outstanding principal amount of the Notes.

## **No Mandatory Redemption or Sinking Fund**

There will be no mandatory redemption payments or sinking fund payments with respect to the Notes.

## **Open Market Purchases**

The Company or any of its affiliates may purchase Notes in the open market or by tender or by any other means at any price, so long as such acquisition does not otherwise violate the terms of the Indenture; *provided* that all Notes redeemed or repurchased by the Company or any of its affiliates may not be reissued or resold.

## **Additional Amounts**

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under “—Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor is organized or resident for tax purposes or any political subdivision or taxing authority thereof or therein (each, as applicable, a “Relevant Taxing Jurisdiction”) or any jurisdiction through which payment is made by or on behalf of the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing Jurisdictions, the “Relevant Jurisdictions”), unless such withholding or deduction is required by applicable law or by regulation or governmental policy having the force of applicable law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
  - (a) any tax, duty, assessment or governmental charge that would not have been imposed but for:
    - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
    - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period; or
    - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor, addressed to the Holder, to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent

that due and timely compliance with such request is required under the domestic tax laws of a Relevant Jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;

- (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or governmental charge or any tax imposed other than by deduction or withholding from payments on or in respect of the Notes;
  - (c) any tax, duty, assessment or governmental charge to the extent such tax, duty, assessment or governmental charge results from the presentation of the Note (where presentation is required) for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment elsewhere; or;
  - (d) any combination of taxes, duties, assessments or governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

Notwithstanding anything to the contrary in this Description of the Notes, the Company, each Subsidiary Guarantor, the Trustee and the Paying Agent shall be permitted to withhold or deduct any amounts required by Sections 1471 to 1474 (“FATCA”) of the U.S. Internal Revenue Code of 1986, any treaty, law, regulation or other official guidance implementing FATCA, or any agreement (or related guidance) between the Company, a Subsidiary Guarantor, a paying agent or any other person and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA and none of the Company, a Subsidiary Guarantor, the Paying Agent, the Trustee or any other person shall be required to pay any additional amounts with respect to any FATCA withholding or deduction imposed on or with respect to any Note.

The Company will (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Jurisdiction imposing such taxes. The Company will furnish to the Holders and the Trustee, within 90 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Company will be obligated to pay Additional Amounts with respect to such payment, the Company will deliver to the Trustee an Officers’ Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent to pay such Additional Amounts to the Holders on such payment date.

In addition, the Company will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

### **Redemption for Taxation Reasons**

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to (but not including) the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction, including any applicable treaty with the Relevant Jurisdiction, affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application, administration or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective or, in the case of an official position, is announced (i) with respect to the jurisdictions of the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any other jurisdiction, on or after the date such jurisdiction became a Relevant Jurisdiction, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on a subsequent Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be (including for the avoidance of doubt, appointment of a new Paying Agent where such appointment is reasonable); *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change or amendment referred to in this section entitled "Redemption for Taxation Reasons" has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, taking reasonable measures; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in this section entitled "Redemption for Taxation Reasons".

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

## Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

### Limitation on Indebtedness

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness); *provided* that, the Company and its Restricted Subsidiaries may Incur Indebtedness (including Acquired Indebtedness) if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (a) no Default has occurred and is continuing and (b) if such Indebtedness is Indebtedness of the Company or a Financing Subsidiary, the Fixed Charge Coverage Ratio would not be less than 2.5 to 1.0 with respect to any Incurrence of Indebtedness or (c) if such Indebtedness is Senior Leverage of the Company (other than Public Indebtedness) or its Restricted Subsidiaries (other than PRC Restricted Subsidiaries), (i) the Consolidated Senior Leverage Ratio for the Company does not exceed 2.0 to 1.0 and (ii) the Company could Incur at least US\$1.00 of Indebtedness under proviso (b) of this clause (1).
- (2) Notwithstanding the foregoing, the Company and any Restricted Subsidiary may Incur, to the extent provided below, each and all of the following (“Permitted Indebtedness”):
  - (a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee;
  - (b) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date;
  - (c) Indebtedness of the Company or any Restricted Subsidiary (other than PRC Restricted Subsidiaries) Incurred pursuant to Credit Facilities (whether newly Incurred or in existence on the Original Issue Date) in an aggregate principal amount (together with any refinancings thereof) not to exceed (i) US\$450.0 million plus (ii) in the case of any refinancing of any Indebtedness permitted under this clause (c) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing;
  - (d) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that, (i) any event which results in (x) any Restricted Subsidiary to which such Indebtedness is owed ceasing to be a Restricted Subsidiary or (y) any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company is the obligor on such Indebtedness (and none of the Subsidiary Guarantors is the obligee on such Indebtedness), such Indebtedness be subordinated under the Intercreditor Agreement or any Additional Intercreditor Agreement or by its terms must be expressly subordinated in right of payment to the Notes, and if any Subsidiary Guarantor is the obligor on such Indebtedness (and none of the Company or any other Subsidiary Guarantor is the obligee on such Indebtedness), such Indebtedness must be subordinated under the Intercreditor Agreement or any Additional Intercreditor Agreement or by its terms must be expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor;
  - (e) Indebtedness (“Permitted Refinancing Indebtedness”) of the Company or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness Incurred under clause (1) above or clauses (2)(a), (b) or (e) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus

premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or any Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, as the case may be, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced, (iii) Indebtedness of the Company may only be refinanced pursuant to this clause (e) with Indebtedness of the Company or a Financing Subsidiary, and (iv) in no event may Indebtedness of any Subsidiary Guarantor be refinanced pursuant to this clause (e) by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations (i) entered into in the ordinary course of business for *bona fide* purposes to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation or (ii) designed to reduce or manage interest expenses;
- (g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently, except in the case of daylight overdrafts, drawn against insufficient funds in the ordinary course of business; *provided*, that, this Indebtedness is extinguished within five Business Days;
- (h) Indebtedness of the Company or any Restricted Subsidiary in respect of (i) workers' compensation claims and claims arising under similar legislation, or in connection with self-insurance or similar requirements, in each case in the ordinary course of business; (ii) the financing of insurance premiums in the ordinary course of business and (iii) any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;
- (i) Indebtedness arising from agreements of the Company or a Restricted Subsidiary providing for customary guarantees, indemnification, adjustment of purchase price, earn-out or other similar obligations, in each case Incurred or assumed in connection with the disposition of any business, assets of the Company or of a Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of any of the Company's or a Restricted Subsidiary's business or assets for the purpose of financing an acquisition; *provided*, that, the maximum assumable liability in respect of all this Indebtedness shall at no time exceed the gross proceeds, including the fair market value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Company and/or the relevant Restricted Subsidiary in connection with the disposition;



- (j) (i) obligations with respect to letters of credit, bankers' acceptances, performance and surety bonds and completion guarantees provided by the Company or any of its Restricted Subsidiaries securing obligations or liabilities, entered into in the ordinary course of business or in respect of any governmental requirement, to the extent the letters of credit, bonds or guarantees are not drawn upon or, if and to the extent drawn upon is honored in accordance with its terms and, if to be reimbursed, is reimbursed no later than 30 days following receipt of a demand for reimbursement following payment on the letter of credit, bond or guarantee, (ii) customer deposits and advance payments received in the ordinary course of business from customers for goods or services purchased in the ordinary course of business, (iii) Indebtedness incurred by the Company or a Restricted Subsidiary in connection with, discounted bills of exchange or the discounting or factoring of receivables for credit management of bad debt purposes, in each case incurred or undertaken in the ordinary course of business, and (iv) Extended Letters of Credit;
- (k) Indebtedness of the Company or any Restricted Subsidiary:
- (i) representing Capitalized Lease Obligations incurred in the ordinary course of business; or
- (ii) constituting purchase money Indebtedness incurred to finance (x) all or any part of the purchase price of equipment, property or assets to be used in the ordinary course of a Permitted Business of the Company or any Restricted Subsidiary (including the purchase of Capital Stock of any Person holding such equipment, property or assets that is, or will upon such purchase become, a Restricted Subsidiary) or (y) the cost of development, construction or improvement of equipment, property or assets to be used in the ordinary course of a Permitted Business by the Company or a Restricted Subsidiary;

*provided* that, (A) such purchase money Indebtedness shall not exceed the purchase price of such equipment, property or assets so acquired, (B) such purchase money Indebtedness shall be Incurred no later than 180 days after the acquisition of such equipment, property or assets and (C) on the date of the Incurrence of any Indebtedness permitted by this clause, and after giving effect thereto, the sum of (a) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (k) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregated principal amount) plus (b) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(p), (2)(r), (2)(s) and (2)(t) hereof (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregated principal amount) does not exceed an amount equal to 15.0% of Total Assets;

- (l) Guarantees by any Non-Guarantor Subsidiary of Indebtedness of any other Non-Guarantor Subsidiary and by any PRC Restricted Subsidiary of the Credit Agreement; *provided* that, (i) the Indebtedness Guaranteed is permitted to be Incurred under the Indenture; and (ii) following a Qualifying SWG IPO or Qualifying SWG Private Sale, only SWG Entities may Guarantee the Indebtedness of a SWG Entity;
- (m) Guarantees by the Company and any Subsidiary Guarantor of any Indebtedness (other than the Convertible Bonds) of the Company or any Restricted Subsidiary; *provided* that, (i) the Indebtedness Guaranteed is permitted to be Incurred under the Indenture, (ii) following a Qualifying SWG IPO or Qualifying SWG Private Sale, the Indebtedness of a SWG Entity may not be Guaranteed under this clause (m) and (iii) if the Indebtedness to be Guaranteed is Incurred under clause (1)(b) hereof, such Indebtedness shall be Guaranteed by a Subsidiary Guarantor only on a senior subordinated basis;

- (n) Indebtedness of the Company or any Restricted Subsidiary consisting of local lines of credit, bilateral facilities, working capital facilities and/or other operating facilities, in each case, with a maturity of one year or less used for working capital purposes; *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (n) (together with any refinancings thereof) does not exceed US\$25.0 million (or the Dollar Equivalent thereof);
- (o) Indebtedness of (i) the Company in an aggregate principal amount outstanding at any time (together with any refinancings thereof) not to exceed US\$10.0 million (or the Dollar Equivalent thereof) (ii) any Subsidiary Guarantor in an aggregate principal amount outstanding at any time (together with any refinancings thereof) not to exceed US\$10.0 million (or the Dollar Equivalent thereof) and (iii) any Restricted Subsidiary (other than a Subsidiary Guarantor) in an aggregate principal amount outstanding at any time (together with any refinancings thereof) not to exceed US\$10.0 million (or the Dollar Equivalent thereof);
- (p) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (i) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (p) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregated principal amount) plus (ii) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(k), (2)(r), (2)(s) and (2)(t) hereof (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregated principal amount) does not exceed an amount equal to 15.0% of Total Assets;
- (q) Indebtedness of the Company in respect of the Convertible Bonds (which Indebtedness shall be repaid with the proceeds of Notes issued on the Original Issue Date);
- (r) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary; *provided* that, on the date of the Incurrence of any Indebtedness and after given effect thereto, the sum of (i) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (r) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (ii) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses 2(k), 2(p), (2)(s) and 2(t) hereof (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 15.0% of Total Assets;
- (s) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that, on the date of the Incurrence of any Indebtedness and after given effect thereto, the sum of (i) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (s) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (ii) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(k),

(2)(p), (2)(r) and (2)(t) hereof (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 15.0% of Total Assets; and

- (t) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Minority Interest Staged Acquisition Agreement; *provided* that, on the date of the Incurrence of any Indebtedness and after given effect thereto, the sum of (i) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (t) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (ii) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (2)(k), (2)(p), (2)(r) and (2)(s) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 15.0% of Total Assets.
- (3) Notwithstanding the foregoing, Public Indebtedness shall only be issued by the Company or a Financing Subsidiary, shall only be Guaranteed on a senior subordinated basis by the Subsidiary Guarantors and (if the issuer of such Public Indebtedness is a Financing Subsidiary) on a senior basis by the Company, and shall only be secured by Liens on the Collateral that secure the Notes, on a *pari passu* basis with, or junior-ranking basis to, the Notes (and, if the issuer of such Public Indebtedness is a Financing Subsidiary, a Lien permitted under clause (23) of the definition of “Permitted Liens”).
- (4) For purposes of determining compliance with this “Limitation on Indebtedness” covenant:
- (a) in the event that an item of Indebtedness meets the criteria of more than one of the types of Permitted Indebtedness, or of Indebtedness described in the proviso in paragraph (1) of this covenant and one or more types of Permitted Indebtedness, the Company, in its sole discretion, except with respect to Indebtedness Incurred under clause (2)(c) or (2)(q) of this covenant, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above;
  - (b) all Indebtedness outstanding on the Original Issue Date under (i) the Credit Agreement or Incurred under the Credit Agreement shall be deemed to have been incurred under clause (2)(c) of this covenant and the Company shall not be permitted to reclassify all or any portion of such Indebtedness and (ii) the Convertible Bond shall be deemed to have been incurred under clause (2)(q) of this covenant and the Company shall not be permitted to reclassify all or any portion of such Indebtedness;
  - (c) Guarantees of, or obligations in respect of letters of credit, bankers’ acceptances or other similar instruments relating to, or Liens securing, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included;
  - (d) if obligations in respect of letters of credit, bankers’ acceptances or other similar instruments are Incurred pursuant to any Credit Facility and are being treated as Incurred pursuant to clauses (2)(c), (j), (o) of this covenant or clause (1) of this covenant and the letters of credit, bankers’ acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included;

- (e) the principal amount of any Disqualified Stock of the Company or a Restricted Subsidiary, or Preferred Stock of a Restricted Subsidiary, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof; and
  - (f) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness.
- (5) Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Indebtedness, the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock or the reclassification of commitments or obligations not treated as Indebtedness due to a change in IFRS will not be deemed to be an incurrence of Indebtedness for purposes of this covenant. The amount of any Indebtedness outstanding as of any date shall be (a) the accreted value thereof in the case of any Indebtedness issued with original issue discount and (b) the principal amount, or liquidation preference thereof, in the case of any other Indebtedness.
- (6) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies, *provided* that such Indebtedness was permitted to be Incurred at the time of such Incurrence. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

#### **Limitation on Restricted Payments**

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any Restricted Subsidiary’s Capital Stock (other than dividends or distributions payable solely in shares of the Company’s Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary or any direct or indirect parent of the Company (including options, warrants or other rights to acquire such shares of Capital Stock) held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary (other than in exchange for Capital Stock of the Company (other than Disqualified Stock));
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Subordinated Indebtedness (excluding (a) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal installment or final maturity in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement and (b) any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur immediately as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under proviso (b) in paragraph (1) of the covenant described under “—Limitation on Indebtedness”; or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and the Restricted Subsidiaries after the Original Issue Date (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6), (7) and (11) of the next succeeding paragraph), shall exceed the sum (without duplication) of:
  - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter during which the Original Issue Date occurs and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which may be internal financial statements) available; plus
  - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity by, or from the issuance and sale of its Capital Stock, or solely for the purpose of making a Restricted Payment that is an Investment (other than an Investment in a Shareholder Affiliate), the Capital Stock of the SWG IPO Entity (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion by a Person who is not a Subsidiary of the Company of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company or any Restricted Subsidiary; plus
  - (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company’s consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Original Issue Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); *provided, however*, that the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or any of its Restricted Subsidiaries from the Incurrence of such Indebtedness; plus
  - (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (B) the unconditional release

of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (C) to the extent that an Investment made after the Original Issue Date is sold or otherwise liquidated or repaid for cash, the lesser of

- (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and
  - (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person, plus
- (v) US\$10.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that, the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that, the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a *pro rata* basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, at least a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;
- (6) cash payments *in lieu* of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company; *provided* that, any such cash payment shall not be for the purpose of evading the limitation of this “Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);

- (7) an Investment in the Capital Stock of a Restricted Subsidiary held by a minority shareholder which Investment increases the proportion of the Capital Stock of such Restricted Subsidiary held, directly or indirectly, by the Company;
- (8) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing); *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$7.5 million (or the Dollar Equivalent thereof) in the aggregate;
- (9) the declaration and payment of dividends by the Company with respect to the year ending December 31, 2015 in an aggregate amount not to exceed the lesser of (a) 30% of net profit after tax of the Company for such year and (b) US\$20.0 million;
- (10) loans or advances to employees, consultants, officers or directors in the ordinary course of business not to exceed US\$3.0 million (or the Dollar Equivalent thereof) in the aggregate;
- (11) all payments and related costs and expenses in connection with the Convertible Bonds (including, for the avoidance of doubt, pursuant to any redemptions, call/put options, repurchases, open market purchases, tender offers, consent solicitations or payments of principal at maturity); or
- (12) other Restricted Payments in an aggregate amount not to exceed US\$10.0 million since the Original Issue Date,

*provided* that, in the case of clauses (2), (3), (4), (7), (9), (10) and (12) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or an appraisal issued by an accounting, appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment (other than those made pursuant to clauses (5) through (11) of the second paragraph of this “—Limitation on Restricted Payments” covenant) in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “—Limitation on Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

#### **Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries**

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
  - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary (it being understood that the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on Common Stock shall not be deemed a restriction on the ability to make distributions on Capital Stock);

- (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
- (c) make loans or advances to the Company or any other Restricted Subsidiary (it being understood that the subordination of loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary shall not be deemed a restriction on the ability to make loans or advances); or
- (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary;

*provided* that, the provisions contained in documentation governing Indebtedness requiring transactions between or among the Company and any Restricted Subsidiary or between or among any Restricted Subsidiary to be on fair and reasonable terms or on an arm's length basis, in each case, shall not be deemed to constitute such an encumbrance or restriction.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
  - (a) existing in agreements as in effect on the Original Issue Date, including the Credit Agreement, the Intercreditor Agreement and the SWG Agreements, or in the Notes, the Subsidiary Guarantees, the Indenture or the Security Documents, or any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that, the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no less favorable in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
  - (b) arising or existing under or by reason of applicable law, rule, regulation or order or the terms of any applicable license, authorization, concession, permit or similar instrument issued under any applicable law, rule, regulation or order or as otherwise required by any regulatory authority;
  - (c) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that, the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no less favorable in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
  - (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
  - (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”, “—Limitation on Indebtedness” and “—Limitation on Asset Sales” covenants;



- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clauses (1), (2)(e), (k), (n), (o) or (p) of the “—Limitation on Indebtedness” covenant (or any Guarantee thereof, if such Guarantee is permitted under the “—Limitation on Indebtedness” covenant) if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such type of agreement and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company or any Subsidiary Guarantor to make required payment on the Notes or its Subsidiary Guarantee, as the case may be, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no less favorable in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (g) existing in customary provisions in leases, licenses, joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a lease, license, joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes or (y) any Subsidiary Guarantor to make required payments under its Subsidiary Guarantee;
- (h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Unrestricted Subsidiary or its subsidiaries or the property or assets of such Unrestricted Subsidiary or its subsidiaries, and any extensions, refinancings, renewals or replacements thereof; *provided* that, the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no less favorable in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (i) existing with respect to Hedging Obligation permitted to be Incurred under clause (2)(f) of the covenant described under the “—Limitation on Indebtedness” covenant solely to the extent that such restriction or encumbrance is only encumbering customary initial deposits or margin deposits or is otherwise within the general parameters customary in the industry with respect to such Hedging Obligations;
- (j) any encumbrance or restriction existing by reason of any Lien permitted under the “—Limitation on Liens” covenant;
- (k) any encumbrance or restriction on cash or other deposits or net worth imposed by customers or suppliers or required by insurance, surety or bonding companies or indemnities, in each case, under agreements entered into in the ordinary course of business; or
- (l) provisions limiting the disposition or distribution of assets or property in asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements (including agreements entered into in connection with a Restricted Investment), which limitation is applicable only to the assets that are the subject of such agreements.

### **Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries**

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including in each case options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, *pro rata* to its shareholders or incorporators or on a basis more favorable to the Company;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that, the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "—Limitation on Asset Sales" and "—Qualifying SWG IPO" covenants to the extent required thereunder; and
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer be a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and *provided* that, the Company complies with the "—Limitation on Asset Sales" and "—Qualifying SWG IPO" covenants to the extent required thereunder.

### **Limitation on Issuances of Guarantees by Restricted Subsidiaries**

The Company will not permit any Restricted Subsidiary that is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any Subsidiary Guarantor, unless (1) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for a Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clause 2(b), 2(c) (solely in respect of Guarantees provided under 2(1)), 2(d), 2(f), 2(l) or 2(p) (in the case of clause 2(p) with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of one or more bank accounts to secure, directly or indirectly, any Bank Deposit Secured Indebtedness) under the "—Limitation on Indebtedness" covenant.

If the Guaranteed Indebtedness (1) is Senior Indebtedness, then the Guarantee of such Guaranteed Indebtedness may rank senior in right of payment to the Subsidiary Guarantee, (2) ranks *pari passu* in right of payment with any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (3) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

### **Limitation on Transactions with Shareholders and Affiliates**

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any

Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each, an “Affiliate Transaction”) involving aggregate value in excess of US\$1.0 million (or the Dollar Equivalent thereof), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
  - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
  - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or such Restricted Subsidiary, as the case may be, of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees to directors of (x) the Company or (y) any Restricted Subsidiary whose securities are listed on any national or other securities exchange, who are not employees of the Company or such Restricted Subsidiary;
- (2) transactions between or among the Company and any Restricted Subsidiary or between or among Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clause (1) or (2) of the first paragraph of the covenant described above under the “—Limitation on Restricted Payments” covenant if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the Listing Rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of the Company, any Restricted Subsidiary, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants’ plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or consultants approved by the Board of Directors of the Company, in each case in the ordinary course of business;

- (7) the entry into and performance of obligations of the Company or any of its Restricted Subsidiaries under the terms of any transaction or agreement pursuant to or contemplated by, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Original Issue Date, as described under the caption “Related party transactions”, as these agreements and instruments may be amended, modified, supplemented, extended, renewed, replaced or refinanced from time to time in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Holders in any material respect;
- (8) pledges of Capital Stock in Unrestricted Subsidiaries; and
- (9) any transaction in the ordinary course of business between or among the Company or any Restricted Subsidiary and any Affiliate (other than an Unrestricted Subsidiary) of the Company that would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary owns an equity interest in or otherwise controls such Affiliate.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to Investments (other than Permitted Investments) not prohibited by the “—Limitation on Restricted Payments” covenant.

### **Limitation on Liens**

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except: (1) in the case of any asset or property that constitutes Collateral, Permitted Collateral Liens and (2) in the case of any asset or property that does not constitute Collateral, (a) Permitted Liens or (b) Liens other than Permitted Liens; *provided* that with respect to clause (2)(b) that (i) in the case of Liens securing Subordinated Indebtedness, the Notes or the applicable Guarantee of a Subsidiary Guarantor, as the case may be, are secured by a Lien on such property or assets that is senior in priority to such Liens; and (ii) in all other cases, the Notes or the applicable Subsidiary Guarantee of a Subsidiary Guarantor, as the case may be, are equally and ratably secured.

Any such Lien created in favor of the Notes or a Subsidiary Guarantee will be automatically and unconditionally released and discharged upon (i) the release and discharge of the initial Lien to which it relates, and (ii) otherwise as set forth under “—Security.”

### **Limitation on Sale and Leaseback Transactions**

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or such Restricted Subsidiary, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under “—Limitation on Indebtedness” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under “—Limitation on Liens”, in which case, the corresponding Indebtedness shall be deemed Incurred and the corresponding Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary, as the case may be, applies the proceeds of such transaction in compliance with, the covenant described below under “—Limitation on Asset Sales.”

## Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;
- (3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US\$1.00 of Indebtedness under proviso (b) in paragraph (1) of the covenant described under “—Limitation on Indebtedness” after giving *pro forma* effect to such Asset Disposition; and
- (4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets (as defined below); *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:
  - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary, as the case may be, from further liability; and
  - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary, as the case may be, into cash, to the extent of the cash received in that conversion.
- (5) Within 365 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company or any Restricted Subsidiary may apply such Net Cash Proceeds to:
  - (a) permanently repay Secured Indebtedness of the Company or any Subsidiary Guarantor, Senior Indebtedness of the Company or any Subsidiary Guarantor or Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto), in each case, owing to a Person other than the Company or a Restricted Subsidiary;
  - (b) acquire properties and assets (other than current assets), including any shares of Capital Stock in a Person holding such properties or assets that is primarily engaged in a Permitted Business, that will be used in the Permitted Businesses (*provided* that if such investment is in the form of the acquisition of the Capital Stock of a Person, such Person is or becomes a Restricted Subsidiary of the Company) (“Replacement Assets”); or
  - (c) consummate any combination of the foregoing,

*provided* that, pending the application of Net Cash Proceeds in accordance with sub-clauses (a) or (b) of this clause (5), such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

- (6) Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clause (5) will constitute “Excess Proceeds.” Excess Proceeds of less than US\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$10.0 million (or the Dollar Equivalent thereof), within ten days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:
- (a) accumulated Excess Proceeds, multiplied by
  - (b) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company or any Restricted Subsidiary may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes to be purchased on a *pro rata* basis based on the principal amount of the Notes and such other *pari passu* Indebtedness tendered. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

#### **Limitation on Business Activities**

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses, except to such extent as would not be material to the Company and its Restricted Subsidiaries taken as a whole; *provided, further*, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made under the “—Limitation on Restricted Payments” covenant.

#### **Limitation on Use of Proceeds**

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes issued and sold on the Original Issue Date, in any amount, for any purpose other than as specified under “Escrow of Proceeds”.

#### **Designation of Restricted and Unrestricted Subsidiaries**

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided that*:

- (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation;
- (2) such Restricted Subsidiary does not own any Disqualified Stock of the Company or any Subsidiary Guarantor or Disqualified or Preferred Stock of a Restricted Subsidiary that is not a Subsidiary Guarantor or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under “—Limitation on Indebtedness” or such Lien would violate the covenant described under “—Limitation on Liens”;

- (3) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph;
- (4) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary and none of the Company or any Restricted Subsidiary Guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; and
- (5) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “—Limitation on Restricted Payments.”

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided that*

- (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation;
- (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under “—Limitation on Indebtedness”;
- (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under “—Limitation on Liens”; and
- (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary).

#### **Government Approvals and Licenses; Compliance with Law**

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect such governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens and Permitted Collateral Liens; and (3) comply with the laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply with would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the Indenture or the relevant Subsidiary Guarantee.

#### **Anti-Layering**

The Company will not permit any Subsidiary Guarantor to, and no Subsidiary Guarantor shall, Incur any Indebtedness that is or purports to be by its terms (or by the terms of any agreement governing such Indebtedness) subordinated in right of payment to any Senior Indebtedness of such Subsidiary Guarantor unless such Indebtedness is *pari passu* with the Guarantee of such Subsidiary Guarantor or is also by its terms (or by the terms of any agreement governing such Indebtedness, the Intercreditor Agreement or any Additional Intercreditor Agreement) made subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor; *provided that* the foregoing limitation shall not apply to distinctions between categories of Senior Indebtedness that exist by reason of (x) any Liens

or guarantees arising or created in respect of some but not all such Senior Indebtedness or (y) being secured on a junior priority basis; *provided, further*, that Indebtedness under the Credit Agreement or a Credit Facility that is Senior Indebtedness of a Subsidiary Guarantor may provide for an ordering of payments among the tranches of such Credit Agreement or Credit Facility.

### **Qualifying SWG IPO**

Prior to the consummation of a Qualifying SWG IPO, the Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of the SWG Subsidiary Guarantors or any of their respective Restricted Subsidiaries or any Holding Company of the SWG Subsidiary Guarantors (other than the Company) except (1) pursuant to a Qualifying SWG IPO, (2) pursuant to a Qualifying SWG Private Sale and (3) to implement the SWG Call Option Deed Transactions.

### **Suspension of Certain Covenants when the Notes Achieves Investment Grade Status**

If on any date following the date of the Indenture, the Notes (A)(i) are rated by two Rating Agencies and have a rating of Investment Grade from both of the Rating Agencies or (ii) are rated by three Rating Agencies and have a rating of Investment Grade from two out of the three Rating Agencies, and (B) no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “—Limitation on Indebtedness”;
- (2) “—Limitation on Restricted Payments”;
- (3) “—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “—Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “—Limitation on Transactions with Shareholders and Affiliates”;
- (7) “—Limitation on Business Activities”;
- (8) “—Limitation on Sale and Leaseback Transactions”;
- (9) “—Limitation on Asset Sales”; and
- (10) Clause (4) under the first and second paragraphs of the covenant described “—Consolidation, Merger and Sale of Assets”.

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following



reinstatement the calculations under the covenant summarized under “—Certain Covenants—Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

### **Provision of Financial Statements and Reports**

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the common stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
  - (a) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with IFRS and audited by a member firm of an internationally recognized firm of independent accountants;
  - (b) as soon as they are available, but in any event within 75 calendar days after the end of the second financial quarter of the Company for the quarter ended June 30, 2016 (and 60 calendar days thereafter), copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with IFRS and reviewed by a member firm of an internationally recognized firm of independent accountants; and
  - (c) as soon as they are available, but in any event within 60 calendar days after the end of each of the first and third financial quarters of the Company, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Company, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any Notes remain outstanding, the Company will provide to the Trustee
  - (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers’ Certificate stating the Fixed Charge Coverage Ratio and the Consolidated Senior Leverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio and the Consolidated Senior Leverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio and the Consolidated Senior Leverage Ratio, with a certificate from the Company’s external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; *provided* that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of

such external auditors not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Further, the Company and each Subsidiary Guarantor have agreed that, for as long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company or such Subsidiary Guarantor is neither subject to Section 13 or 15(d) of the Exchange Act Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company or such Subsidiary Guarantor, as the case may be, shall supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

### **Impairment of Security Interest**

The Company shall not, and shall not permit any Restricted Subsidiary to, take any action that would have the result of materially impairing the security interest with respect to the Collateral (it being understood that the Incurrence of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the holders, and the Company shall not grant to any Person other than the Security Agent, for the benefit of the Trustee and the holders and the other beneficiaries described in the Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement, any Lien over any of the Collateral that is prohibited by the covenant entitled "—Limitation on Liens;" *provided* that the Company may Incur any Lien over any of the Collateral that is not prohibited by the covenant entitled "—Limitation on Liens," including Permitted Collateral Liens, and the Collateral may be discharged, transferred or released in any circumstances not prohibited by the Indenture, the Intercreditor Agreement (or any Additional Intercreditor Agreement) or the applicable Security Document.

Notwithstanding the foregoing, nothing in this covenant shall restrict the discharge and release of any Lien in accordance with the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement pursuant to the incurrence of Permitted Collateral Liens or any action expressly permitted by the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement. Subject to the foregoing, the Security Documents may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets) to (i) cure any ambiguity, omission, defect, mistake, manifest error or inconsistency therein; (ii) provide for Permitted Collateral Liens; (iii) add to the Collateral; or (iv) make any other change thereto that does not adversely affect the holders in any material respect as determined by the Company in good faith and evidenced by an Officer's Certificate delivered to the Trustee; *provided, however*, that (except where permitted by the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement or to effect or facilitate the creation of Permitted Collateral Liens for the benefit of the Security Agent and holders of other Indebtedness Incurred in accordance with the Indenture), no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets), unless contemporaneously with such amendment, extension, renewal, restatement, supplement or modification or release (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets), the Company delivers to the Security Agent and the Trustee, either (1) a solvency opinion, in form and substance reasonably satisfactory to the Trustee, from an Independent Financial Advisor or investment bank of international standing which confirms the solvency of the Company and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or release (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets), (2) a certificate from the principal financial or accounting officer of the Company or the Board of Directors which confirms the solvency of the Company and its Subsidiaries, taken as a whole, after giving effect

to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, or (3) an opinion of counsel (subject to any qualifications, assumptions and limitations customary for this type of opinion of counsel), in form and substance reasonably satisfactory to the Trustee, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or release (followed by a substantially concurrent retaking of a Lien of at least equivalent ranking over the same assets), the Lien or Liens created under the Security Documents, so amended, extended, renewed, restated, supplemented, modified or released and replaced are valid Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement and to which the new Indebtedness secured by the Permitted Collateral Lien is not subject.

In the event that the Company and its Restricted Subsidiaries comply with the requirements of this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to such actions without the need for instructions from or notice to the holders. For the avoidance of doubt, the Trustee shall not be required to monitor compliance by the Company of its obligations under the Indenture, the Security Documents, and the Intercreditor Agreement. The Trustee shall accept any certifications and opinions as sufficient evidence of the condition precedent described above, in which event it shall be conclusive and binding on the holders of the Notes.

#### **Amendments to the Intercreditor Agreement and Additional Intercreditor Agreements**

In connection with the Incurrence of any Indebtedness by the Company or any of its Restricted Subsidiaries (i) that is permitted by the Indenture to be Incurred pursuant to the covenant described under “—Limitation on Indebtedness” and either to share in any of the Collateral or to rank *pari passu* or junior in right of payment to the Notes or senior, *pari passu* or junior to any Subsidiary Guarantee, or (ii) the proceeds of which are used, in whole or in part, to refinance the Notes or Indebtedness referred to in the foregoing clause (i), the Trustee and the Security Agent shall, at the request of the Company and without the consent of or notice to the holders, enter into with the Company, the relevant Restricted Subsidiaries and the holders of such Indebtedness (or their duly authorized representatives) one or more intercreditor agreements or deeds (including a restatement, replacement, amendment or other modification of the Intercreditor Agreement) (an “Additional Intercreditor Agreement”), on substantially similar terms as the Intercreditor Agreement (or terms that are not materially less favorable to the holders), including substantially similar terms as applies to sharing of the proceeds of security and enforcement of security, priority and release of security and guarantees; *provided* that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or Security Agent or adversely affect the personal rights, duties, liabilities, indemnification or immunities of the Trustee or the Security Agent under the Indenture or the Intercreditor Agreement. As used herein, a reference to the Intercreditor Agreement will also include any Additional Intercreditor Agreement.

In relation to the Intercreditor Agreement, the Trustee shall, at the written direction of the Company and without the consent of the holders of the Notes, consent to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; *provided, however*, that such transaction would comply with the covenant described under “—Limitation on Restricted Payments.”

The Indenture will also provide that, at the written direction of the Company and without the consent of holders, the Trustee and the Security Agent shall from time to time enter into one or more amendments to the Intercreditor Agreement or any Additional Intercreditor Agreement: (1) to cure any ambiguity, omission, defect, manifest error or inconsistency of any such agreement, (2) to increase the amount or types of Indebtedness covered by any such Intercreditor Agreement that may be Incurred by the Company or its Restricted Subsidiaries that is subject to any such Intercreditor Agreement (*provided* that such Indebtedness is Incurred in compliance with the Indenture), (3) to add Subsidiary

Guarantors or other Restricted Subsidiaries to the Intercreditor Agreement, (4) to further secure the Notes (including Additional Notes permitted to be Incurred in compliance with the Indenture), (5) to make provision for pledges of the Collateral to secure Additional Notes or to implement any Permitted Collateral Liens, (6) to amend the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with the terms thereof, (7) to facilitate a merger, consolidation or other corporate group reorganization otherwise permitted by the Indenture, (8) as permitted by the terms of the Intercreditor Agreement or (9) to make any other change to any such agreement that does not adversely affect the holders of Notes in any material respect. The Company shall not otherwise direct the Trustee or Security Agent to enter into any amendment to any Intercreditor Agreement without the consent of the holders of a majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under “—Amendments and Waiver” or as permitted by the terms of such Intercreditor Agreement, and the Company may only direct the Trustee or Security Agent to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, adversely affect their respective rights, duties, liabilities or immunities under the Indenture or any Intercreditor Agreement.

The Indenture will also provide that each holder, by accepting a note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement and any Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have authorized and instructed the Trustee and the Security Agent to enter into the Intercreditor Agreement and any Additional Intercreditor Agreement (and any amendment, restatement or modification thereto as contemplated above), on each holder’s behalf.

A copy of the Intercreditor Agreement or any Additional Intercreditor Agreement shall be made available to the holders upon request and will be made available for inspection during normal business hours on any Business Day upon prior written request at the corporate trust office of the Trustee.

### **Events of Default**

The following events will be defined as “Events of Default” in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenant described under “—Consolidation, Merger and Sale of Assets”, the failure by the Company to make or consummate an Offer to Purchase in the manner described under “—Repurchase of Notes upon a Change of Control Triggering Event” or “—Certain Covenants—Limitation on Asset Sales” or “—Certain Covenants—Limitation on Liens”;
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$15.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) a failure to make a principal payment when due;

- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$15.0 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;
- (8) the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary), (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) or for all or substantially all of the property and assets of the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary) or (c) effects any general assignment for the benefit of creditors;
- (9) any security interest under the Security Documents on any Collateral shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Security Documents, the Intercreditor Agreement (or any Additional Intercreditor Agreement) and the Indenture) for any reason other than the satisfaction in full of all obligations under the Indenture or the release or amendment of any such security interest in accordance with the terms of the Indenture, the Intercreditor Agreement (or any Additional Intercreditor Agreement) or such Security Document or the Company or any Restricted Subsidiary shall assert in writing that any such security interest is invalid or unenforceable; or
- (10) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or will for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders, subject to being pre-funded, indemnified and/or secured to its satisfaction, shall declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Restricted Subsidiary (or any group of Restricted Subsidiaries that together constitutes a Significant Restricted Subsidiary), the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and
- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not believe that pre-funding or satisfactory indemnification and/or security is assured to it.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee pre-funding, indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such written request;
- (4) the Trustee does not comply with the request within (x) 60 days after receipt of the written request pursuant to clause (2) above or (y) 60 days after the receipt of the offer of pre-funding, indemnity and/or security pursuant to clause (3) above, whichever occurs later; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a written direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note, or to bring suit for the enforcement of any such payment from the Company on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

An Officer of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year ending after the Original Issue Date, that a review has been conducted of the activities of the Company and the Restricted Subsidiaries and the Company's and the Restricted Subsidiaries' performance under the Indenture and that the Company and each Restricted Subsidiary have fulfilled all of their respective obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See “—Provision of Financial Statements and Reports.”

None of the Trustee or any Agent is obligated to do anything to ascertain whether any Event of Default or Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and each of the Trustee and the Agents may assume that no such event has occurred (except when there is a default in payment of principal or interest on any Note or failure by the Company to provide its annual compliance certificate to the Trustee) and that the Company and the Subsidiary Guarantors are performing all of their obligations under the Indenture and the Notes unless the Trustee or the Agent, as the case may be, has received written notice of the occurrence of such event or facts establishing that a Default or an Event of Default has occurred or that the Company and the Subsidiary Guarantors are not performing all of their obligations under the Indenture and/or the Notes.

### **Consolidation, Merger and Sale of Assets**

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Company and the Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) unless each of the following conditions is satisfied:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the “Surviving Person”) shall be a corporation organized and validly existing under the laws of the British Virgin Islands, the Cayman Islands or Hong Kong and shall expressly assume, by (a) a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes (including pursuant to the Escrow Agreement and the Security Documents), including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or from or through which payment is made, and the Indenture and the Notes, shall remain in full force and effect, and (b) amendment agreements, accession agreements or other customary documentation in respect of the Escrow Agreement and the Security Documents, executed and delivered to the Escrow Agent, the Trustee and the Security Agent, as applicable, and the Escrow Agreement and the Security Documents, are in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under proviso (b) of paragraph (1) of the covenant described under “—Certain Covenants—Limitation on Indebtedness”;

- (5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture (and any documentation in respect of the Escrow Agreement and the Security Documents) complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under “—Consolidation, Merger and Sale of Assets”, shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person, as the case may be, in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Subsidiary Guarantor and its Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless each of the following conditions is met:

- (1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction in accordance with the Indenture by a supplemental indenture to the Indenture, executed and delivered to the Trustee;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under proviso (b) of paragraph (1) of the covenant described under “—Certain Covenants—Limitation on Indebtedness”;
- (5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

*provided* that this paragraph shall not apply to any sale or other disposition that complies with the “—Certain Covenants—Limitation on Asset Sales” covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under “—The Subsidiary Guarantees—Release of the Subsidiary Guarantees.”



The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger. The foregoing requirements also shall not apply to a Qualifying SWG IPO or a Qualifying SWG Private Sale. The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company or the Subsidiary Guarantors that may adversely affect Holders.

### **No Payments for Consents**

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes or any Subsidiary Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Notwithstanding the foregoing, subject to applicable law, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes in connection with an exchange offer, the Company may exclude or modify the offer or payment to: (i) holders or beneficial owners of the Notes that are believed by the Company to be U.S. persons as defined in Regulation S of the Securities Act and not institutional “accredited investors” as defined in subparagraphs (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act, and (ii) holders or beneficial owners of the Notes in any other jurisdiction, in either case where the inclusion of such holders or beneficial owners would, without such modification if applicable, require the Company to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, holders or beneficial owners in such jurisdiction would be unlawful, in each case as determined by the Company in its sole discretion and the Trustee shall not have any responsibility or liability for such determination by the Company.

### **Defeasance**

#### **Defeasance and Discharge**

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee, in trust, cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) has delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture and an Opinion of Counsel to the effect that the Holders have a valid, perfected, exclusive Lien over such trust;

- (2) the Company has delivered to the Trustee (a) either (i) an Opinion of Counsel of recognized standing with respect to U.S. federal income tax matters that is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that the beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such deposit, defeasance and discharge had not occurred or (ii) a ruling directed to the Company or Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (b) an Opinion of Counsel of recognized standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;
- (3) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others; and
- (4) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of the Restricted Subsidiaries is a party or by which the Company or any of the Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, each of the Subsidiary Guarantees will terminate.

### **Defeasance of Certain Covenants**

The Indenture will further provide that (i) the provisions of the Indenture will no longer be in effect with respect to clauses (3), (4) and (5)(x) under the first and second paragraphs under "—Consolidation, Merger and Sale of Assets" and all the covenants described herein under "—Certain Covenants", other than as described under "—Certain Covenants—Government Approvals and Licenses; Compliance with Law", and (ii) clause (3) under "Events of Default" with respect to such clauses (3), (4) and (5)(x) under the first and second paragraphs under "—Consolidation, Merger and Sale of Assets" and with respect to such other events set forth in clause (i) above, clause (4) under "—Events of Default" with respect to such other covenants set forth in clause (i) above and clauses (5), (6), (7), (8), (9) and (10) under "—Events of Default" (except for, with respect to clauses (7) and (8), the Company) shall be deemed not to be Events of Default, upon, among other things, the deposit with the Trustee, in trust, of cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (2)(b) of the preceding paragraph under "—Defeasance and Discharge" and the delivery by the Company to the Trustee of an Opinion of Counsel of recognized standing with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would have been the case if such deposit and defeasance had not occurred.

## **Defeasance and Certain Other Events of Default**

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of cash in U.S. dollars and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

## **Amendments and Waiver**

### **Amendments Without Consent of Holders**

The Indenture, the Notes, the Escrow Agreement, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement may be amended, without the consent of any Holder:

- (1) to cure any ambiguity, defect, omission or inconsistency;
- (2) to comply with the provisions described under “—Consolidation, Merger and Sale of Assets”;
- (3) to evidence and provide for the acceptance of appointment by a successor Trustee or Security Agent;
- (4) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (5) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (6) to effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing system;
- (7) to add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;
- (8) to conform the text of the Indenture, the Notes or the Subsidiary Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Subsidiary Guarantees;
- (9) to add any additional collateral to secure the Notes or any Subsidiary Guarantee;
- (10) to make any other change that does not materially and adversely affect the rights of any Holder;  
or
- (11) as provided in “—Certain Covenants—Additional Intercreditor Agreements.”

### **Amendments With Consent of Holders**

Subject to certain exceptions, amendments of the Indenture, the Notes, the Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority

in aggregate principal amount of the then outstanding Notes, and the Holders of a majority in principal amount of the then outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes (except pursuant to a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of such Notes and a waiver of the payment default that resulted from such acceleration);
- (7) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (8) release any Subsidiary Guarantor from its Subsidiary Guarantee or the security interests granted for the benefit of the Holders of the Notes in the Collateral, in each case, except as provided in the Indenture on the Security Documents and except as permitted by the Intercreditor Agreement (or any Additional Intercreditor Agreement);
- (9) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;
- (10) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale;
- (11) change the redemption date or the redemption price of the Notes from that stated under “—Optional Redemption” or “—Redemption for Taxation Reasons”;
- (12) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or
- (13) amend, change or modify any provision of the Indenture or the related definition, the Intercreditor Agreement (or any Additional Intercreditor Agreement) or the Security Documents affecting the ranking of the Notes, any Subsidiary Guarantee or the Collateral in a manner which adversely affects the Holders.

## **Prescription**

Claims against the Company and the Subsidiary Guarantors for the payment of principal, or premium, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Company and the Subsidiary for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

## **No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees**

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any Subsidiary Guarantor in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any Subsidiary Guarantor or of any successor Person thereof.

Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

## **Concerning the Trustee and the Agents**

HSBC Bank USA, National Association, is to be appointed as Trustee under the Indenture, and HSBC Bank USA, National Association, is to be appointed as paying agent (the "Paying Agent") and transfer agent (the "Transfer Agent") with regard to the Notes and as registrar (the "Registrar" and together with the Paying Agent and Transfer Agent, the "Agents") under the Indenture. Except during the continuance of a Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture or the Notes, and no implied covenant or obligation shall be read into the Indenture or the Notes, against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture or the Notes as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates; *provided, however*, that if it becomes aware it has acquired any conflicting interest, it must eliminate such conflict or resign.

The Trustee will not be under any obligation to exercise any rights or powers conferred under the Indenture or the Notes for the benefit of the Holders unless such Holders have instructed the Trustee in writing and offered to the Trustee pre-funding, indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Indenture and has not relied on and will not at any time rely on the Trustee in respect of such risks.

If the Company maintains a paying agent in a European Union member state, then it will ensure that it maintains a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 (each, a “Directive”) or any law implementing or complying with, or introduced in order to conform to, such Directive.

### **Book-Entry; Delivery and Form**

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a “Regulation S Global Note”) and will be deposited with HSBC Bank USA, National Association, as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a “Restricted Global Note”; and together with the Regulation S Global Notes, the “Global Notes”) and will be deposited with HSBC Bank USA, National Association, as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under “Transfer Restrictions.”

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC (“participants”) or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Restricted Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such system. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company, nor any of the Subsidiary Guarantors, the Trustee nor any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Company also expects that payments by participants to owners

of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

The Company expects that DTC will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under “Transfer Restrictions.”

The Company understands that DTC is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies and certain other organizations that clear through or maintain a custodian relationship with a participant, either directly or indirectly (“indirect participants”).

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee or any Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under “Notice to Investors”, in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under “Transfer Restrictions”, in accordance with the DTC’s rules and procedures in addition to those provided for under the Indenture.

## **The Clearing Systems**

### **General**

DTC, Euroclear and Clearstream have advised the Company as follows:

*DTC.* DTC is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code, and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of

its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Initial Purchasers. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

*Euroclear and Clearstream.* Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

### **Initial Settlement**

Initial settlement for the Notes will be made in immediately available funds. All Notes issued in the form of Global Notes will be deposited with HSBC Bank USA, National Association, as custodian for DTC. Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will initially hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same-day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the Business Day following the settlement date against payment for value on the settlement date.

### **Secondary Market Trading**

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

*Trading between DTC Participants.* Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in same-day funds using DTC's Same Day Funds Settlement System.

*Trading between Euroclear and Clearstream Participants.* Secondary market trading between Euroclear participants and Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.



*Trading between DTC Seller and Euroclear or Clearstream Purchaser.* When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear participant or a Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. Euroclear or Clearstream, as the case may be, will receive the Notes against payment. Payment will then be made to the DTC participant's account against delivery of the Notes. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. After settlement has been completed, the Notes will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream participant's account. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade date fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear participants or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream participants purchasing Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Finally, day traders that use Euroclear or Clearstream and that purchase Notes from DTC participants for credit to Euroclear participants or Clearstream participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

- (1) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear account or Clearstream account) in accordance with the clearing system's customary procedures;
- (2) borrowing the Notes in the United States from a DTC participant no later than one day prior to settlement, which would give the Notes sufficient time to be reflected in the borrower's Euroclear account or Clearstream account in order to settle the sale side of the trade; or
- (3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participants or Clearstream participants.

*Trading between Euroclear or Clearstream Seller and DTC Purchaser.* Due to the time zone differences in their favor, Euroclear participants or Clearstream participants may employ their customary procedures for transactions in which Notes are to be transferred by the respective clearing system to another DTC participant. The seller must send instructions to Euroclear or Clearstream through a participant at least one Business Day prior to settlement. In these cases, Euroclear or Clearstream will credit the Notes to the DTC participant's account against payment. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to the Notes excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. The payment will then be reflected in the account of the Euroclear participant or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date (which would be the preceding day when settlement occurs in New York). If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As in the case with respect to sales by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date. See “—Trading between DTC Seller and Euroclear or Clearstream Purchaser” above.

None of the Company, the Subsidiary Guarantors, the Trustee or any Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### **Notices**

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor) addressed to the Company or such Subsidiary Guarantor, at the registered office of the Company in Hong Kong (as notified to The Stock Exchange of Hong Kong Limited), if intended for the Trustee, at the corporate trust office of the Trustee and, if intended for any Holder, addressed to such Holder at such Holder's last address as it appears in the Note register (or otherwise delivered to such Holders in accordance with applicable DTC, Euroclear or Clearstream procedures).

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of the relevant clearing system. Any such notice shall be deemed to have been delivered on the day such notice is delivered to the relevant clearing system or if by mail, when so sent or deposited.

#### **Consent to Jurisdiction; Service of Process**

In relation to any legal action or proceedings arising out of or in connection with the Indenture and the Notes, the Company and each Subsidiary Guarantor will in the Indenture irrevocably submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York, New York, in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction

contemplated thereby. The Indenture will provide that the Company will appoint an agent for service of process in any suit, action or proceeding with respect to the Indenture and the Notes brought in any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York, New York.

### **Governing Law**

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York. The Intercreditor Agreement provides that such instrument will be governed by, and construed in accordance with, the laws of England and Wales. The Escrow Agreement, the Company Floating Charge and the Escrow Charge will be governed by, and construed in accordance with, the laws of Hong Kong.

### **Definitions**

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the Notes” for which no definition is provided.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after June 21, 2018, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step child, parent or step parent, brother, sister, step brother or step sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew or niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means, with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Note at June 21, 2018 (such redemption price being described in the first paragraph in the “Optional Redemption” section exclusive of any accrued interest), plus

all required remaining scheduled interest payments due on such Note (but excluding accrued and unpaid interest to the redemption date) through June 21, 2018, computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; *provided that*, “Asset Sale” shall not include:

- (1) sales, transfers or other dispositions of inventory, receivables and other current assets in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made by the covenant described under “—Certain Covenants—Limitation on Restricted Payments”;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or the Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant described under “—Consolidation, Merger and Sale of Assets” or a transaction that constitutes a Change of Control;
- (7) a Qualifying SWG IPO, a Qualifying SWG Private Sale or the SWG Call Option Deed Transactions;
- (8) sales or other dispositions of cash or of Temporary Cash Investments;
- (9) a sale, transfer or other disposition to the Company or a Restricted Subsidiary, including, without limitation, an issuance of Capital Stock by a Restricted Subsidiary to the Company or to another Restricted Subsidiary;
- (10) licenses, sub-licenses, leases or subleases of tangible property, in each case, in the ordinary course of business;

- (11) foreclosure, condemnation, taking by eminent domain or any similar action with respect to any property or other assets;
- (12) the sale or discount (with or without recourse, and on customary or commercially reasonable terms) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable;
- (13) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;
- (14) an issuance or sale by a Restricted Subsidiary of Preferred Stock that is permitted by the covenant described above under “—Certain Covenants—Limitation on Indebtedness”; and
- (15) sales, transfers or other dispositions of Investments in joint ventures that are not Restricted Subsidiaries entered into prior to the Original Issue Date to the extent required by, or made pursuant to, customary buy/sell arrangements between the joint venture parties set forth in joint venture arrangements and similar binding agreements; *provided* that any cash or Temporary Cash Equivalents received in such sale, transfer or disposition is applied in accordance with the “—Certain Covenants—Limitation on Asset Sales” covenant.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts of the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange U.S. dollars or Hong Kong dollars into Renminbi or vice versa.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London, Singapore or in Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized or required by law or governmental regulation to close.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with IFRS, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the direct or indirect sale of all or substantially all the consolidated assets of the Company to another Person (other than one or more Permitted Holders);
- (2) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (3) individuals who on the Original Issue Date constituted the Board of Directors, together with any new directors whose election or nomination to the Board of Directors was approved by a vote of at least a majority of the directors then still in office who were either directors on the Original Issue Date or whose election or nomination was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office;
- (4) the Permitted Holders are the beneficial owners (as defined above) of less than 23.0% of the total voting power of the Voting Stock of the Company; or
- (5) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least two Rating Agencies, a Rating Decline.

“Clearstream” means Clearstream Banking, *société anonyme*, Luxembourg.

“Collateral” means (i) the Escrowed Property and (ii) the assets of the Company (other than any assets located in the PRC or Capital Stock of subsidiaries) subject to the Company Floating Charge.

“Commodity Hedging Agreement” means any commodities swap agreement, commodities cap agreement, commodities floor agreement, commodities futures agreement, commodities option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage commodities prices and commodities price risk.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to June 21, 2018 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to June 21, 2018.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such redemption date.

“Consolidated EBITDA” means, with respect to any Person for any period, Consolidated Net Income of such Person for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense;
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets); and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income;

all as determined on a consolidated basis for such Person and its Subsidiaries (excluding Unrestricted Subsidiaries) in conformity with IFRS; *provided* that (i) if any Restricted Subsidiary is not a Wholly-Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with IFRS) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries, and (ii) in the case of any PRC CJV (consolidated in accordance with IFRS), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with IFRS) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Fixed Charges” means, with respect to any Person for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of such Person or any of its Restricted Subsidiaries held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly-Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, with respect to any Person for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with IFRS for such period of such Person and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by such Person and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, such Person or any of its Restricted Subsidiaries and (7) any capitalized interest; *provided* that, interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Leverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate principal amount of Indebtedness of the Company and its Restricted Subsidiaries as of the most recent fiscal period for which financial statements that have been delivered to the Trustee are available immediately preceding the date on which such event for which such calculation is being made shall occur to (2) the Consolidated EBITDA of the Company and its Restricted Subsidiaries for the most recently ended four full fiscal quarters for which financial statements that have been delivered to the

Trustee are available immediately preceding the date on which such event for which such calculation is being made shall occur, in each case, with such *pro forma* adjustments to Indebtedness and Consolidated EBITDA as are appropriate and consistent with the *pro forma* adjustment provisions set forth in the definition of “Fixed Charge Coverage Ratio”.

“Consolidated Net Income” means, with respect to any Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with IFRS; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
  - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
  - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of the Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of the Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other constitutive document or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or asset of the Company or any Restricted Subsidiary that is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company or a Restricted Subsidiary realized on sales of Capital Stock of the Company or of any Restricted Subsidiary);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available quarterly, semi-annual or annual consolidated balance sheet of the Company and the Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of the Restricted Subsidiaries, each item to be determined in conformity with IFRS.



“Consolidated Senior Leverage Ratio” means, on any Transaction Date, the ratio of (1) Senior Leverage of the Company and its Restricted Subsidiaries as of the most recent fiscal period for which financial statements that have been delivered to the Trustee are available immediately preceding the date on which such event for which such calculation is being made shall occur to (2) the Consolidated EBITDA of the Company and its Restricted Subsidiaries for the most recently ended four full fiscal quarters for which financial statements that have been delivered to the Trustee are available immediately preceding the date on which such event for which such calculation is being made shall occur, in each case, with such *pro forma* adjustments to Senior Leverage and Consolidated EBITDA as are appropriate and consistent with the *pro forma* adjustment provisions set forth in the definition of “Fixed Charge Coverage Ratio”. The *pro forma* calculation of Consolidated Senior Leverage Ratio shall (a) give effect to any Indebtedness Incurred on the Transaction Date pursuant to one or more categories of Permitted Indebtedness set forth in clause (2) under the caption “Certain Covenants—Limitation on Indebtedness” and (b) assume that an aggregate principal amount of US\$450.0 million of Indebtedness is outstanding under clause (2)(c) under the caption “Certain Covenants—Limitation on Indebtedness”.

“Contingent Obligations” means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Indebtedness (“primary obligations”) of any other Person (the “primary obligor”), including any obligation of such Person, whether or not contingent:

- (1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;
- (2) to advance or supply funds:
  - (a) for the purchase or payment of any such primary obligation; or
  - (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or
- (3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

“Convertible Bonds” means the Company’s HK\$3.1 billion Zero Coupon Convertible Bonds due 2019.

“Credit Agreement” means (1) that certain US\$450.0 million syndicated facility agreement dated as of April 24, 2016, among (*inter alia*) the Company, Biostime Healthy Australia Investment Pty Ltd, the subsidiaries of the Company named as original guarantors thereunder, Goldman Sachs Australia Pty Ltd, as Mandated Lead Arranger, the financial institutions named as lenders thereunder, and The Hongkong and Shanghai Banking Corporation Limited, as agent and security agent, including any related notes, mortgages, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case, as amended, supplemented, modified, extended, replaced, renewed, restated, refunded, restructured, increased or refinanced in whole or in part from time to time, including any replacement, refunding or refinancing facility, agreement, indenture, trust deed or debt facility that increases the amount borrowable or issuable thereunder or alters the maturity thereof or adds entities as additional borrowers, issuers or guarantors thereunder and whether by the same or any other agent, lender, group of lenders, or otherwise; and (2) whether or not the facility agreement referred to in clause (1) remains outstanding, if designated by the Company to be included in the definition of Credit Agreement, one or more additional Credit Facilities.

“Credit Facility” means, with respect to the Company or any Restricted Subsidiary, one or more credit facilities, debt facilities, loan agreements, indentures, financing trust deeds, commercial paper facilities, overdraft facilities, note purchase agreements or other financing arrangements (including, without limitation, the Credit Agreement), in each case with banks, lenders, purchasers, funds,

investors, trustees, agents or other representatives of any of the foregoing, providing for revolving credit loans, term loans, capital market financings, securitizations or receivable financings (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), notes, capital leases, letters of credit or other borrowings or other extensions of credit, including convertible or exchangeable debt instruments, any related notes, mortgages, guarantees, collateral documents, instruments and agreements executed in connection therewith, and any amendments, supplements, modifications, extensions, replacements, renewals, restatements, refundings, restructurings, increases or refinancings thereof in whole or in part from time to time, including any replacement, refunding or refinancing facility, agreement or indenture that increases the amount borrowable or issuable thereunder or alters the maturity thereof or adds entities as additional borrowers, issuers or guarantors thereunder or otherwise alters the terms and conditions thereof and whether by the same or any other agent, lender, group of lenders or otherwise.

“Currency Hedging Agreement” means any currency swap agreement, currency cap agreement, currency floor agreement, currency futures agreement, commodity option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage currencies and currency risk.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the covenants described under “—Certain Covenants—Limitation on Asset Sales” and “—Repurchase of Notes upon a Change of Control Triggering Event.”

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the noon buying rate for U.S. dollars in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on the date of determination.

“DTC” means The Depository Trust Company and its successors.

“Equity Offering” means a public or private sale by the Company of Common Stock (other than Disqualified Stock) of the Company.

“Escrow Agreement” means the escrow agreement dated on or about the Original Issue Date, among, *inter alia*, the Company, the Escrow Agent and the Trustee, as amended from time to time.

“Euroclear” means Euroclear Bank S.A./N.V.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Extended Letters of Credit” means letters of credit, bankers’ acceptances, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations incurred by the Company or any of its Restricted Subsidiaries in the ordinary course of business or in respect of any governmental requirement; which, upon drawing, are to be reimbursed after 30 days but no more than 90 days following such drawing and such obligations will not exceed US\$ 10.0 million (or the Dollar Equivalent thereof) in total at any one time outstanding.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

“Family Members” means, in relation to any natural Person, such Person, his or her parents, brothers, sisters and lineal descendants, and any trust or other similar entity established for the sole benefit of or the sole beneficial owner(s) of which (directly or indirectly) are any or all of the foregoing, any of their respective lineal descendants, estate or any executor of their respective estate, and/or (in the case of any such trust or similar entity) any trustee in bankruptcy or similar officer in respect of any such trust or such other similar entity.

“Financing Subsidiary” means a direct Wholly-Owned Subsidiary of the Company that is a Subsidiary Guarantor and is formed for the purpose of borrowing funds or issuing securities and lending the proceeds to the Company and that conducts no business other than as may be reasonably incidental to, or related to, the foregoing.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company are available (which may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) *pro forma* effect shall be given to any Indebtedness Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate will be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Hedging Agreement applicable to such Indebtedness if such Interest Rate Hedging Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) *pro forma* effect will be given to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;

- (d) *pro forma* effect will be given to Asset Dispositions, Asset Acquisitions and disposition of Capital Stock of any SWG Entities (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) *pro forma* effect will be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

*provided* that to the extent that clause (d) or (e) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation will be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Holding Company” means, in relation to any Person, any Person in respect of which it is a Subsidiary.

“IFRS” means International Financial Reporting Standards as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with IFRS applied on a consistent basis.

“Incur” means, with respect to any Indebtedness, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness; *provided* that (1) any Indebtedness and Disqualified Stock of a Person existing at the time such Person becomes a Restricted Subsidiary will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “Incurrence”, “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

- (3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations;
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and
- (10) any Preferred Stock issued by (a) such Person, if such Person is a Restricted Subsidiary or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* (a) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with IFRS and (b) that the amount of Indebtedness with respect to any Hedging Obligation shall be (i) zero if Incurred pursuant to clause (2)(f) under the "Limitation on Indebtedness" covenant or (ii) equal to the net amount payable by such Person if the Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement giving rise to such Hedging Obligation were terminated at that time due to default by such Person if not Incurred pursuant to such paragraph.

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

- (a) money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness *provided* such money is held to secure the payment of such interest;
- (b) any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Original Issue Date;
- (c) prepayments of deposits received from clients or customers in the ordinary course of business;
- (d) obligations under any license, permit or other approval (or Guarantees given in respect of such obligations) Incurred prior to the Original Issue Date or in the ordinary course of business; and
- (e) Contingent Obligations Incurred in the ordinary course of business and accrued liabilities Incurred in the ordinary course of business that are not more than 90 days past due.

"Independent Financial Advisor" means an accounting, appraisal or investment banking firm of international standing; *provided, however*, that such firm is not an Affiliate of the Company.

“Independent Third Party” means any Person that is not an Affiliate of the Company.

“Intercreditor Agreement” means the intercreditor agreement dated as of April 24, 2016, among (*inter alia*) the Company, Biostime Healthy Australia Investment Pty Ltd, the subsidiaries of the Company named as original guarantors thereunder, the senior agent under the Credit Agreement, the Trustee (upon accession), the Convertible Bonds trustee (upon accession) and the Security Agent, as amended from time to time.

“Interest Rate Hedging Agreement” means any interest rate swap agreement, interest rate cap agreement, interest rate floor agreement, interest rate future contract, interest rate option agreement or any other similar agreement or arrangement which may consist of one or more of any of the foregoing agreements, designed to manage interest rates and interest rate risk.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the covenants described under “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries” and “—Certain Covenants—Limitation on Restricted Payments”: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company’s proportionate interest in the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary calculated as of the time of such designation; (2) if the Company or any Restricted Subsidiary sells or otherwise disposes of any Investment of any Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Restricted Subsidiary is no longer a Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of such sale or disposition equal to the Fair Market Value of the Investments in such former Restricted Subsidiary that were not sold or disposed of; (3) the acquisition by the Company or any Subsidiary of the Company of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Company or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person; and (4) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA,” “AA,” “A” or “BBB,” as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, or a rating of “Aaa,” “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody’s.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Minority Interest Staged Acquisition Agreement” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (1) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (2) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale (other than the issuance or sale of Capital Stock), the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
  - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;
  - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and the Restricted Subsidiaries, taken as a whole;
  - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and
  - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with IFRS and reflected in an Officers’ Certificate delivered to the Trustee; and
- (2) with respect to any Asset Sale consisting of the issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

- (1) the provision in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;

- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or any amount in excess thereof which is an integral multiple of US\$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers’ Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of written order of the Company signed by an Officer the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or any amount in excess thereof which is an integral multiple of US\$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Restricted Subsidiary, one of the directors or officers of such Restricted Subsidiary.



“Officers’ Certificate” means a certificate signed by two Officers; *provided, however*, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers’ Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from legal counsel, which is in form and substance reasonably acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under “—Repurchase of Notes upon a Change of Control Triggering Event”, or an Offer to Purchase in the manner described under “—Certain Covenants—Limitation on Asset Sales” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted Businesses” means any business, service or activity which is the same as or otherwise related, ancillary, complementary, incidental or similar to any of the businesses of the Company and the Restricted Subsidiaries on the Original Issue Date.

“Permitted Collateral Liens” means Liens:

- (1) that are “Permitted Liens” described in one or more of (a) with respect to the Escrowed Property, clauses (1), (7), (24) or (29) of the definition thereof and (b) with respect to the other Collateral, clauses (1), (2), (3), (4), (7), (24), (26), (28), (29), (30) or (31) of the definition thereof;
- (2) with respect to the Escrowed Property (but not other Collateral), to secure the Notes, any Additional Notes and the Convertible Bonds;
- (3) with respect to the Collateral (other than the Escrowed Property), to secure Indebtedness or other obligations of the Company or a Subsidiary Guarantor that are permitted to be Incurred under clauses (2)(a)(other than any Additional Notes), (2)(c), (2)(f), (2)(j)(i) and (iv), (2)(k) (other than with respect to Capitalized Lease Obligations), (2)(m) (to the extent such Guarantee is in respect of Indebtedness otherwise permitted to be secured and specified in this definition of Permitted Collateral Liens), (2)(o)(i) and (2)(q) of the covenant described under “—Certain Covenants—Limitation on Indebtedness” and any Permitted Refinancing Indebtedness in respect of such Indebtedness; and
- (4) with respect to Collateral (other than the Escrowed Property) to secure Indebtedness incurred under clause (1) described under “—Certain Covenants—Limitation on Indebtedness” (but, if such Lien will rank senior in priority to the Lien securing the Notes, only if such Indebtedness is Senior Leverage and Incurred under proviso (c) of such clause) and any Permitted Refinancing Indebtedness in respect of such Indebtedness;

*provided* that the secured parties (whether acting directly or through a respective creditor representative) to any Indebtedness referred to in clause (2), (3) or (4) above, or any Refinancing Indebtedness thereof which, in each case is secured by Liens on the Collateral, will enter into the Intercreditor Agreement (or an Additional Intercreditor Agreement) to the extent required therein.

“Permitted Holders” means each of Mr. Luo Fei and Mr. Luo Yun and their respective Family Members.

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or will be merged or consolidated with or into, or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) cash or Temporary Cash Investments;
- (3) payroll, travel, relocation, entertainment and similar advances made in the ordinary course of business to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with IFRS;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed (i) solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates or (ii) to reduce or manage interest expenses;
- (7) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments consisting of consideration received in connection with an Asset Sale under clause 4(b) of, and made in compliance with, the covenant described under “—Certain Covenants—Limitation on Asset Sales”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens”;
- (10) loans or advances to vendors, contractors, suppliers or distributors, including advance payments for equipment and machinery made to the manufacturer thereof, of the Company or any Restricted Subsidiary in the ordinary course of business and dischargeable in accordance with customary trade terms;
- (11) Investments in existence on, or made pursuant to legally binding commitments in existence on, the Original Issue Date;
- (12) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers’ compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business of the Company or any Restricted Subsidiary;
- (13) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;
- (14) Investments, taken together with all other Investments made pursuant to this clause (14) and at any time outstanding, in an aggregate amount at the time of such Investment (net of any distributions, dividends, payments or other returns in respect of such Investments) not to exceed the greater of US\$ 50.0 million and 2.5% of Total Assets; *provided* that, if an Investment is made

pursuant to this clause (14) in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary, such Investment shall thereafter be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investments” and not this clause;

- (15) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “—Certain Covenants—Limitation on Liens”;
- (16) Guarantees of Indebtedness of the Company or its Restricted Subsidiaries permitted to be Incurred by the covenant described under “—Certain Covenants—Limitation on Indebtedness” and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business;
- (17) Investments in the Notes and any Additional Notes; and
- (18) any Investment not to exceed the greater of US\$50.0 million and 2.5% of Total Assets (a) in a joint venture, including any guarantee thereof or loans or letters of credit thereto, that is engaged in a Similar Business or (b) that consists of a minority investment in or loan to an entity engaged in a Similar Business; *provided* that if an Investment is made pursuant to this clause (18) in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary, such Investment, if applicable, shall thereafter be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investments” and not this clause.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) Leases (including operating leases), licenses, subleases and sublicenses of assets (including real property and intellectual property rights) granted to others that do not materially interfere with the ordinary course of business of the Company and the Restricted Subsidiaries, taken as a whole;
- (5) Liens on property or other assets of, or on shares of Capital Stock of, any Person existing at the time such Person (i) becomes a Restricted Subsidiary or (ii) is merged with or into or consolidated with the Company or any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets of such Person (if such Person becomes a Restricted Subsidiary) or the property or assets acquired by the Company or such Restricted Subsidiary (if such Person is

merged with or into or consolidated with the Company or such Restricted Subsidiary); *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

- (6) Liens in favor of the Company or any Restricted Subsidiary;
- (7) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that do not give rise to an Event of Default;
- (8) Liens securing reimbursement obligations with respect to letters of credit, performance and surety bonds and completion guarantees that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (9) Liens existing on the Original Issue Date (other than Liens incurred pursuant to clause (21) of this definition);
- (10) Liens securing Indebtedness which is Incurred to refinance Secured Indebtedness which is permitted to be Incurred under clause (2)(e) of the covenant described under “—Certain Covenants—Limitation on Indebtedness,” *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) securing the Indebtedness being refinanced;
- (11) Liens securing Hedging Obligations permitted to be Incurred under clause (2)(f) of the covenant described under “—Certain Covenants—Limitation on Indebtedness,” *provided* that (i) Indebtedness relating to any such Hedging Obligation is, and is permitted under the covenant described under “— Certain Covenants—Limitation on Indebtedness” to be, secured by a Lien on the same property securing such Hedging Obligation or (ii) such Liens are encumbering customary initial deposits or margin deposits or are otherwise within the general parameters customary in the industry and incurred in the ordinary course of business or (iii) such Liens secure obligations set forth under Interest Rate Hedging Agreements designed to reduce or manage interest expenses;
- (12) Liens securing Attributable Indebtedness that is permitted to be Incurred under the Indenture;
- (13) Liens on assets or property of the Company or any Restricted Subsidiary for the purpose of securing any Capitalized Lease Obligation or purchase money Indebtedness permitted to be Incurred under clause (2)(k) of the covenant described under “—Certain Covenants—Limitation on Indebtedness”; *provided, however*, that the Liens do not extend to any property or assets which is not subject to such Capitalized Lease Obligation or purchase money Indebtedness;
- (14) encumbrances, ground leases, easements (including reciprocal easement agreements), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Company and its Restricted Subsidiaries or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of the Company and its Restricted Subsidiaries;
- (15) any interest or title of a lessor in the property subject to any operating lease;
- (16) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers’ compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

- (17) Liens on deposits securing letters of credit (and reimbursement obligations relating thereto) incurred in the ordinary course;
- (18) Liens securing Indebtedness Incurred pursuant to clause (2)(k) of the covenant described under “—Certain Covenants—Limitation on Indebtedness”; *provided* that such Lien (i) covers only the equipment, property or assets acquired, developed, constructed or improved with such Indebtedness and (ii) is created within 180 days of such acquisition, development, construction or improvement;
- (19) (i) Liens securing Indebtedness Incurred pursuant to clause (2)(n) of the covenant described under “—Certain Covenants—Limitation on Indebtedness” or (ii) Liens on assets owned by a PRC Restricted Subsidiary securing Indebtedness of a PRC Restricted Subsidiary of the type described under clause 2(n) of the covenant described under “—Certain Covenants—Limitation on Indebtedness”; *provided*, in each case, that (a) such Lien is created prior to, at the time of or within 30 days after entering into the agreement underlying such Indebtedness and (b) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which have been delivered to the Trustee) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (19) does not exceed 130.0% of the aggregate principal amount or aggregate committed amount of Indebtedness secured by such Liens;
- (20) Liens Incurred on deposits made to secure Bank Deposit Secured Indebtedness Incurred pursuant to clause 2(p) of “—Certain Covenants—Limitation on Indebtedness” covenant;
- (21) Liens securing Indebtedness (excluding, for the avoidance of doubt, Public Indebtedness) Incurred pursuant to clause (2)(c) of the covenant described under “—Certain Covenants—Limitation on Indebtedness”;
- (22) Liens on proceeds loans made by a Financing Subsidiary to the Company to secure Indebtedness of such Financing Subsidiary permitted to be Incurred in accordance with covenant described under “—Certain Covenants—Limitation on Indebtedness”;
- (23) Liens to secure Senior Indebtedness Incurred pursuant to clause (1)(c) of the covenant described under “—Certain Covenants—Limitation on Indebtedness”;
- (24) Liens arising by virtue of any statutory or common law provisions relating to banker’s Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository or financial institution;
- (25) Liens arising from Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Company and its Restricted Subsidiaries in the ordinary course of business;
- (26) (a) mortgages, liens, security interest, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which the Company or any Restricted Subsidiary of the Company has easement rights or on any leased property and subordination or similar arrangements relating thereto and (b) any condemnation or eminent domain proceedings affecting any real property;
- (27) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of, or assets owned by, any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

- (28) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;
- (29) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities;
- (30) Liens incurred in connection with any customary cash management or pooling program established in the ordinary course of business; *provided* that only the Company and its Restricted Subsidiaries may be the borrower under any Indebtedness created under such cash management or pooling programs;
- (31) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;
- (32) Liens on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;
- (33) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures;
- (34) Liens created for the benefit of or to secure, directly or indirectly, the Notes;
- (35) Liens on Capital Stock of the Person that is to be acquired under the relevant Minority Interest Staged Acquisition Agreement securing Indebtedness permitted to be Incurred under clause 2(t) of the covenant described under “—Certain Covenants—Limitation on Indebtedness”; and
- (36) Liens *provided* that the maximum amount of Indebtedness secured in the aggregate at any one time pursuant to this clause (36) does not exceed US\$15.0 million.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PRC” means the People’s Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan.

“PRC CJV” means any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 31, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws and regulations may be amended from time to time.

“PRC CJV Partner” means, with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Public Indebtedness” means any bonds, debentures, notes or similar debt securities (or proceeds loans in respect thereof) issued in a public offering or a private placement (other than the Notes) to institutional investors.

“Qualifying SWG IPO” means a transaction or series of related transactions upon the consummation of which a SWG IPO Entity has its ordinary shares listed on an internationally recognized stock exchange, including, but not limited to, the Australian Stock Exchange or The Stock Exchange of Hong Kong, and each of the following conditions shall have been satisfied:

- (1) the Consolidated Leverage Ratio, on a *pro forma* basis after giving effect to the Qualifying SWG IPO shall not exceed 3.75 to 1.0;
- (2) the SWG IPO Entity shall be a Restricted Subsidiary of the Company; and
- (3) the delivery to the Trustee of an Officers’ Certificate confirming that no Default or Event of Default has occurred and is continuing, that a Qualifying SWG IPO has occurred and that the conditions precedent to the implementation of a Qualifying SWG IPO have been satisfied.

“Qualifying SWG Private Sale” means a transaction or series of related transactions upon the consummation of which the Company or any of its Restricted Subsidiaries has sold more than 30.0% of the Voting Stock of the SWG IPO Entity to any Person other than the Company or a Restricted Subsidiary or any of their respective Affiliates, and each of the following conditions shall have been satisfied:

- (1) the Consolidated Leverage Ratio, on a *pro forma* basis after giving effect to the Qualifying SWG Private Sale shall not exceed 3.75 to 1.0;
- (2) the SWG IPO Entity shall be a Restricted Subsidiary of the Company; and

the delivery to the Trustee of an Officers’ Certificate confirming that no Default or Event of Default has occurred and is continuing, that a Qualifying SWG Private Sale has occurred and that the conditions precedent to the implementation of a Qualifying SWG Private Sale have been satisfied.

“Rating Agencies” means S&P and Moody’s; *provided* that if S&P or Moody’s shall not make a rating of the Notes publicly available, one or more nationally recognized statistical rating organizations (as defined in Rule 436 under the Securities Act), as the case may be, selected by the Company, which shall be substituted for S&P or Moody’s.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P and “1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under “—Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under “—Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by both Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any one of the two Rating Agencies shall be below Investment Grade;
- (b) in the event the Notes are rated by one, and only one, of the two Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (c) in the event the Notes are rated by one or more Rating Agencies and are rated below Investment Grade by such Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company in good faith, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“SEC” means the U.S. Securities and Exchange Commission.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Security Documents” means (1) the Escrow Charge over the Escrowed Property and (2) the debenture creating a floating charge over certain assets of the Company.



“Senior Indebtedness” means, whether outstanding on the Original Issue Date or thereafter Incurred, all amounts payable by, under or in respect of all other Indebtedness of the Company or any Restricted Subsidiary, including premiums and accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company or such Restricted Subsidiary at the rate specified in the documentation with respect thereto whether or not a claim for post filing interest is allowed in such proceeding) and fees relating thereto; *provided, however*, that Senior Indebtedness will not include:

- (1) any Indebtedness Incurred in violation of the Indenture;
- (2) any obligation of the Company or any Subsidiary Guarantor to the Company or any Restricted Subsidiary;
- (3) any liability for taxes owed or owing by the Company or any Restricted Subsidiary;
- (4) any account payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities);
- (5) any Indebtedness, guarantee or obligation of any Subsidiary Guarantor that is expressly subordinate or junior in right of payment to any other Indebtedness, guarantee or obligation of such Subsidiary Guarantor;
- (6) any Indebtedness under the Subsidiary Guarantees or obligations that are *pari passu* with the Subsidiary Guarantees pursuant to the Intercreditor Agreement (or any Additional Intercreditor Agreement); or
- (7) any Capital Stock.

“Senior Leverage” means any Indebtedness for borrowed money of (1) the Company or a Restricted Subsidiary secured by a Lien, (2) the Company or a Subsidiary Guarantor that is Senior Indebtedness, and (3) a Restricted Subsidiary that is not a Subsidiary Guarantor, but excluding (a) the Notes, any Additional Notes, the Convertible Bonds and any Public Indebtedness permitted to be Incurred under clause (3) of the covenant described under “Certain Covenants—Limitation on Indebtedness” and (b) any Indebtedness that is fully collateralized by a Lien on cash and cash equivalents.

“Shareholder Affiliate” means any Person (or any Affiliate of such Person) that holds or beneficially owns 10.0% or more any of any class of Capital Stock of the Company.

“Significant Restricted Subsidiary” means any Restricted Subsidiary that would be a “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of the Indenture, if any of the conditions exceeds 5%.

“Similar Business” means any business, service or activity that is the same as or ancillary or complementary to any of the businesses of the Company and the Restricted Subsidiaries on the Original Issue Date.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company or any Subsidiary Guarantor that is contractually subordinated or junior in right of payment to the Notes or to any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with IFRS; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the IFRS and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of “Designation of Restricted and Unrestricted Subsidiaries” covenant.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means the initial Subsidiary Guarantors named herein and any other Restricted Subsidiary that Guarantees the obligations of the Company under the Indenture and the Notes; *provided that* “Subsidiary Guarantor” does not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

“SWG Agreements” means (1) the Swisse shareholders agreement dated as of September 17, 2015, among Biostime Healthy Australia Investment Pty Ltd, Swisse Wellness Group Pty Ltd and certain of the vendors named therein, (2) the Call Option Deed dated as of September 17, 2015 (the “Call Option Deed”), between Biostime Healthy Australia Investment Pty Ltd and certain of the vendors named therein, and (3) the Biostime Healthy Australia Holdings Pty Ltd shareholders agreement between Biostime Healthy Australia Pty Ltd, Biostime Healthy Australia Holdings Pty Ltd, the Company and certain of the vendors named therein, to be entered into in accordance with the terms of the Call Option Deed.

“SWG Call Option Deed Transactions” means the transactions contemplated by the Call Option Deed pursuant to which, among other things, certain shareholders of Swisse Wellness Group Pty Ltd are issued Capital Stock of Biostime Healthy Australia Holdings Pty Limited.

“SWG Entities” means the SWG IPO Entity and its Subsidiaries that are Restricted Subsidiaries.

“SWG IPO Entity” means Biostime Healthy Australia Holdings Pty Ltd or its successor or its Holding Company (or such other Person so designated by the Parent in an Officers’ Certificate delivered to the Trustee).

“SWG Subsidiary Guarantors” means Swisse Wellness Group Pty Ltd, SWG Holdco Pty Ltd and Swisse Wellness Pty Ltd.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, Australia, Canada, any state of the European Union, Hong Kong, Singapore, the PRC or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, Australia, Canada, any state of the European Economic Area, Hong Kong, Singapore, the PRC or any agency of any of the foregoing, in each case maturing within one year, which in the case of obligations of, or obligations Guaranteed by, any state of the European Union, shall be rated at least “A” by S&P or Moody’s;

- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof, Australia, Canada, any state of the European Union, Hong Kong, Singapore or the PRC and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act);
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95.0% of its assets continuously invested in investments of the types described in clauses (1) through (5) above;
- (7) demand or time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) China Merchants Bank, China Everbright Bank, China Construction Bank, Agricultural Bank of China, The Bank of East Asia, Industrial and Commercial Bank of China, China CITIC Bank, Bank of China, Bank of Communications, Hongkong and Shanghai Banking Corporation, PingAn Bank, Industrial Bank Co., Ltd., China Minsheng Bank, Société Générale, Australia and New Zealand Banking Group Limited, Bank of Nanjing, National Australia Bank and Shanghai Pudong Development Bank, (ii) any other bank, trust company or other financial institutions organized under the laws of the PRC, Hong Kong or Australia whose long-term debt is rated as high or higher than any of those banks listed in clause (i) of this paragraph or (iii) any other bank or other financial institutions organized under the laws of the PRC, Hong Kong or Australia; *provided* that, in the case of clause (iii), such deposits do not exceed US\$10.0 million (or the Dollar Equivalent thereof) with any single bank or US\$30.0 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination thereafter; and
- (8) any corporate debt securities which, at the time of the investment in such corporate debt securities, are rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act).

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with IFRS as of the last date of the most recent fiscal quarter for which consolidated financial statements of the Company have been delivered to the Trustee and are publicly available; *provided* that only with respect to clause (2)(k)(ii) of the “—Certain Covenants — Limitation on Indebtedness” covenant, Total Assets shall be calculated after giving *pro forma* effect to include the cumulative value of all the equipment, property or assets the acquisition, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Uniform Commercial Code” means the New York Uniform Commercial Code.

“Unrestricted Subsidiary” means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Restricted Subsidiary, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law or regulation) by the Company or one or more Wholly Owned Subsidiaries of the Company; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Restricted Subsidiaries of such Person are entitled to 95% or more of the economic benefits distributable by such Subsidiary.

## TAX CONSIDERATIONS

The following summary of certain Cayman Islands, BVI, Australia and United States tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change, possibly with retroactive effect. This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences to them of the purchase, ownership and disposition of Notes.

### **The People's Republic of China**

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. The summary is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after January 1, 2008.

Pursuant to the New Enterprise Income Tax Law and its implementation regulations, both of which came into effect on January 1, 2008, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose “*de facto* management bodies” are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the New Enterprise Income Tax Law and they shall pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside the PRC. The implementing regulations of the New Enterprise Income Tax Law merely define the location of the “*de facto* management body” as an “organizational body which effectively manages and controls the production and business operation, personnel, accounting, properties and other aspects of operations of an enterprise.” If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “*de facto* management body” of the Company is within the territory of the PRC, the Company may be held to be a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law and be subject to enterprise income tax at the rate of 25% for its income sourced from both within and outside the PRC. As confirmed by the Company, as at the date of this offering memorandum, the Company has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the New Enterprise Income Tax Law. On that basis, holders of the Notes will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, the tax resident status of the Company is subject to determination by relevant PRC tax authorities and uncertainties remain with respect to their interpretation of the term “*de facto* management body” as applicable to the Company and there is no assurance that the Company will not be treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future. If the Company is treated as a PRC tax resident enterprise, the interest payable by the Company may be considered as income sourced inside the PRC. Pursuant to the New Enterprise Income Tax Law and its implementation regulations, any non-resident enterprise without establishment within the PRC whose income has no actual connection to its establishment inside the PRC may be subject to enterprise income tax at the rate of 10% on the passive incomes,

including interest payable sourced inside the PRC, unless a lower tax treaty rate applies. Similarly, pursuant to the PRC Individual Income Tax Law, any non-resident individual Noteholders may be subject to individual income tax at the rate of 20% on the interest payable, which may be further decreased by an applicable tax treaty. Such income tax shall be withheld at source by the PRC entity making payment, who shall be obliged to withhold the tax amount from each payment or payment due. Accordingly, in the event the Company is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Company shall withhold income tax from the payments of interest in respect of the Notes for any non-PRC enterprise and individual Noteholders. However, notwithstanding the potential withholding of PRC tax by the Company, the Company has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the section titled “Description of the Notes.”

Non-PRC Noteholders will not be subject to PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside mainland China between non-PRC Noteholders, except, however, if the Company is treated as a PRC tax resident enterprise under the New Enterprise Income Tax Law and related implementation regulations in the future, any gain realized by the non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10% of PRC withholding tax unless decreased or exempted by an applicable tax treaty. Further, non-PRC individual Noteholders may be subject to individual income tax at the rate of 20% on the capital gains, which may be decreased or exempted by an applicable tax treaty.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

### **Cayman Islands**

Under the existing laws of the Cayman Islands, payments of interest, principal or premium on the Notes will not be subject to taxation and no withholding will be required on the payment of interest, principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands are not party to any double taxation treaties.

No stamp duty is payable in respect of the issue of the Notes. The holder of any Notes (or a legal personal representative of such holder) whose Notes are brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Notes. Certificates evidencing registered Notes, to which title is not transferable by delivery, will not attract Cayman Islands stamp duty. However, an instrument transferring title to a registered Note, if brought to or executed in the Cayman Islands, would be subject to nominal Cayman Islands stamp duty. Stamp duty will be payable on any documents executed by the Company if any such documents are executed in or brought into the Cayman Islands or produced before the courts of the Cayman Islands.

The Company has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has applied for and is entitled to receive an undertaking from the Governor in Cabinet of the Cayman Islands in the following form:

**“CAYMAN ISLANDS GOVERNMENT  
The Tax Concessions Law  
2011 Revision  
Undertaking as to Tax Concessions**

In accordance with the provisions of Section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with:

**Biostime International Holdings Ltd.**  
(“Company”)

- (i) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (ii) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
  - a. on or in respect of the shares, debentures or other obligations of the Company; or
  - b. by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of TWENTY years from May 11, 2010.

Clerk of the Cabinet”

**British Virgin Islands**

There is no income or other tax of the BVI imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the execution, delivery, performance or enforcement of the Subsidiary Guarantees.

**Australia**

The following is a summary of the principal taxation consequences under the Australian Income Tax Assessment Acts of 1936 and 1997 (Cth) (together, the “Australian Tax Act”), as at the date of this offering memorandum, of the acquisition, ownership and disposal of Notes for investors who are non-residents of Australia for Australian tax purposes and who do not acquire or hold Notes at any time in carrying on business at or through a permanent establishment in Australia. It is not exhaustive and, in particular, does not deal with the position of certain classes of holders of Notes (including dealers in securities, custodians or other third parties who hold the Notes on behalf of any absolute beneficial owners of Notes).

Prospective holders of Notes should seek independent advice on the Australian and foreign tax implications of an investment in the Notes in their particular circumstances. This summary is not intended to be, nor should it be construed as, legal or tax advice to any particular holder of Notes.

*Australian interest withholding tax*

Payments by the Company of interest on the Notes will not be subject to Australian interest withholding tax because those payments will not be made by a resident of Australia, or by a non-resident of Australia as part of a business carried on by it at or through a permanent establishment in Australia.

Australian law is not settled in relation to payments by an Australian Subsidiary Guarantor in relation to interest obligations of the Company. The Australian Commissioner of Taxation has expressed the view that payments by an Australian resident guarantor in relation to unpaid interest are themselves in the nature of interest and subject to Australian interest withholding tax. While that expression of opinion has no binding effect, it is an indication that the Australian Commissioner of Taxation may seek to collect Australian interest withholding tax on payments of that kind. In the event that any withholding taxes are required to be withheld or deducted from any payments under the Subsidiary Guarantees, the Australian Subsidiary Guarantors will, subject to certain exceptions described in this

offering memorandum, be required to pay such additional amounts as will result, after deduction or withholding of such taxes, in the receipt of the amounts which would have been received under the guarantees had no such withholding or deduction been required. See “Description of the Notes—Additional Amounts”.

#### *Gains on disposal of Notes*

No Australian income or other tax is payable on any profit on sale or redemption of the Notes that are held by non-residents of Australia (other than Notes that have been held at any time through a permanent establishment in Australia) except if the Notes are purchased with the intention of deriving that profit, or the Notes are trading stock of the vendor or if an ordinary incident of the vendor’s business is the sale of securities for a profit and, in each case, the profit has a source in Australia. The profit will generally only have a source in Australia if the business is conducted in Australia, if the Notes are sold in Australia or the Notes are physically held in Australia. Notwithstanding that a profit from a sale or redemption of Notes is *prima facie* assessable within Australia in the circumstances referred to above, if the vendor is a resident of a country with which Australia has a tax treaty, then depending on the circumstances of the case and the terms of the relevant treaty, relief from Australian tax may nevertheless be available under the treaty.

#### *Death duties*

No Notes will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having power to tax, if held at the time of death.

#### *Stamp duty*

No *ad valorem* stamp, issue, registration or similar taxes are payable in Australia on the issue or transfer of any Notes.

#### *Garnishee directions*

The Australian Commissioner of Taxation may give a direction under section 255 of the Australian Tax Acts or section 260-5 of the Taxation Administration Act 1953 (Cth) of Australia or any similar provision requiring a Subsidiary Guarantor to deduct from any payment to any other party (including any Noteholder) any amount in respect of Australian tax payable by that other party.

### **US Federal Income Taxation**

The following discussion is a summary of certain US federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. The discussion is not a complete description of all the tax considerations that may be relevant to a particular holder. This summary is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as of the date hereof, all of which are subject to change (including changes in effective dates and retroactive changes) or possible differing interpretations which may affect the tax consequences described herein. No ruling will be sought from the US Internal Revenue Service (the “IRS”) with respect to any statement or conclusion in this discussion, and there can be no assurance that the IRS will not challenge such statement or conclusion in the following discussion or, if challenged, a court will uphold such statement or conclusion. The discussion addresses only initial purchaser of the Notes that are US Holders (as defined below), that hold the Notes as capital assets, that purchase the Notes at their “issue price,” which will be the first price at which a substantial amount of the Notes is sold to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) for money, and that have the US dollar as their functional currency. It does not address the tax consequences that may be relevant to the tax treatment of investors subject to special rules, such as banks, insurance companies, investors liable for the alternative minimum tax, beneficial owners of individual retirement accounts and other tax-deferred accounts, tax-exempt organizations,



dealers in securities or currencies, traders that elect mark-to-market treatment, or investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for US federal tax purposes. In addition, this summary does not address any state, local or non-US tax consequences of the purchase, ownership or disposition of the Notes, the Medicare tax on net investment income or any US federal tax consequences other than income tax (such as estate and gift tax consequences).

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE US FEDERAL, STATE, LOCAL AND NON-US TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.

### ***US Holders***

As used here, “US Holder” means a beneficial owner of Notes that is, for US federal income tax purposes:

- (i) an individual who is a citizen or resident of the United States;
- (ii) a corporation (or other business entity classified as a corporation) created or organized under the laws of the United States, any State thereof or the District of Columbia;
- (iii) an estate the income of which is subject to US federal income tax without regard to its source; or
- (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust.

If a partnership or other entity or arrangement treated as a partnership for US federal income tax purposes purchases, holds or disposes of the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A US Holder that is a partnership or a partner in a partnership holding the Notes is urged to consult its own tax advisor.

### ***Taxation of interest***

The gross amount of stated interest payments received by a US Holder (including any foreign tax withheld and any Additional Amounts paid with respect thereto) with respect to the Notes will generally be includible in taxable income as ordinary interest income at the time it accrues or is received in accordance with the US Holder’s method of tax accounting for US federal income tax purposes.

Interest payments on the Notes will generally be from foreign sources for US federal income tax purposes and will generally be treated as “passive category income” or, in certain cases, “general category income” for US foreign tax credit purposes. Subject to applicable limitations, any PRC taxes withheld from interest payments in respect of the Notes (not in excess of the applicable rate under the US-PRC tax treaty) may be creditable against, or available as a deduction in computing, the US Holder’s US federal income tax liability. The US foreign tax credit rules are extremely complex. US Holders should consult their own tax advisors regarding the availability of US foreign tax credits and the application of the US foreign tax credit rules to their particular situation.

### ***Taxation of the sale, exchange, redemption or retirement of a Note***

Upon the sale, exchange, redemption or retirement of a Note, a US Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale, exchange, redemption or retirement (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the US Holder’s tax basis in such

Note. A US Holder's adjusted tax basis in a Note will generally equal the amount the US Holder paid to acquire the Note. Gain or loss recognized by a US Holder generally will be long-term capital gain or loss if the US Holder has held the Note for more than one year at the time of disposition. Certain non-corporate US Holders (including individuals) may qualify for reduced rates of US federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations. Gain or loss realized by a US Holder on the sale, exchange, redemption or retirement of a Note generally will be treated for foreign tax credit purposes as gain or loss arising from sources within the United States. However, with respect to a US Holder that is eligible for the benefits of the US-PRC tax treaty, if the Company is deemed to be a PRC resident enterprise and gain from the disposition of a Note is taxed under the EIT Law, such gain may be treated as foreign source income for foreign tax credit purposes. See "Risk Factors—Risks relating to our business and industries—We may be treated as a PRC resident enterprise for PRC tax purposes, which may subject us to PRC income taxes on our worldwide income and PRC withholding taxes on interest we pay on the Notes." Each prospective purchaser is urged to consult their independent tax advisors regarding the tax consequences if a foreign tax is imposed on the disposition of a Note, including the availability of the foreign tax credit under the investor's particular circumstances including eligibility for benefits under the US-PRC tax treaty.

### ***Information reporting and backup withholding***

Payments of interest, principal or proceeds from the disposition of a Note may be subject to information reporting or to backup withholding of US federal income tax if a recipient who is a US Holder fails to furnish with respect to the Notes an IRS Form W-9 containing such US Holder's taxpayer identification number or to otherwise fails to establish an exemption from backup withholding. Backup withholding is not an additional tax and any amounts deducted and withheld may be allowed as a credit against the recipient's US federal income tax liability, if any. If backup withholding results in an overpayment of taxes, a refund may be obtained provided that the required information is timely furnished to the US IRS.

US Holders should consult their own tax advisors regarding any additional tax reporting or filing requirements they may have as a result of acquiring, owning or disposing of Notes, including requirements related to the holding of certain foreign financial assets and accounts. Failure to comply with applicable reporting obligations could result in the imposition of substantial penalties.

### **The Proposed Financial Transaction Tax ("FTT")**

On February 14, 2013, the European Commission published a proposal (the "Commission's proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States").

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”) imposes certain requirements on employee benefit plans subject to Title I of ERISA (“ERISA Plans”) and on persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including, but not limited to, the requirements of investment prudence, diversification and adherence to the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any Notes should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a party in interest or a disqualified person, (ii) the sale or exchange of any property between a Plan and a party in interest or a disqualified person, and (iii) the transfer to, or use by or for the benefit of, a party in interest or a disqualified person, of any Plan assets. Such parties in interest or disqualified persons could include, without limitation, the Company and its affiliates and the Initial Purchaser. Depending on the identity of the Plan fiduciary making the decision to acquire or hold Notes on behalf of a Plan, Prohibited Transaction Class Exemption (“PTCE”) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a “qualified professional asset manager”), PTCE 95-60 (relating to investments by an insurance company general account), PTCE 96-23 (relating to transactions directed by an in-house professional asset manager) or PTCE 90-1 (relating to investments by insurance company pooled separate accounts) (collectively, the “Class Exemptions”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. However, there can be no assurance that any of these Class Exemptions or any other exemption will be available with respect to any particular transaction involving the Notes.

Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code, may nevertheless be subject to other laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

Any Plan fiduciary which proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such purchase and holding will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

Each person who acquires or accepts a Note, or an interest therein, will be deemed by such acquisition or acceptance to have represented and warranted at all times during which it holds the Note or an interest therein that either: (i) no portion of the assets used by it to acquire and hold the Note constitutes assets of: (A) any Plan; or (B) any plan, account or other arrangement that is subject to the provisions of any federal, state, local, non-US or other laws, rules or regulations that are similar to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA or Section 4975 of the Code (collectively, “Similar Laws”); or (C) any entity whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement (described in (A) or (B)); or (ii) the purchase and holding of the Note by it will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code by reason of an applicable statutory or administrative exemption, or in a violation of any applicable Similar Law.

## PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated as of June 15, 2016 (the “Purchase Agreement”) between the Company and Goldman Sachs (Asia) L.L.C. (the “Initial Purchaser”), the Initial Purchaser has agreed to purchase from us, and we have agreed to sell to the Initial Purchaser, US\$400,000,000 aggregate principal amount of the Notes.

The Purchase Agreement provides that the obligation of the Initial Purchaser to take and pay for the Notes is subject to the approval of certain legal matters by its counsel and certain other conditions. The Initial Purchaser has agreed to take and pay for all of the Notes if any are taken. The Initial Purchaser proposes to offer the Notes initially at the price indicated on the cover page of this offering memorandum. After the offering, the offering price and other selling terms may be varied from time to time by the Initial Purchaser. The Initial Purchaser may offer and sell the Notes through certain of its affiliates and may provide to such affiliates an opportunity to purchase some of the Notes in the initial offering.

The Notes are a new issue of securities with no established trading market. Approval-in-principle has been received for the listing and quotation of the Notes on the SGX-ST. We have been advised that the Initial Purchaser presently intends to make a market in the Notes, as permitted by applicable laws and regulations. The Initial Purchaser is not obligated, however, to make a market in the Notes, and any such market-making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchaser. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

The Initial Purchaser may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Purchaser. Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchaser to reclaim a selling concession from a broker or dealer when the Notes originally sold by that broker or dealer are purchased in a stabilizing or covering transaction to cover short positions.

We have been advised by the Initial Purchaser that, in connection with the offering of the Notes, the Initial Purchaser, as stabilizing manager, or any person or entity acting on its behalf, may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchaser, as stabilizing manager, or any person or entity acting on its behalf, may overallocate the offering, creating a syndicate short position. In addition, the Initial Purchaser, as stabilizing manager, or any person or entity acting on its behalf, may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. The Initial Purchaser, as stabilizing manager, may bid for and purchase Notes in market-making transactions as permitted by applicable laws and regulations and impose penalty bids. Any of these activities may stabilize or maintain the market price of the Notes above independent market levels. The Initial Purchaser, as stabilizing manager, or any person or entity acting on its behalf, is not required to engage in these activities, and may end any of these activities at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes. See “Risk Factors—Risks relating to the Notes and the Guarantees.”

The Initial Purchaser and certain of its affiliates have in the past and may in the future have performed certain investment banking, commercial/corporate banking and advisory services for the Company and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform banking and advisory services for the Company and/or its affiliates in the ordinary course of business. Certain affiliates of the Initial Purchaser are arrangers and lenders under the Senior Facility and the Initial Purchaser is the dealer manager in our Tender Offer. In addition, certain affiliates of the Initial Purchaser have provided certain financing commitments to the Company, which commitments will be replaced with the

proceeds from the offering of the Notes. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchaser, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

We have agreed to provide to the Initial Purchaser certain customary fees or discounts for its services in connection with the offering of the Notes and to reimburse the Initial Purchaser for certain out-of-pocket expenses.

Persons who purchase Notes from the Initial Purchaser may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page of this offering memorandum.

The Purchase Agreement provides that we will indemnify and hold harmless the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the Initial Purchaser may be required to make in respect thereof. We have agreed not to offer, sell, contract to sell or otherwise dispose of, except as provided under the Purchase Agreement, any debt securities of the Company or its subsidiaries during the period from the date of the Purchase Agreement through and including the date 90 days after the date of the Purchase Agreement, without the prior written consent of the Initial Purchaser.

The Initial Purchaser or certain of its affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

The Initial Purchaser or its affiliates may purchase the Notes and/or other securities of the Company for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Company or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be on or about the fourth business day following the pricing date of the Notes (this settlement cycle is referred to as "T+4"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+4, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or succeeding business day should consult their own legal advisor.

## **Selling restrictions**

### ***United States***

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered except (i) within the United States to qualified institutional buyers in reliance on Rule 144A, and (ii) to non-US persons (as defined in Regulation S under the Securities Act) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. Resales of the Notes are restricted as described under “Transfer Restrictions.”

### ***United Kingdom***

The Initial Purchaser has represented, warranted and undertaken to the Company that:

- (a) *Financial promotion* : it has only communicated or caused to be communicated, and will only communicate or cause to be communicated , any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply; and
- (b) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### ***Singapore***

The Initial Purchaser has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, the Initial Purchaser has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### ***Hong Kong***

The Initial Purchaser has represented and agreed that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

### ***Japan***

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan, or the Securities and Exchange Law, and they have not, directly or indirectly, been offered or sold and will not, directly or indirectly, be offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

### ***Australia***

No prospectus or other disclosure document (as defined in the Australian Corporations Act) in relation to the Notes has been or will be lodged with ASIC, ASX Limited or any other regulatory authority in Australia.

Notes may not (directly or indirectly) be offered for issue or sale, nor may applications for the issue, subscription or purchase of the Notes be invited, in, to or from Australia (including an offer or invitation which is received by a person in Australia) and no offering memorandum, advertisement or other offering material relating to the Notes may be distributed or published in Australia unless:

- (i) the aggregate consideration payable by each offeree or invitee is at least A\$500,000 (or its equivalent in other currencies, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or 7.9 of the Australian Corporations Act;
- (ii) the offer or invitation does not constitute an offer to a “retail client” as defined under and for the purposes of Section 761G of the Australian Corporations Act;
- (iii) such action complies with all applicable laws, regulations and directives; and
- (iv) such action does not require any document to be lodged with ASIC.

### ***British Virgin Islands***

The Notes may not be offered to members of the public in the British Virgin Islands except as otherwise permitted under British Virgin Islands law.

This offering memorandum does not constitute, and will not be, an offering of the Notes to any person in the British Virgin Islands.

### ***Cayman Islands***

The Notes have not been offered or sold, and will not be offered or sold, to the public in the Cayman Islands.

### ***The People’s Republic of China***

This offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. No Notes may be offered or sold, directly or indirectly, and neither the Offering Memorandum nor any advertisement or other offering material may be distributed or published in the PRC, except in compliance with applicable laws and regulations of PRC.



## TRANSFER RESTRICTIONS

*You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.*

### **General**

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered, sold or delivered within the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered and sold only to (i) “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) (“QIBs”) in compliance with Rule 144A and (ii) non-US persons outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. We use the terms “offshore transaction,” “US person” and “United States” with the meanings given to them in Regulation S.

### **Important information about the offering**

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

- (i) represent that it is not an “affiliate” of the Company (as defined in Rule 144 under the Securities Act) or acting on the Company’s behalf, and is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is: (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A; or (b) a purchaser that is outside the United States and is not a US person and is purchasing the Notes in an offshore transaction in accordance with Regulation S;
- (ii) acknowledge that the Notes and the Subsidiary Guarantees are being offered in a transaction not involving a public offering in the United States within the meaning of the Securities Act and have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except as set forth below;
- (iii) agree on its own behalf and on behalf of any investor account for which it is purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, that if it is a purchaser other than a purchaser outside the United States that is not a US person which has acquired the Notes in an offshore transaction under Regulation S, and if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144(d) under the Securities Act with respect to such transfer, it will do so only: (a) (1) to the Company or any subsidiary thereof; (2) inside the United States to a QIB in compliance with Rule 144A; (3) outside the United States to non-US Persons in an offshore transaction in compliance with Rule 904 under the Securities Act; (4) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States and subject to the Trustee’s rights prior to any such offer, sale or transfer to require that a certificate of transfer in the form appearing in the indenture is completed and delivered by the transferor to the Trustee; or (b) pursuant to an effective registration statement under the Securities Act;

- (iv) agree that if it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, that until the expiration of the 40-day distribution compliance period, it shall not make any offer or sale of the Notes to a US person or for the account or benefit of a US person within the meaning of Rule 902 under the Securities Act, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a Restricted Global Note;
- (v) agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;
- (vi) understand that if it is a purchaser outside the United States, the Notes will be represented by the Regulation S Global Note and that transfers thereto are restricted as described in this section. If it is a QIB, it understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, charged or otherwise transferred to a person who is not a QIB, the transferee will be required to provide the Trustee with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restriction referred to above;
- (vii) understand that each Note will bear a legend substantially to the following effect:

THIS NOTE AND THE SUBSIDIARY GUARANTEES RELATED TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND ACCORDINGLY, NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A US PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES THAT IT WILL NOT [IN THE CASE OF 144A NOTES: WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(d) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER,] [IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF], RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) (I) TO THE COMPANY OR ANY SUBSIDIARY THEREOF; (II) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT; (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT; (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); OR (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRANSFER AGENT, AND IF REQUESTED BY THE TRANSFER AGENT, AN OPINION OF COUNSEL, CERTIFICATE AND/OR OTHER INFORMATION SATISFACTORY TO THE TRUSTEE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "US PERSON" HAVE THE

MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE PAYING AND TRANSFER AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS;

- (viii) represent that either (i) it is not using the assets of, and shall not at any time hold this Note (or any interest therein) for or on behalf of, an “employee benefit plan” as defined in Section 3(3) of ERISA, that is subject to Title I of ERISA, a “plan” as defined in and subject to Section 4975, an entity whose underlying assets include or are deemed for purposes of ERISA or the Code to include “plan assets” by reason of an employee benefit plan or plan’s investment in such entity, or a governmental, church or non-US plan subject to federal, state, local or non-US laws substantially similar to Section 406 of ERISA or Section 4975 of the Code (“Similar Law”); or (ii) the acquisition, holding and subsequent disposition of such Notes or an interest therein by such person will not constitute or result in a non-exempt prohibited transaction under ERISA or the Code or violation of a Similar Law. Any purported purchase or transfer of such an interest that does not comply with the foregoing shall be null and void;
- (ix) acknowledge that the Company, the Agents (as defined herein), the Trustee and the Initial Purchaser will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Company, the Agents (as defined herein), the Trustee and the Initial Purchaser. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;
- (x) acknowledge that none of the Company or the Initial Purchaser, nor any person representing any of them, has made any representation with respect to us or the Company or the offer or sale of any of the Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is relying in making your investment decision with respect to the Notes. It acknowledges that neither the Initial Purchaser nor any person representing the Initial Purchaser makes any representation or warranty as to the accuracy or completeness of this offering memorandum. It has had access to such financial and other information concerning the Company and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchaser;
- (xi) agree that it is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Rule 144A or Regulation S;
- (xii) acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of the Notes;

- (xiii) acknowledge that the Registrar will not be required to accept for registration or transfer any Notes except upon presentation of evidence satisfactory to the Registrar that the restrictions set forth therein have been complied with; and
- (xiv) understand that no action has been taken in any jurisdiction (including the United States) by the Company or the Initial Purchaser that would result in a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to the Company or the Notes in any jurisdiction where action for such purpose is required.

## LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE GUARANTEES AND SECURITY INTERESTS AND CERTAIN INSOLVENCY LAW CONSIDERATIONS

*The following is a summary description of certain limitations on the validity and enforceability of the Subsidiary Guarantees for the Notes, and a summary of certain insolvency law considerations in some of the jurisdictions in which the Company and the Subsidiary Guarantors are incorporated or organized. Since the Notes will not be secured by assets of our Australian subsidiaries, the summary below of certain insolvency considerations that relate to the beneficiaries of security interests in any Australian Subsidiary Guarantor is provided in the context of how Noteholders may be impacted by the rights of third parties that do hold such security interests. For further information, see “Risk factors—Risks relating to the Notes and the Guarantees.”*

*The description is only a summary and does not purport to be complete or to discuss all of the limitations or considerations that may affect the validity and enforceability of the Notes and the Subsidiary Guarantees. Prospective investors in the Notes should consult their own legal advisors with respect to such limitations and considerations.*

### **Australia**

The Australian Subsidiary Guarantors are incorporated in Australia. In the event of insolvency, insolvency proceedings may therefore be initiated in Australia under the insolvency laws of Australia under the Australian Corporations Act as supplemented by the Australian Corporations Regulations 2001 (Cth) (the “Australian Corporations Regulations”). The procedural and substantive provisions may differ from comparable provisions of bankruptcy law or the insolvency laws of other jurisdictions with which you may be familiar.

There are four main forms of insolvency processes in Australia: voluntary administration, deed of company arrangement, receivership and winding-up (also called liquidation). Corporate reorganizations can also be effected by schemes of arrangement.

### **Test of insolvency**

Under the Australian Corporations Act, a key event for a company in financial distress is whether it has become “insolvent.”

A company is insolvent if it is unable to pay its debts as and when they become due and payable (commonly referred to as the “cash flow test”).

A company may also be insolvent even if the value of its assets exceeds its liabilities if the assets are not easily realizable to allow payment of its debts as and when they fall due, although insolvency is distinguishable from a temporary lack of liquidity. Insolvency has been generally held to depend on the particular circumstances of the company, such as the nature of its assets and business and whether it satisfies the cash flow test.

### **Voluntary administration**

Voluntary administration is a non-terminal insolvency process begun by the appointment of an administrator to a company, during which the administrator investigates the company’s affairs and recommends to its creditors whether it should enter into a deed of company arrangement approved by its creditors (see further below), be wound up (see further below) or revert to normal operation by its directors. A company need not be presently insolvent to enter into voluntary administration.

The most common method for appointment of an administrator is for the company’s board to resolve that, in the opinion of the directors voting for the resolution, the company is insolvent, or is likely to become insolvent at some future time, and that an administrator should be appointed.

Voluntary administration is a procedure designed to salvage insolvent or near-insolvent companies so that the company can return to trading or provide a better return for creditors and shareholders. It is the only formal process in Australia with rehabilitation as one of its express goals.

Voluntary administration is intended to provide for a short period of administration, although the administrator can seek a direction from an Australian court to lengthen the period of the administration where the circumstances justify that course. During the period of voluntary administration, the administrator controls the company (the powers of the directors are suspended). The administrator is free to carry on the business, including appointing or removing directors, and does so as the company's agent.

During the period of voluntary administration, there is also a moratorium on claims by the company's creditors, such that (with certain exceptions) no proceedings against the company, or in relation to the company's property, can be commenced or continued with, and no enforcement processes can begin or proceed other than with the consent of the administrator or an Australian court. A security interest cannot be enforced over the property of the company except with the consent of the administrator or an Australian court, unless the secured party holds a security interest over the whole or substantially the whole of the company's property and enforces the security interest within the specified period (currently 13 business days) of the appointment of the administrator.

### **Deed of company arrangement**

A deed of company arrangement ("DOCA") is a deed which binds the company, its unsecured creditors and the secured creditors who vote in favor of it, and provides for the restructure or rehabilitation of the company usually by compromising claims against the company in exchange for a distribution to creditors.

The content of a DOCA will depend on the arrangement agreed by the company's creditors at the conclusion of a voluntary administration. A company may only enter into a DOCA when it is in voluntary administration. There are minimal restrictions under Australian law regulating the content of a DOCA, meaning a company and its creditors are relatively free to negotiate a DOCA suitably tailored to their individual circumstances. For example, a DOCA may provide for the realization of assets, the orderly winding down of the company's business, the pursuit of litigation for the benefit of creditors, and the compromise of claims against the company. It will often also provide for a moratorium on claims against the company for the period in which the DOCA operates.

As stated above, the DOCA will bind the company, its unsecured creditors (whether or not they voted in favor of it) and those of its secured creditors who voted in favor of it. Secured creditors who did not vote in favor of the DOCA will not generally be bound by the DOCA (including any moratorium provisions contained in it).

A DOCA can be terminated in accordance with its terms, by an order of an Australian court, or in certain circumstances by resolution of the company's creditors.

### **Scheme of arrangement**

A scheme of arrangement is a court approved compromise or arrangement between a company and its creditors or members. Schemes can be utilized by companies to provide for a modification or adjustment of the rights of the company's creditors or members which, if approved, will be binding on all creditors or members.

A scheme of arrangement, while similar to a DOCA, requires the approval of an Australian court (with the right for ASIC to object) but may be entered into at any time, rather than only when a company is under voluntary administration.

There are two different types of schemes: members' schemes and creditors' schemes.

A members' scheme will inevitably involve some restructuring of the company and the rights and obligations of its members. Once approved, the scheme will be binding on all members (including dissenting members).

A creditors' scheme will often involve a proposal to defer, compromise or extinguish the company's debts; a typical scenario would involve a moratorium in respect of claims against the company and a compromise of debts owed by it (and/or a modification of the rights of creditors or a class of them in relation to the company). Once approved, the scheme will be binding on all creditors (including dissenting creditors).

Schemes are, however, extremely flexible and can be utilized to implement any arrangement relating to the rights and obligations of the company and its creditors, save that a scheme which is contrary to law, or not in the public interest, is unlikely to be approved by the court (even if it has the support of members and/or creditors).

## **Receivership**

Receivership is a form of non-terminal insolvency process (available to secured creditors), under which a receiver is appointed in respect of a company to take control of or get in specific property, so as to protect the rights of a party (usually a secured creditor) entitled to that property. Receivers are usually appointed privately by a secured creditor in accordance with the terms of a security document. In certain limited circumstances, receivers may also be appointed by a Court on application of a party seeking to protect its interests or by ASIC, where a company is under investigation and ASIC seeks to freeze the activities of the company.

A receivership can occur concurrently with a voluntary administration, DOCA or a winding up. It does not prevent other secured or unsecured creditors from making claims against the company. Where a receivership occurs concurrently with a voluntary administration, the administrator's powers are subject to the functions and powers of the receiver. Where a receivership occurs concurrently with a winding up, the receiver's powers are not diminished, although there may be some restrictions on the extent to which the receiver may exercise those powers.

The manner of a receiver's appointment (and his or her powers) will depend upon the terms of the security document which they are appointed under, the extent of the assets securing the company's obligation or the court order under which he or she was appointed, but will generally be very broad. A secured creditor will usually have the ability to appoint either a receiver or a receiver and manager. A receiver is charged with the realization or management of the secured asset over which he or she has been appointed and will usually have the power to enter into possession and control of, lease and/or sell the secured property. A receiver and manager is empowered to take control of the debtor's business as a going concern for the purpose of repayment of the secured debt, either through realization of the debtor's assets or through the income generated by the debtor's business. In carrying on the business of the debtor, the receiver and manager generally acts as agent of the company.

A receiver owes his or her primary duty to the secured creditor who appointed them. The Australian Corporations Act also imposes certain statutory duties on a receiver in the conduct of the receivership, chief among these being the duty imposed by Section 420A of the Australian Corporations Act, which obliges receivers to take reasonable care to ensure that, if sold, the secured assets are sold for market value or, if there is no market value, for the best price reasonably obtainable.

While the directors and officers of the debtor are not formally displaced by the appointment of a receiver or receiver and manager, the powers of the receiver supersede those of the existing company management and will usually result in the directors and officers being left without an active role in the operation of the company. The directors may be required to provide the receiver with reports as to the company's affairs and to cooperate with the receiver to the extent necessary to achieve the purposes of the receivership.

In the normal course, a privately-appointed receivership will terminate where the purpose for which the receiver was appointed has been achieved. This will usually be the repayment of the debt owed to the secured creditor. If there are insufficient assets held by the debtor to repay the secured debt in full, the receivership will terminate when the receiver exhausts all of the available assets of the debtor and retires.

On termination of the receivership (assuming there is not also a voluntary administration process on foot), control of the debtor and all of its remaining assets are returned to the company's directors and officers.

### **Winding-up**

A winding-up (or liquidation) is a terminal insolvency process by which a company's affairs are brought to an end, and its assets are distributed among its creditors and (if there is a surplus after creditors are paid) its members.

A winding-up most commonly occurs where a company is insolvent, and is commenced:

- where an Australian court makes an order that the company be wound up in insolvency (or for some other reason); or
- by resolution of the company's creditors (known as a creditors' voluntary winding-up).

As stated above, at the conclusion of a voluntary administration, the company's creditors may resolve to wind up the company, in which case there is an immediate transition from the voluntary administration to a creditors' voluntary winding-up. It is possible for a receivership to occur concurrently with a winding-up.

During a winding-up, unless leave is granted by a court, a person cannot bring or proceed with a court proceeding against a company, or in relation to the property of the company, or enforcement process in relation to such property, in order to prevent the assets of the company being wasted by litigation. Secured creditors are exempt from this obligation and are able to realize, enforce or otherwise deal with their security interest and may also elect to appoint a receiver. Unsecured creditors have no rights to specific items of the company's assets and must prove their debts by lodging a proof of debt with the liquidator. Unsecured creditors have a right to have a fund of assets protected and properly administered by the liquidator.

If the secured creditor's security interest is a circulating security interest, their right to realize that security interest becomes subordinated to employees of the debtor company upon winding-up if the property of the company is insufficient to meet the payment of unpaid wages, unpaid superannuation contributions, and other employee entitlements. Subject to this qualification, in a winding-up of a company, a secured creditor may elect to:

- realize its security interest in full satisfaction of the debt owed to it by the company (unless a balance remains due after deduction of the net amount realized, in which case the secured creditor may prove in the winding-up of the company for the balance);
- surrender its security interest to the liquidator for the benefit of creditors generally and prove for the whole amount of the secured debt in the winding-up of the company; or
- estimate the value of the security interest and prove for the balance due after deducting the estimated value in the winding-up the company (without realizing or surrendering its security interest).

Any proof of debt lodged by a secured creditor ranks equally with any unsecured creditor. Once a fund has been generated by the liquidator's collecting of available assets and the time period for the proving



of claims has expired, the liquidator can make a distribution to creditors. Depending upon the complexity and size of the company, liquidation can last for several years and the liquidator may make several distributions over that time. There is a prescribed order of payment of these debts as follows:

- expenses of the winding-up (including the liquidator's and any prior receiver's or voluntary administrator's or deed administrator's remuneration); then
- unpaid wages, unpaid superannuation contributions, and other employee entitlements (noting that persons who advance funds to pay such claims have the priorities for those payments which the employees otherwise enjoy); then
- unsecured creditors (including secured creditors with outstanding debts following realization of, surrender of, or redemption by the liquidator of the estimated value of, their security interest); then finally
- shareholders.

In the case of winding-up, the final step to be taken is to deregister the company. The steps for deregistration are governed by the Australian Corporations Act and once deregistered, the company ceases to exist and the liquidator's role comes to an end.

With respect to the Subsidiary Guarantees, if a liquidator is appointed to an Australian Subsidiary Guarantor and that appointment occurs within a period, as specified in the Australian Corporations Act, of that Australian Subsidiary Guarantor's granting of a Subsidiary Guarantee, the Subsidiary Guarantee may be susceptible to challenge by the liquidator as a voidable transaction (pursuant to the Australian Corporations Act). The main types of transactions that can be deemed voidable include the following:

- (i) an "unfair preference," being a transaction between the company and a creditor carried out at a time when the company was insolvent (or the company became insolvent as a result of the transaction) that results in the creditor receiving from the company, in respect of an unsecured debt, more than the creditor would receive on a winding-up of the company;
- (ii) an "uncommercial transaction," being a transaction that a reasonable person in the company's position would not have entered into, having regard to the benefits and detriment to the company of entering into the transaction, the benefits to the other parties to the transaction of entering into it and any relevant matters;
- (iii) an "unreasonable director-related transaction" or an "unfair loan" (as those terms are defined in the Australian Corporations Act); and
- (iv) a security interest granted by the company in respect of "circulating assets" in the six-month period leading up to the liquidator's appointment (except, generally, where the security interest relates to a new advance).

The extent to which the entry into the Subsidiary Guarantees and/or security interests is susceptible to challenge on the bases set out above depends on when the relevant transaction was entered into relative to the commencement of the winding-up (or, if a voluntary administration precedes the winding-up, the commencement of the voluntary administration). Different time periods apply depending on the circumstances of the relevant transaction and the identity of the parties to it.

If an Australian court is satisfied that no reasonable person in that Australian Subsidiary Guarantor's circumstances would have entered into the Subsidiary Guarantees, having regard to the benefits and detriments for that Australian Subsidiary Guarantor, it may be declared void by the Australian court if that Australian Subsidiary Guarantor is found to have been insolvent at the time the security interest was granted, or became insolvent as a consequence of entering into the Subsidiary Guarantees.

## PPSA Issues

The Australian Personal Property Securities Act 2009 (Cth) (“PPSA”) sets out detailed rules in relation to security interests over personal property (as defined in the PPSA) (“PPS Security Interest”). Under the PPSA, security interests over personal property are subject to a priority regime and may be susceptible to a loss of priority (or in certain circumstances extinguishment) unless the security interest has attached to the relevant collateral and has been perfected. Perfection will usually occur upon registration of the security interest on the Personal Property Securities Register (but can also be effected by “possession” or “control” of the relevant collateral). To the extent that any PPS Security Interests are granted by any of the Australian Subsidiary Guarantors over any personal property, such rules will apply.

The Subsidiary Guarantees are not considered to be a security interests under the PPSA. However, the enforcement of a PPS Security Interest by a secured party against an Australian Subsidiary Guarantor may affect the Australian Subsidiary Guarantor’s ability to satisfy any or all of their obligations under the Subsidiary Guarantees. See “Risk Factors—Risks relating to the Notes, the Subsidiary Guaranties, and the Collateral—Enforcing your rights as a holder of the Notes or under the Guarantees or the Collateral across multiple Jurisdictions may be difficult.”

### Additional Limitations

In addition to the limitations on enforcement of the Subsidiary Guarantees imposed by the provisions of the Australian Corporations Act, the validity and enforceability of the Notes and Subsidiary Guarantees (and any PPS Security Interests granted by an Australian Subsidiary Guarantor) may also be subject to various other limitations under the laws of Australia generally, including:

- (i) statutes of limitations, laws relating to moratoria, bankruptcy, liquidation, insolvency, receivership, reorganization, schemes of arrangement and similar laws affecting creditors’ and counterparties’ rights generally and specific court orders that may be made under such laws;
- (ii) defenses such as set-off, laches, forbearance, election, abatement or counterclaim, the doctrine of frustration and the doctrine of estoppel and waiver and the fact that security interests and certain other documents and obligations may be discharged as a matter of law in certain circumstances;
- (iii) the fact that equitable remedies will only be granted by an Australian court in its discretion (for example, specific performance will not normally be ordered in respect of a monetary obligation and an injunction will only be granted where it would be just to do so);
- (iv) any applicable sanctions;
- (v) general law and statutory duties, obligations, prohibitions and limitations affecting the enforceability of, and exercise of rights under, the Notes, Subsidiary Guarantees, or any other security interests and related documents generally;
- (vi) the Notes and Subsidiary Guarantees may be voidable at the option of a party, or may be set aside by a court upon application by a party, or a party may be entitled to rescind guarantees or the security agreements, and amounts paid or property transferred under them may be recovered by that party for a number of reasons, including, if that party entered into the guarantees, the security agreements or related transactions as a result of:
  - a mistake;
  - the other party’s misrepresentation;

- fraud, duress, unconscionable conduct or misleading or deceptive conduct on the part of the other party (or a third person, whose conduct was, actually or constructively, known to the other party); or
- a breach by the other party (or a third person, whose breach was, actually or constructively, known to the other party) of any duty owed to that party; and

(vii) certain rights under the Subsidiary Guarantees are not assignable, because of their nature or their connections with other rights and obligations or for reasons of public policy.

### **British Virgin Islands**

A company incorporated in the British Virgin Islands (“BVI”) can be wound up pursuant to the provisions of the Insolvency Act 2003 (the “Insolvency Act”) by order of the High Court (the “Court”) or by a qualifying majority of its members. Where an Insolvency Act liquidator is appointed, his functions are to collect in the assets of the company in order to make distributions to the company’s stakeholders in accordance with the priority established by the Insolvency Act and the Insolvency Rules 2005.

From the commencement of the liquidation: (i) the liquidator has custody and control of the assets of the company; (ii) the directors and other officers of the company remain in office, but they cease to have any powers, functions or duties other than those required or permitted under the Insolvency Act or authorized by the liquidator; (iii) unless the Court otherwise orders, no person may commence or proceed with any action or proceeding against the company in relation to its assets, or exercise or enforce, or continue to exercise or enforce any right or remedy over or against the assets of the company; (iv) unless the Court otherwise orders, no share in the company may be transferred; (v) no alteration may be made in the status of or to the rights or liabilities of a member, whether by an amendment of the memorandum or articles or otherwise; (vi) no member may exercise any power under the memorandum or articles, or otherwise, except for the purposes of the Insolvency Act; and (vii) no amendment may be made to the memorandum or articles of association of the company.

The appointment of an Insolvency Act liquidator does not: (i) affect the right of a secured creditor to take possession of and realize or otherwise deal with assets of the company over which that creditor has a security interest; (ii) affect any valid rights of set-off unless the creditor had actual notice that the debtor was insolvent on the cash flow basis at the time he gave credit to the debtor or received credit from the debtor; and (iii) affect any agreement by a creditor to subordinate its debt.

A liquidator of a BVI company can challenge the following transactions that the company entered into in the period of two years (in respect of persons connected with the company) or six months (for persons that are not connected to the company) prior to the commencement of the liquidation (the “Vulnerability Period”) when the company was insolvent or where the transaction caused the company to become insolvent: unfair preferences (where a creditor has been preferred), undervalue transactions (where there has been a gift or a transaction in respect of which the consideration was significantly insufficient) and certain floating charges. Further, a transaction entered into by the company within the Vulnerability Period involving the provision of credit may be deemed to be an extortionate credit transaction (and therefore subject to challenge by a liquidator) if the terms of the transaction are or were such as to require grossly exorbitant payments to be made in respect of the provision of credit or the transaction otherwise grossly contravenes ordinary principles of fair trading.

### **Cayman Islands**

Cayman Islands insolvency law provides for three different procedural systems for winding up companies, namely: (i) compulsory winding-up by order of the Grand Court of the Cayman Islands (the “Court”); (ii) voluntary winding-up and; (iii) voluntary winding-up subject to the supervision of the Court. Each system requires the appointment of a liquidator, who assumes control of the management of the company and whose function it is to collect, realize and distribute the assets of the

company to its creditors in accordance with the priority of payments provided for by statute, and thereafter to distribute any surplus among the company's shareholders. However, generally speaking, a creditor having a validly created security interest over property of a company in liquidation is entitled to enforce its security without reference to the official liquidators and without the leave of the Court.

An automatic moratorium on proceedings against the company (or its assets) is imposed from the date of the commencement of the liquidation when a winding-up order is made by the Court or a voluntary winding-up is subject to Court supervision (i.e., in an official liquidation). During the moratorium, proceedings may not be commenced against the company (or its assets) without the express permission of the Court. The moratorium does not prevent a secured creditor from realizing its security, nor does it affect any valid rights of set-off or subordination agreements acquired or entered into before the commencement of the official liquidation. However, certain transactions may be set aside by the Court. Dispositions of property, transfers of shares and alterations in the status of shareholders effected after the commencement of official liquidation proceedings are void, unless sanctioned by the Court. Furthermore, an official liquidator has the ability to seek an order from the Court for transactions (including the grant of security by the relevant company) entered into prior to the commencement of the insolvency proceedings to be set aside where the company was insolvent on a cash flow basis at the time it entered into the relevant transaction and (i) such transaction was made (or security was granted) with a view to giving the relevant creditor a preference over the other creditors of the company, *provided* that the transaction was entered into within six months immediately preceding the commencement of the insolvency proceedings, or (ii) such transaction involved the disposition of property by or on behalf of the company at an undervalue and with an intent to defraud its creditors, *provided* that no such action may be commenced by the official liquidator more than six years after the date of the relevant disposition.

In the case of ordinary unsecured and unsubordinated creditors, they are treated equally irrespective of the nature of their claims under Cayman law. This applies to ordinary unsecured and unsubordinated creditors existing as at the date of the presentation of the winding-up petition.

## RATINGS

We expect the Notes to be assigned a provisional rating of BB- by Standard & Poor's Ratings Services and (P)Ba3 by Moody's Investors Service. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment, circumstances so warrant. Additionally, other nationally recognized statistical ratings organizations may issue an unsolicited rating. If any such unsolicited ratings are issued, we cannot assure you that they will not be different from those ratings assigned by Moody's Investors Service or Standard and Poor's Ratings Services. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

## **LEGAL MATTERS**

Certain legal matters in connection with the offering will be passed upon for us by (i) Clifford Chance as to matters of United States federal law, New York state law, English law, Australian law and Hong Kong law, (ii) Ogier as to matters of Cayman Islands law and the laws of the British Virgin Islands, and (iii) Zhong Lun Law Firm as to matters of the laws of the People's Republic of China.

Certain legal matters in connection with the offering will be passed upon for the Initial Purchaser by (i) Linklaters as to matters of United States federal law, New York state law and English law, (ii) Walkers as to matters of Cayman Islands law and the laws of the British Virgin Islands, (iii) Fangda Partners as to matters of the laws of the People's Republic of China, and (iv) Allens as to matters of Australian law.

## **INDEPENDENT AUDITORS**

The Company's auditors are Ernst & Young, Certified Public Accountants, 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.

The unaudited condensed interim consolidated financial statements as of and for the three months ended March 31, 2016 of the Company included in this offering memorandum have been reviewed by Ernst & Young, Certified Public Accountants, Hong Kong, as stated in their report appearing herein.

The consolidated financial statements of Biostime as of and for each of the financial years ended December 31, 2013, 2014 and 2015 included in this offering memorandum have been audited by Ernst & Young, Certified Public Accountants, Hong Kong, as stated in their reports appearing herein.

The consolidated financial statements of Swisse as of and for each of the financial years ended June 30, 2013, 2014 and 2015 included in this offering memorandum have been audited by PricewaterhouseCoopers, Independent Auditors, Australia, as stated in their reports appearing herein.

## LISTING AND GENERAL INFORMATION

### Listing of the Notes

Approval-in-principle has been received for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Notes or us. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Notes are listed on the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

The Notes will not be designated for trading in the Financial Industry Regulatory Authority, Inc.'s PORTAL market.

### Clearing system and settlement

The Notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

	CUSIP	ISIN	Common Code
144A Notes .....	090688 AA0	US090688AA08	143308804
Regulation S Notes .....	G11259 AB7	USG11259AB79	143308740

Only Notes evidenced by a Global Note have been accepted for clearance through DTC, Euroclear and Clearstream.

### Documents available

For so long as any of the Notes are outstanding, copies of the Indenture governing the Notes and the Intercreditor Agreement may be inspected free of charge during normal business hours on any weekday (except public holidays) at the corporate trust office of the Trustee.

### The Company

Biostime International Holdings Ltd. was incorporated as an exempted company with limited liability in the Cayman Islands on April 30, 2010. The issued share capital of the Company amounts to HK\$6,302,665 divided into 630,266,515 ordinary shares with a par value of HK\$0.01 each.

The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.



## SUMMARY CONDENSED QUARTERLY FINANCIAL INFORMATION OF SWISSE

The summary historical income statement data for the three months ended March 31, 2015, June 30, 2015, September 30, 2015, December 31, 2015 and March 31, 2016, respectively, have been derived from the Swisse unaudited interim condensed consolidated financial statements for the respective periods. Following the completion of the audited financial statements for the year ended June 30, 2015, Swisse changed its presentation of its consolidated statement of comprehensive income in order to align with the Biostime consolidated statement of profit or loss. The following shows, for the above periods indicated, (i) the presentation of quarterly statement of comprehensive income data of Swisse aligned with the current Biostime consolidated statement of profit or loss presentation and (ii) the presentation of quarterly statement of income data of Swisse in accordance with its prior years presentation to allow comparability. The results of operations for prior years are not necessarily indicative of the results to be expected for the full financial year or any future period. Interim financial results are not necessarily indicative of results for the full financial year or any future reporting period.

### Summary quarterly statement of income data of Swisse

The following table sets forth, for the periods indicated, the presentation of Swisse's quarterly profit or loss statements of comprehensive income data aligned with the current Biostime consolidated statement of profit or loss:

(in millions)	For the three months ended				
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016
	(A\$)	(A\$)	(A\$)	(A\$)	(A\$)
Revenue .....	79.7	118.6	148.8	185.5	128.8
Cost of sales .....	(33.5)	(41.8)	(52.9)	(72.0)	(52.6)
<b>Gross profit</b> .....	46.2	76.8	95.9	113.5	76.2
Other income and gains ..	0.1	0.1	0.4	1.3	1.4
Selling and distribution costs .....	(13.9)	(17.7)	(89.0)	(26.3)	(25.4)
Administrative expenses .	(5.5)	(4.3)	(57.6)	(6.3)	(6.4)
Other expenses .....	(0.6)	(2.6)	(0.8)	(1.5)	(0.6)
Finance costs .....	(1.8)	(1.7)	(3.3)	(1.2)	(0.7)
<b>Profit/(loss) before tax</b> .....	24.5	50.6	(54.4)	79.5	44.5
Income tax (expense)/benefit .....	(7.3)	(12.9)	8.8	(25.4)	(14.6)
<b>Profit/(loss) after tax</b> .....	<u>17.2</u>	<u>37.7</u>	<u>(45.6)</u>	<u>54.1</u>	<u>29.9</u>

The following table sets forth, for the periods indicated, the presentation of Swisse's quarterly statements of comprehensive income data aligned with the presentation of the Swisse consolidated statement of comprehensive income for the year ended June 30, 2015:

(in millions)	For the three months ended				
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016
	(A\$)	(A\$)	(A\$)	(A\$)	(A\$)
Revenue from continuing operations .....	79.7	118.6	148.8	185.5	128.8
Other Income .....	0.1	0.6	0.4	0.3	0.4
Materials, consumables and freight .....	(32.7)	(40.7)	(52.4)	(69.7)	(51.7)
Employee benefits expense .....	(6.7)	(8.4)	(108.9)	(12.0)	(11.5)
Depreciation and amortization expense .....	(0.7)	(1.0)	(0.7)	(0.8)	(0.9)
Advertising and marketing expenses .....	(6.2)	(7.4)	(9.5)	(12.8)	(13.3)
Selling and other rebates .....	(1.2)	(1.5)	(1.1)	(1.6)	(0.9)
Occupancy expenses .....	(0.4)	(0.9)	(0.6)	(1.6)	(1.0)
Administration expenses .....	(3.6)	(1.0)	(23.3)	(2.0)	(2.4)
Distribution costs .....	(1.3)	(2.0)	(2.1)	(3.4)	(1.7)
Other expenses .....	(0.7)	(4.0)	(2.0)	(2.4)	(1.3)
Finance costs .....	(1.8)	(1.7)	(3.0)	—	—
Share of profit from associates .....	—	—	—	—	—
<b>Profit/(loss) before income tax .....</b>	<b>24.5</b>	<b>50.6</b>	<b>(54.4)</b>	<b>79.5</b>	<b>44.5</b>
Income tax (expense)/benefit .....	(7.3)	(12.9)	8.8	(25.4)	(14.6)
<b>Profit/(loss) after income tax .....</b>	<b><u>17.2</u></b>	<b><u>37.7</u></b>	<b><u>(45.6)</u></b>	<b><u>54.1</u></b>	<b><u>29.9</u></b>

## Other financial data

(in millions)	For the three months ended				
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016
	(A\$)	(A\$)	(A\$)	(A\$)	(A\$)
Profit/(loss) for the period after tax.....	17.2	37.7	(45.6)	54.1	29.9
<i>Adjustments for:</i>					
(Profit)/loss from discontinued operations ..	—	—	—	—	—
Income tax expense/(benefit) .....	7.3	12.9	(8.8)	25.4	14.6
Finance costs .....	1.8	1.7	3.0	0.0	0.0
Interest income .....	(0.1)	(0.5)	(0.3)	(0.2)	(0.3)
Depreciation and amortization .....	0.7	1.0	0.7	0.8	0.9
<b>EBITDA</b> .....	26.9	52.8	(51.0)	80.1	45.1
<i>Adjustments for:</i>					
Loss on sale of property, plant and equipment .....	—	—	—	0.9	—
Transaction costs in relation to the acquisition of Swisse .....	—	—	22.3	—	—
MISP cash bonuses .....	—	—	100.4	—	—
Non-operating and other adjusting items .....	—	1.8	—	—	—
Other non-cash adjustments <sup>(1)</sup> .....	1.5	1.2	1.7	2.5	2.5
<b>Adjusted EBITDA</b> .....	28.4	55.8	73.4	83.5	47.6
<i>Adjustments for:</i>					
Net capital expenditures ...	(0.1)	(0.2)	(2.3)	(2.2)	(1.8)
(Increase)/decrease in working capital <sup>(2)</sup> .....	(9.6)	(24.3)	(3.6)	(31.5)	10.6
Free cash flow .....	18.7	31.3	67.5	49.8	56.4
Net capital expenditures					
<i>Adjustments for:</i>					
Payments for property, plant and equipment	0.1	0.2	2.3	1.9	1.6
Payments for intangible assets .....	—	—	—	0.3	0.2
Proceeds from the sale of property, plant and equipment .....	—	—	—	0.0	0.0
Net capital expenditure .....	0.1	0.2	2.3	2.2	1.8

(1) Other non cash adjustments are comprised of fair value losses on derivative financial instruments and impairments of trade receivables and inventory.

(2) Increase/decrease in working capital represents the sum of the increase/decrease during the period indicated in inventories, trade and bills receivables, prepayments, deposits and other receivables, trade and bills payable, other payables and accruals and, provisions and employee entitlements less impairment of inventories.

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## Report on review of interim condensed consolidated financial statements



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

### Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Biostime International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages F4 to F56, which comprise the interim condensed consolidated statement of financial position as at 31 March 2016, the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three months then ended and explanatory notes.

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

### Scope of Review

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

**Report on review of interim condensed consolidated financial statements (continued)**

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

**Conclusion**

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

**Ernst & Young**

*Certified Public Accountants*

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

3 June 2016

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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

Three months ended 31 March 2016

		Three months ended 31 March	
	Notes	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
REVENUE	5	1,468,997	995,681
Cost of sales		<u>(521,960)</u>	<u>(428,795)</u>
Gross profit		947,037	566,886
Other income and gains	5	181,209	32,174
Selling and distribution costs		(362,742)	(362,692)
Administrative expenses		(75,450)	(34,450)
Other expenses		(31,549)	(42,751)
Finance costs	6	(80,337)	(22,713)
Share of losses of an associate		<u>(1,115)</u>	<u>(271)</u>
PROFIT BEFORE TAX	7	577,053	136,183
Income tax expense	8	<u>(147,768)</u>	<u>(44,867)</u>
PROFIT FOR THE PERIOD		<u>429,285</u>	<u>91,316</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		25,296	2,632
Exchange difference on net investment in a foreign operation		<u>195,183</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>649,764</u>	<u>93,948</u>
Profit attributable to:			
Owners of the parent		406,041	91,316
Non-controlling interests		<u>23,244</u>	<u>-</u>
		<u>429,285</u>	<u>91,316</u>
Total comprehensive income attributable to:			
Owners of the parent		611,623	93,948
Non-controlling interests		<u>38,141</u>	<u>-</u>
		<u>649,764</u>	<u>93,948</u>

continued...

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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

Three months ended 31 March 2016

		Three months ended 31 March	
	Note	2016 RMB (Unaudited)	2015 RMB (Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		<u>0.65</u>	<u>0.15</u>
Diluted		<u>0.64</u>	<u>0.15</u>



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2016

	Notes	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	541,016	546,995
Prepaid land lease payments	12	61,396	61,765
Goodwill		5,188,306	4,956,392
Intangible assets	13	2,974,865	2,864,699
Bonds receivable		128,157	124,003
Loans receivable		54,624	54,896
Deposits		5,117	8,513
Investment in an associate		39,091	40,205
Held-to-maturity investment		18,496	17,901
Time deposits	17	16,859	70,159
Deferred tax assets	23	116,799	198,061
Pledged deposits	17	210,000	250,000
Total non-current assets		<u>9,354,726</u>	<u>9,193,589</u>
<b>CURRENT ASSETS</b>			
Inventories	14	949,186	856,224
Trade and bills receivables	15	417,976	622,842
Prepayments, deposits and other receivables	16	140,600	218,980
Loan to an associate		40,000	40,000
Loans receivable		22,835	21,984
Derivative financial instrument	20	2,714	2,728
Pledged deposits	17	763,080	1,677,000
Cash and cash equivalents	17	1,491,040	1,198,235
Total current assets		<u>3,827,431</u>	<u>4,637,993</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	18	610,896	618,711
Other payables and accruals	19	847,686	1,125,549
Derivative financial instruments	20	23,158	19,005
Interest-bearing bank loans	21	3,729,615	4,740,450
Convertible bonds	22	2,669,738	-
Tax payable		110,257	175,609
Total current liabilities		<u>7,991,350</u>	<u>6,679,324</u>
NET CURRENT LIABILITIES		<u>(4,163,919)</u>	<u>(2,041,331)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,190,807</u>	<u>7,152,258</u>

continued...

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 March 2016

	Notes	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,190,807</u>	<u>7,152,258</u>
NON-CURRENT LIABILITIES			
Convertible bonds	22	-	2,659,057
Other payables and accruals	19	27,802	28,696
Deferred tax liabilities	23	<u>893,720</u>	<u>863,912</u>
Total non-current liabilities		<u>921,522</u>	<u>3,551,665</u>
Net assets		<u>4,269,285</u>	<u>3,600,593</u>
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Issued capital	25	5,388	5,387
Equity component of convertible bonds		66,978	66,978
Other reserves		<u>3,850,832</u>	<u>3,219,137</u>
		3,923,198	3,291,502
Non-controlling interests		<u>346,087</u>	<u>309,091</u>
Total equity		<u>4,269,285</u>	<u>3,600,593</u>

Luo Fei

Director

Chen Fufang

Director

BIOSIME INTERNATIONAL HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2016

	Attributable to owners of the parent													
	Issued capital RMB'000	Share premium account RMB'000	Equity component of convertible bonds RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2015 (Audited)	5,197	198,021	66,978	(42,141)	26,992	95	346,624	25,418	10,862	(65,324)	2,344,365	2,917,087	-	2,917,087
Profit for the period	-	-	-	-	-	-	-	-	-	-	91,316	91,316	-	91,316
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	2,632	2,632	-	2,632	-	2,632
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	2,632	91,316	93,948	-	93,948
Equity-settled share option arrangements	1	1,028	-	-	-	-	-	172	-	-	-	1,201	-	1,201
Equity-settled share award schemes	-	-	-	-	-	-	-	-	11,106	-	-	11,106	-	11,106
At 31 March 2015 (Unaudited)	5,198	199,049	66,978	(42,141)	26,992	95	346,624	25,590	21,968	(62,692)	2,435,681	3,023,342	-	3,023,342

continued/...

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Three months ended 31 March 2016

	Attributable to owners of the parent													
	Issued capital RMB'000	Share premium account* RMB'000	Equity component of convertible bonds RMB'000	Shares held for the share award schemes* RMB'000	Contributed surplus* RMB'000	Capital reserve* RMB'000	Statutory reserve* RMB'000	Share option reserve* RMB'000	Share award reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total equity RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2016 (Audited)	5,387	443,825	66,978	(42,144)	26,992	95	358,226	6,944	899	35,457	2,388,870	3,291,502	309,091	3,600,593
Profit for the period	-	-	-	-	-	-	-	-	-	-	406,041	406,041	23,244	429,285
Other comprehensive income for the period:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	10,399	-	10,399	14,897	25,296
Exchange difference on net investment in a foreign operation	-	-	-	-	-	-	-	-	-	195,183	-	195,183	-	195,183
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	205,582	406,041	611,623	38,141	649,764
Equity-settle share option arrangements	1	3,435	-	-	-	-	-	8,762	-	-	-	11,898	-	11,898
Equity-settled share award schemes	-	-	-	-	-	-	-	-	8,175	-	-	8,175	-	8,175
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(1,145)	(1,145)
At 31 March 2016 (Unaudited)	5,388	446,960	66,978	(42,144)	26,992	95	358,226	15,676	9,074	241,039	2,794,911	3,923,198	346,087	4,269,285

# Dividend income arising from the shares held for the share award schemes of RMB425,000 is deducted from the aggregate of dividends proposed and paid.

\* These reserve accounts comprise the consolidated other reserves of RMB3,850,832,000 (31 December 2015: RMB3,219,437,000) in the interim condensed consolidated statement of financial position as at 31 March 2016.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended 31 March 2016

	Notes	Three months ended 31 March	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		577,053	136,183
Adjustments for:			
Bank interest income	5	(14,233)	(26,365)
Interest income from loans and bonds receivables	5	(2,817)	(2,423)
Finance costs	6	80,337	22,713
Depreciation	7	19,427	10,701
Amortisation of intangible assets	7	22,494	1,986
Amortisation of prepaid land lease payments	7	369	369
Loss on disposal of items of property, plant and equipment	7	1,736	-
Equity-settled share option expense	7	9,920	528
Equity-settled share award expense	7	8,175	11,106
Fair value losses on derivative financial instruments	7	3,086	-
Impairment of trade receivables	7	240	-
Write-down/(write-back) of inventories to net realisable value	7	9,780	(478)
Share of losses of an associate		1,115	271
		<u>716,682</u>	<u>154,591</u>
(Increase)/decrease in inventories		(102,742)	89,324
Decrease/(increase) in trade and bills receivables		204,626	(1,597)
Increase in prepayments, deposits and other receivables		(22,745)	(8,303)
Decrease in trade and bills payables		(7,815)	(54,469)
Decrease in other payables and accruals		(135,714)	(6,582)
Increase in rental deposits		<u>4,027</u>	<u>111</u>
Cash generated from operations		656,319	173,075
Corporate income tax paid		<u>(141,578)</u>	<u>(114,954)</u>
Net cash flows from operating activities		<u>514,741</u>	<u>58,121</u>

continued/...

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

Three months ended 31 March 2016

	Note	Three months ended 31 March	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Net cash flows from operating activities		<u>514,741</u>	<u>58,121</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(34,006)	(50,995)
Proceeds from disposal of items of property, plant and equipment		6,350	62
Additions to intangible assets		(5,865)	(749)
Residual payment in relation to the acquisition of Swisse		(131,956)	-
Repayment of loans receivable		1,277	(161)
Interest received		118,175	18,306
Decrease/(increase) in time deposits with original maturity of three months or more when acquired		83,000	(507,922)
Decrease in time deposits with maturity date after one year		<u>53,300</u>	<u>494,000</u>
Net cash flows from/(used in) investing activities		<u>90,275</u>	<u>(47,459)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Exercise of share options	26	1,978	673
Decrease in pledged deposits for bank loans		953,920	-
Repayment of bank loans		(1,151,398)	-
Interest paid		(55,125)	-
Dividends paid to non-controlling shareholders		<u>(1,145)</u>	<u>-</u>
Net cash flows (used in)/from financing activities		<u>(251,770)</u>	<u>673</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of period		1,115,235	2,447,157
Effect of foreign exchange rate changes, net		<u>22,559</u>	<u>5,518</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<u><u>1,491,040</u></u>	<u><u>2,464,010</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		<u><u>1,491,040</u></u>	<u><u>2,464,010</u></u>

## **BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

#### **1. CORPORATE AND GROUP INFORMATION**

Biostime International Holdings Limited (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 a 83% equity interest in Swisse Wellness Group Pty Ltd ("Swisse") and its subsidiaries on 30 September 2015 (the "Acquisition"), the Company and its subsidiaries (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 and care 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 results of Swisse from 30 September 2015. Details of Swisse's contribution to the Group's revenue and operating results for the Period are set out in note 4 to these interim condensed consolidated financial statements.

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.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

#### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements of the Group for the three months ended 31 March 2016 (the "Period") have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) as disclosed in note 3.1 below.

As at 31 March 2016, the Group recorded net current liabilities of RMB4,163.9 million, which was mainly resulted from the bridge loan (the "Bridge Loan") of RMB2,907.6 million (with the principal amount of US\$450.0 million) obtained for the Acquisition and the zero coupon convertible bonds ("Convertible Bonds") of RMB2,669.7 million (with an aggregate principal amount of HK\$3,100.0 million). The Bridge Loan is due for repayment on 27 September 2016 and the Convertible Bonds are subject to early redemption on 20 February 2017 at the option of the bondholders. Further details of the Bridge Loan and Convertible Bonds are set out in notes 21 and 22 to these unaudited interim condensed consolidated financial statements.

In preparing these unaudited interim condensed consolidated financial statements, the directors of the Company have given careful consideration of the Group's liquidity in light of the Group's net current liabilities position. The directors have reviewed the Group's cash flow projections which cover a period of not less than twelve months from the end of the reporting period. They are of the opinion that the Group will have sufficient working capital to meet its financial obligations, including the cash outflows for the repayment of Bridge Loan upon maturity and Convertible Bonds which are subject to early redemption, that will be due in the coming twelve months from the end of the reporting period based on the Group's existing resources, its ability of generating positive cash inflows from its operation and the following financing facilities:

On 31 March 2016, the Company has executed a commitment letter in relation to the appointment of an international financial institution (the "Financial Institution") to arrange and underwrite (or procure its affiliate(s) to underwrite) the following facilities (the "New Facilities"):

- (i) US\$450,000,000 senior secured term facility to be made available to an indirect subsidiary of the Company in order to refinance the Bridge Loan; and
- (ii) US\$395,000,000 facility ("US\$395 million Facility") to be made available to the Company for future refinancing of other components of its capital structure, which may include the Convertible Bonds.

The drawing of each of the New Facilities is subject to applicable conditions under its relevant facility agreement.



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

#### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

On 24 April 2016, a facility agreement was entered into among the Group, as borrower, the Company and certain of its subsidiaries as guarantors, and the affiliates of the Financial Institution, which provided the Group with a 3-year senior secured term loan facility in an aggregate amount of up to US\$450 million (the "Loan Facility"). This Loan Facility was drawn in late April and is to be used to refinance the Bridge Loan.

On 31 March 2016, an underwriting agreement was entered into between the Company and the Financial Institution pursuant to which the Financial Institution has also been appointed to arrange for the issue of senior notes in order to finance the repurchase, tender for and/or repayment from time to time the Convertible Bonds. The issuance of the senior notes will reduce the amount of funds that would otherwise be drawn under the US\$395 million Facility or replacing it.

After taking into account the Group's business prospects, internal resources and the available financing facilities, the directors are of the opinion that, in the absence of unforeseeable circumstances and the sources of funding set out above, the Group has sufficient working capital for its present requirements for at least the next twelve months from the end of the reporting period. Accordingly, the unaudited interim condensed consolidated financial statements for the three months ended 31 March 2016 have been prepared on a going concern basis.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

#### 3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of IFRSs</i>

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

#### 3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	<i>Financial Instruments</i> <sup>2</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
IFRS 16	<i>Leases</i> <sup>3</sup>
Amendments to IAS 7	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> Originally intended to be effective for annual periods beginning on or after 1 January 2016, which has been deferred/removed by the IASB in December 2015. No mandatory effective date is yet determined.

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. In April 2016, the IASB published amendments to IFRS 15. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In July 2015, the IASB confirmed a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

#### 3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

In January 2016, the IASB issued IFRS 16 which requires lessees to recognise assets and liabilities for most leases. Under the new standard, a lease is a contract, or part of a contract, that conveys the right to use an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset if, throughout the period of use, the customer has the right to obtain substantially all of the economic benefits from the use of the identified asset and direct the use of the identified asset. Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the identified asset for the lease term. Subsequently, lessees accrete the lease liability to reflect interest and reduce the liability to reflect lease payments made. The related right-of-use asset is depreciated in accordance with the depreciation requirements of IAS 16 *Property, Plant and Equipment*. For lessors, there is little change to the existing accounting in IAS 17 *Leases*. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

#### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. 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 three months ended 31 March 2016 and 2015, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the three months ended 31 March 2016 (Unaudited):

	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
<b>Segment revenue:</b>							
Sales to external customers	<u>737,559</u>	<u>601,158</u>	<u>93,150</u>	<u>20,224</u>	<u>16,906</u>	-	<u>1,468,997</u>
<b>Segment results</b>							
Reconciliations:							
Interest income							17,050
Other income and unallocated gains							164,159
Corporate and other unallocated expenses							(470,856)
Finance costs							<u>(80,337)</u>
Profit before tax							<u>577,053</u>
<b>Other segment information:</b>							
Depreciation and amortisation	<u>1,164</u>	<u>23,011</u>	<u>561</u>	<u>128</u>	<u>20</u>	<u>17,406</u>	<u>42,290</u>
Impairment of trade receivables	<u>-</u>	<u>240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240</u>
Write-down/(back) of inventories to net realisable value	<u>(23)</u>	<u>9,787</u>	<u>(12)</u>	<u>(11)</u>	<u>39</u>	<u>-</u>	<u>9,780</u>
Capital expenditure*	<u>3,650</u>	<u>9,157</u>	<u>8,246</u>	<u>-</u>	<u>-</u>	<u>1,093</u>	<u>22,146</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the three months ended 31 March 2015 (Unaudited):

	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
<b>Segment revenue:</b>							
Sales to external customers	<u>855,420</u>	<u>-</u>	<u>83,346</u>	<u>26,104</u>	<u>30,811</u>	<u>-</u>	<u>995,681</u>
<b>Segment results</b>	497,617	-	53,738	5,987	9,543	-	566,885
<i>Reconciliations:</i>							
Interest income							28,788
Other income and unallocated gains							3,386
Corporate and other unallocated expenses							(440,163)
Finance costs							<u>(22,713)</u>
Profit before tax							<u>136,183</u>
<b>Other segment information:</b>							
Depreciation and amortisation	<u>2,892</u>	<u>-</u>	<u>434</u>	<u>150</u>	<u>40</u>	<u>9,540</u>	<u>13,056</u>
Write-down/(back) of inventories to net realisable value	<u>237</u>	<u>-</u>	<u>(246)</u>	<u>(66)</u>	<u>(403)</u>	<u>-</u>	<u>(478)</u>
Capital expenditure*	<u>12,676</u>	<u>-</u>	<u>16,370</u>	<u>-</u>	<u>-</u>	<u>1,436</u>	<u>30,482</u>

\* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Three months ended 31 March	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Mainland China	876,661	995,681
Australia	532,353	-
Other countries	<u>59,983</u>	<u>-</u>
	<u>1,468,997</u>	<u>995,681</u>

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

(b) Non-current assets

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Unaudited)
	Mainland China	740,114
Australia	2,880,548	2,763,024
Other countries	<u>823</u>	<u>689</u>
	<u>3,621,485</u>	<u>3,522,177</u>

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



**BIOSTIME INTERNATIONAL HOLDINGS LIMITED****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**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 other sales taxes) during the period.

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

	Three months ended 31 March	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
<b>Revenue</b>		
Sale of goods	<u>1,468,997</u>	<u>995,681</u>
<b>Other income and gains</b>		
Bank interest income	14,233	26,365
Interest income from loans and bonds receivables	2,817	2,423
Service income	76	13
Foreign exchange differences	159,722	-
Government subsidies	-	2,700
Others	<u>4,361</u>	<u>673</u>
	<u>181,209</u>	<u>32,174</u>

**6. FINANCE COSTS**

	Three months ended 31 March	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Interest on bank loans and convertible bonds	<u>80,337</u>	<u>22,713</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**7. PROFIT BEFORE TAX**

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

	Notes	Three months ended 31 March	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Cost of inventories sold		512,180	429,273
Depreciation	11	19,427	10,701
Amortisation of intangible assets	13	22,494	1,986
Amortisation of prepaid land lease payments	12	369	369
Research and development costs*		22,358	17,229
Minimum lease payments under operating leases		10,897	11,650
Loss on disposal of items of property, plant and equipment		1,736	-
Employee benefit expenses:			
Wages and salaries		176,347	150,438
Pension scheme contributions (defined contribution schemes)		22,338	29,975
Staff welfare and other expenses		6,679	13,335
Equity-settled share option expense	26	9,920	528
Equity-settled share award expense	27	8,175	11,106
		<u>223,459</u>	<u>205,382</u>
Foreign exchange differences, net		(159,722)	23,718*
Fair value losses on derivative financial instruments*		3,086	-
Impairment of trade receivables*		240	-
Write-down/(write-back) of inventories to net realisable value <sup>#</sup>		<u>9,780</u>	<u>(478)</u>

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**8. INCOME TAX**

	Three months ended 31 March	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Current - Charge for the period		
Mainland China	15,302	60,022
Hong Kong	7,969	2,740
Australia	52,124	-
Elsewhere	831	33
Deferred (note 23)	<u>71,542</u>	<u>(17,928)</u>
Total tax charge for the period	<u>147,768</u>	<u>44,867</u>

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% (three months ended 31 March 2015: 25%) on the taxable profits for the Period, 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% (three months ended 31 March 2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period.

**Australia corporate income tax**

Australia corporate income tax has been provided at the rate of 30% on the estimated assessable profits arising in Australia for the Period. No Australia corporate income tax has been provided for the three months ended 31 March 2015 as the Group did not have any assessable profits arising in Australia for that period.

**9. DIVIDENDS**

No interim dividend was proposed during the Period (three months ended 31 March 2015: Nil).

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**10. 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 Period attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 626,825,098 (three months ended 31 March 2015: 603,474,549) in issue during the Period.

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

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

	Three months ended 31 March	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>406,041</u>	<u>91,316</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

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

<b>Shares</b>	<b>Number of shares</b>	
Weighted average number of ordinary shares in issue	630,241,873	606,891,324
Weighted average number of shares held for the share award schemes	<u>(3,416,775)</u>	<u>(3,416,775)</u>
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<u>626,825,098</u>	<u>603,474,549</u>
Effect of dilution -- weighted average number of ordinary shares:		
Share options and awarded shares	<u>10,074,506</u>	<u>10,125,888</u>
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<u>636,899,604</u>	<u>613,600,437</u>

**11. PROPERTY, PLANT AND EQUIPMENT**

During the Period, the Group acquired property, plant and equipment with an aggregate cost of RMB20,319,000 (three months ended 31 March 2015: RMB29,733,000). During the Period, depreciation of RMB19,427,000 (three months ended 31 March 2015: RMB10,701,000) was charged, and property, plant and equipment with an aggregate carrying amount of RMB8,086,000 (three months ended 31 March 2015: RMB62,000) was disposed of by the Group. Besides, an exchange realignment with an amount of RMB1,215,000 was recognised in the Period (three months ended 31 March 2015: RMB67,000).

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**12. PREPAID LAND LEASE PAYMENTS**

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Carrying amount at 1 January	63,243	64,721
Recognised during the period/year	<u>(369)</u>	<u>(1,478)</u>
Carrying amount at end of period/year	62,874	63,243
Current portion included in prepayments, deposits and other receivables (note 16)	<u>(1,478)</u>	<u>(1,478)</u>
Non-current portion	<u><u>61,396</u></u>	<u><u>61,765</u></u>

**13. INTANGIBLE ASSETS**

During the Period, the Group acquired computer software with an aggregate cost of RMB1,827,000 (three months ended 31 March 2015: RMB749,000). During the Period, amortisation of RMB22,494,000 (three months ended 31 March 2015: RMB1,986,000) was charged by the Group, and an exchange realignment with an aggregate amount of RMB130,833,000 was recognised in the Period (three months ended 31 March 2015: Nil).

**14. INVENTORIES**

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Raw materials	344,989	357,315
Raw materials in transit	160,856	142,104
Work in progress	2,078	4,711
Finished goods	<u>441,263</u>	<u>352,094</u>
	<u><u>949,186</u></u>	<u><u>856,224</u></u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**15. TRADE AND BILLS RECEIVABLES**

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade receivables	418,205	625,013
Bills receivable	<u>5,010</u>	<u>3,000</u>
	423,215	628,013
Less: Impairment provision	<u>(5,239)</u>	<u>(5,171)</u>
	<u><u>417,976</u></u>	<u><u>622,842</u></u>

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 allow 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 represent bank acceptance notes issued by banks in Mainland China which are non-interest-bearing.

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

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 1 month	152,324	289,922
1 to 3 months	224,589	313,809
Over 3 months	<u>41,063</u>	<u>19,111</u>
	<u><u>417,976</u></u>	<u><u>622,842</u></u>

The above aged analysis included the bills receivable balance of RMB5,010,000 (31 December 2015: RMB3,000,000).

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**15. TRADE AND BILLS RECEIVABLES (continued)**

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

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
At beginning of period/year	5,171	-
Acquisition of subsidiaries	-	3,819
Impairment losses recognised	240	4,170
Amount written off as uncollectible	(172)	(2,584)
Impairment losses reversed	-	(234)
	<u>5,239</u>	<u>5,171</u>

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB5,239,000 (31 December 2015: RMB5,171,000) with a carrying amount before provision of RMB5,239,000 (31 December 2015: RMB5,171,000).

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

**16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Prepayments	8,199	4,578
Deposits	2,927	3,164
Other receivables	65,120	159,732
Prepaid expenses	62,876	50,028
Current portion of prepaid land lease payments (note 12)	<u>1,478</u>	<u>1,478</u>
	<u>140,600</u>	<u>218,980</u>

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



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

17. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Cash and bank balances	1,440,925	937,426
Time deposits	66,974	330,968
Pledged deposits	<u>973,080</u>	<u>1,927,000</u>
	2,480,979	3,195,394
Less:		
Non-pledged time deposits with maturity date after one year	(16,859)	(70,159)
Pledged deposits for bank loans with maturity date within one year	(763,080)	(1,677,000)
Pledged deposits for bank loans with maturity date after one year	<u>(210,000)</u>	<u>(250,000)</u>
Cash and cash equivalents as stated in the consolidated statement of financial position	1,491,040	1,198,235
Less:		
Non-pledged time deposits with original maturity of three months or more when acquired	<u>-</u>	<u>(83,000)</u>
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	<u>1,491,040</u>	<u>1,115,235</u>
Denominated in RMB ( <i>note</i> )	1,749,478	2,774,053
Denominated in other currencies	<u>731,501</u>	<u>421,341</u>
	<u>2,480,979</u>	<u>3,195,394</u>

*Note:*

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

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**17. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS (continued)**

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

**18. TRADE AND BILLS PAYABLES**

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade payables	595,753	610,558
Bills payable	<u>15,143</u>	<u>8,153</u>
	<u>610,896</u>	<u>618,711</u>

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

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 1 month	333,137	370,967
1 to 3 months	265,367	220,867
Over 3 months	<u>12,392</u>	<u>26,877</u>
	<u>610,896</u>	<u>618,711</u>

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

As at 31 December 2015, included in the trade payables were amounts due to the Group's associate of RMB5,169,000, which were repayable within 30 days. The credit terms are similar to those offered by the Group's associate to its major customers. As at 31 March 2016, trade payables do not include any amount due to the Group's associate.

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**19. OTHER PAYABLES AND ACCRUALS**

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Advances from customers	61,309	50,061
Salaries and welfare payables	72,663	66,702
Accruals	555,271	708,457
Other tax payables	66,591	78,655
Deferred income (note 24)	45,682	23,707
Other payables	<u>73,972</u>	<u>226,663</u>
	<u>875,488</u>	<u>1,154,245</u>
Less:		
Non-current portion	<u>(27,802)</u>	<u>(28,696)</u>
Current portion	<u>847,686</u>	<u>1,125,549</u>

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

**20. DERIVATIVE FINANCIAL INSTRUMENTS**

		31 March 2016		31 December 2015	
	Notes	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Convertible option embedded in					
a loan receivable	(a)	2,714	-	2,728	-
Forward currency contracts	(b)	-	9,065	-	5,559
Put option embedded in					
a roll-up call option					
("Roll-up Call Option")	(c)	<u>-</u>	<u>14,093</u>	<u>-</u>	<u>13,446</u>
		<u>2,714</u>	<u>23,158</u>	<u>2,728</u>	<u>19,005</u>

**Notes:**

- (a) The convertible option is embedded in a loan receivable, which is convertible at the option of the Company at any time before maturity into equity interest of the unlisted borrower, which may not exceed 49% of the outstanding equity interests of the borrower. Thus the convertible loan is separated into two components: the debt element and the conversion option element. The fair value asset of the conversion option as at 31 March 2016 was RMB2,714,000 (31 December 2015: RMB2,728,000). No (three months ended 31 March 2015: No) fair value gain or loss on the conversion option was recognised in profit or loss during the Period.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

**Notes: (continued)**

- (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 liability of the forward currency contracts as at 31 March 2016 was RMB9,065,000 (31 December 2015: RMB5,559,000). A fair value loss of RMB3,086,000 on forward currency contracts was recognised in profit or loss during the Period (three months ended 31 March 2015: Nil).
- (c) Biostime Healthy Australia Investment Pty Ltd ("Biostime Australia Investment"), one of the Company's subsidiaries, 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 Acquisition. Under the Roll-Up Call Option Deed, Biostime Australia Investment has the right 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 Healthy Australia Holdings Pty Ltd ("Biostime Australia Holdings"), an indirect wholly-owned subsidiary of the Company, within 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 Non-controlling Shareholders. The Group has recognised the put option embedded in the Roll-up Call Option as a derivative financial instrument as at 30 September 2015 with a fair value of RMB358,000.

The fair value of the put option embedded in the Roll-up Call Option as at 31 March 2016 was RMB14,093,000 (31 December 2015: RMB13,446,000). No fair value gain or loss of the put option embedded in the Roll-up Call Option (three months ended 31 March 2015: Nil) was charged to profit or loss during the Period.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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**21. INTEREST-BEARING BANK LOANS**

	31 March 2016			31 December 2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Secured bank loan	Libor+2.5%	Sep-2016	2,907,594	Libor+2.5%	Sep-2016	2,900,929
Secured bank loan	4.140%	Sep-2016	430,000	4.140%	Mar-2016	830,000
Secured bank loan	Libor+0.875%	Jun-2016	161,530	Libor+0.875%	Mar-2016	779,236
Secured bank loan	Libor+1.2%	Apr-2016	193,836	Libor+1.2%	Mar-2016	194,809
Unsecured bank loan	Libor+0.75%	Apr-2016	<u>36,655</u>	Libor+0.75%	Mar-2016	<u>35,476</u>
			<u>3,729,615</u>			<u>4,740,450</u>

**Notes:**

- (a) Certain of the Group's bank loans are secured and guaranteed as follows:
- (i) the pledge of certain of the Group's time deposits amounting to RMB973,080,000 (31 December 2015: RMB1,927,000,000) (note 17);
  - (ii) the pledge of certain of the Company's direct and indirect equity interests 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 Healthy Australia Holdings, Biostime Healthy Australia Investment and Suisse;
  - (iii) certain of the Company's direct and indirect subsidiaries 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;

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

#### 21. INTEREST-BEARING BANK LOANS (continued)

##### Notes: (continued)

- (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, and security over Biostime Australia Investment's equity interest in Swisse; and
  - (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 March 2016, the Group's bank loans were denominated in RMB, US\$ and Euro in the amounts of RMB430,000,000 (31 December 2015: RMB830,000,000), RMB3,262,959,000 (31 December 2015: RMB3,874,974,000) and RMB36,656,000 (31 December 2015: RMB35,476,000), respectively.

#### 22. CONVERTIBLE BONDS

On 20 February 2014, the Company issued zero coupon convertible bonds due 20 February 2019 with an aggregate principal amount of HK\$3,100,000,000. The convertible bonds have been listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange") since 21 February 2014. There have not been any changes in the number of these convertible bonds during the Period.

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

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

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**22. CONVERTIBLE BONDS (continued)**

The Company will, at the option of the bondholders, redeem all or some of the bondholders' convertible bonds on 20 February 2017, at their early redemption amount as at such date. Accordingly, the convertible bonds had been reclassified from non-current liabilities to current liabilities as at 31 March 2016.

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

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

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

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Nominal value of convertible bonds issued	2,460,625	2,460,625
Equity component	(66,978)	(66,978)
Direct transaction costs	<u>(46,255)</u>	<u>(46,255)</u>
Liability component at the issuance date	2,347,392	2,347,392
Accumulated finance costs	198,259	172,998
Exchange alignment	<u>124,087</u>	<u>138,667</u>
Liability component	<u><u>2,669,738</u></u>	<u><u>2,659,057</u></u>

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23. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Period are as follows:

Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2016 (Audited)	2,171	152,740	37,223	5,927	198,061
Credited/(charged) to profit or loss for the Period (note 8)	(46)	(83,174)	(3,336)	5,493	(81,063)
Exchange alignment	-	1,004	(1,203)	-	(199)
At 31 March 2016 (Unaudited)	<u>2,125</u>	<u>70,570</u>	<u>32,684</u>	<u>11,420</u>	<u>116,799</u>
At 1 January 2015 (Audited)	1,527	93,058	26,461	7,850	128,896
Acquisition of subsidiaries	-	142,515	-	-	142,515
Credited/(charged) to profit or loss for the year	644	(88,474)	10,762	(1,923)	(78,991)
Exchange alignment	-	5,641	-	-	5,641
At 31 December 2015 (Audited)	<u>2,171</u>	<u>152,740</u>	<u>37,223</u>	<u>5,927</u>	<u>198,061</u>



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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23. DEFERRED TAX (continued)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2016 (Audited)	4,691	21,316	837,905	863,912
Credited to profit or loss for the Period (note 8)	(1,007)	(2,614) <sup>#</sup>	(5,900)	(9,521)
Exchange alignment	176	-	39,153	39,329
At 31 March 2016 (Unaudited)	<u>3,860</u>	<u>18,702</u>	<u>871,158</u>	<u>893,720</u>
At 1 January 2015 (Audited)	-	16,305	19,619	35,924
Acquisition of subsidiaries	9,201	-	778,317	787,518
(Credited)/charged to profit or loss for the year	(4,938)	5,011 <sup>#</sup>	(6,758)	(6,685)
Exchange alignment	428	-	46,727	47,155
At 31 December 2015 (Audited)	<u>4,691</u>	<u>21,316</u>	<u>837,905</u>	<u>863,912</u>

<sup>#</sup> The amount as at 31 March 2016 represented a deferred tax provision of RMB4,293,000 (31 December 2015: RMB5,011,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB6,907,000 (31 December 2015: Nil) arising from dividends declared by these subsidiaries to their foreign investors during the Period.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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24. DEFERRED INCOME

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Customer loyalty program		
At 1 January	23,707	31,397
Addition	88,337	380,858
Recognised as revenue during the period/year	<u>(66,362)</u>	<u>(388,548)</u>
Carrying amount at end of period/year	<u><u>45,682</u></u>	<u><u>23,707</u></u>

25. SHARE CAPITAL

Shares

	31 March 2016 (Unaudited)	31 December 2015 (Audited)
Authorised:		
10,000,000,000 (31 December 2015: 10,000,000,000) Ordinary shares of HK\$0.01 each	<u>HK\$100,000,000</u>	<u>HK\$100,000,000</u>
Issued and fully paid:		
630,266,515 (31 December 2015: 630,080,426) ordinary shares of HK\$0.01 each	<u>HK\$6,302,665</u>	<u>HK\$6,300,804</u>
Equivalent to	<u>RMB5,388,000</u>	<u>RMB5,387,000</u>

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**25. SHARE CAPITAL (continued)**

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

	Number of shares in issue	Share capital HK\$'000	Equivalent to RMB'000
At 1 January 2015 (Audited)	606,825,765	6,068	5,197
Share options exercised (note (a))	2,741,576	28	22
Share consideration for the acquisition of a subsidiary (note (b))	<u>20,513,085</u>	<u>205</u>	<u>168</u>
	<u>23,254,661</u>	<u>233</u>	<u>190</u>
At 31 December 2015 and 1 January 2016 (Audited)	630,080,426	6,301	5,387
Share options exercised (note (c))	<u>186,089</u>	<u>2</u>	<u>2</u>
At 31 March 2016 (Unaudited)	<u><u>630,266,515</u></u>	<u><u>6,303</u></u>	<u><u>5,389</u></u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

#### 25. SHARE CAPITAL (continued)

Notes:

- (a) During the year ended 31 December 2015, the subscription rights attaching to 2,741,576 share options were exercised at the subscription prices ranging from HK\$2.53 to HK\$24.70, resulting in the issue of 2,741,576 ordinary shares for a total cash consideration, before expenses, of HK\$14,567,000 (equivalent to RMB11,838,000).
- (b) During the year ended 31 December 2015, the Company issued 20,513,085 ordinary shares of HK\$13.48 each as consideration of HK\$276,516,000 (equivalent to RMB226,967,000) for the Acquisition.
- (c) During the Period, the subscription rights attaching to 186,089 share options were exercised at the subscription prices ranging from HK\$2.53 to HK\$24.70, resulting in the issue of 186,089 ordinary shares for a total cash consideration, before expenses, of HK\$1,202,000 (equivalent to RMB1,008,000).

#### Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 26 to these interim condensed consolidated financial statements.

#### 26. SHARE OPTION SCHEMES

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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26. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme

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

	Three months ended 31 March			
	2016		2015	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	2.53	1,131	2.53	6,929
Forfeited during the period	2.53	-	2.53	(16)
Exercised during the period	2.53	<u>(131)</u>	2.53	<u>(95)</u>
At 31 March	2.53	<u>1,000</u>	2.53	<u>6,818</u>

The weighted average share price at the dates of exercise for share options exercised under the Pre-IPO Share Option Scheme during the Period was HK\$16.40 per share (three months ended 31 March 2015: HK\$26.54 per share).

No share option expenses related to share options under the Pre-IPO Share Option Scheme were recognised in the Period (three months ended 31 March 2015: RMB308,000) because all the share options have been or should have been vested before 31 December 2015.

131,000 share options under the Pre-IPO Share Option Scheme were exercised during the Period, resulting in the issue of 131,000 ordinary shares of the Company and new share capital of HK\$1,310 (equivalent to RMB1,100) and share premium of HK\$330,000 (before issue expenses, and equivalent to RMB671,000). An amount of RMB677,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

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26. SHARE OPTION SCHEMES (continued)

Share Option Scheme

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

	Three months ended 31 March			
	2016		2015	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	15.71	19,815	18.11	2,739
Forfeited during the period	15.58	(827)	15.82	(51)
Exercised during the period	15.75	<u>(55)</u>	14.95	<u>(41)</u>
At 31 March	15.74	<u>18,933</u>	18.20	<u>2,647</u>

The weighted average share price at the dates of exercise for share options exercised under the Share Option Scheme during the Period was HK\$20.09 per share (three months ended 31 March 2015: HK\$31.21 per share).

The Group recognised a share option expense related to share options under the Share Option Scheme of RMB9,920,000 during the Period (three months ended 31 March 2015: RMB220,000).

55,000 share options under the Share Option Scheme were exercised during the Period, resulting in the issue of 55,000 ordinary shares of the Company and new share capital of HK\$550 (equivalent to RMB462) and share premium of HK\$870,000 (equivalent to RMB1,305,000) (before issue expenses). An amount of RMB482,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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#### 27. SHARE AWARD SCHEMES

##### Share Award Scheme

The share award scheme (the "Share Award Scheme") of the Company was adopted by the board of directors on 28 November 2011 (the "Adoption Date") and amended by the board of directors on 30 March 2012.

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

During the Period, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (three months ended 31 March 2015: Nil).

Summary of particulars of the shares granted under the Share Award Scheme (the "Awarded Shares") during the Period is as follows:

Date of grant	Number of outstanding Awarded Shares at 31 December 2015	Fair value RMB	Vesting date	Number of Awarded Shares		Outstanding Awarded Shares at 31 March 2016
				Vested during the Period	Forfeited during the Period	
31 December 2015	<u>932,817*</u>	<u>12,301,000</u>	31 December 2016	<u>-</u>	<u>-</u>	<u>932,817</u>

The Group recognised a share award expense of RMB2,854,000 during the Period (three months ended 31 March 2015: RMB2,702,000).

\*Among these Awarded Shares granted, 241,025 Awarded Shares were granted to the executive directors.

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27. SHARE AWARD SCHEMES (continued)

2013 Share Award Scheme

The board of directors of the Company approved the adoption of the 2013 Share Award Scheme on 29 November 2013.

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

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

Summary of particulars of the shares granted under the 2013 Share Award Scheme (the "2013 Awarded Shares") during the Period is as follows:

Date of grant	Number of outstanding 2013 Awarded Shares at 31 December 2015	Fair value RMB	Vesting date	Number of 2013 Awarded Shares		
				Vested during the Period	Forfeited during the Period	Outstanding 2013 Awarded Shares at 31 March 2016
1 July 2015	68,300	1,173,000	30 June 2016	-	-	68,300
1 July 2015	68,300	1,173,000	30 June 2017	-	-	68,300
29 December 2015	1,171,688	14,474,000	30 December 2016	-	(84,734)	1,086,954
29 December 2015	<u>585,947</u>	<u>7,238,000</u>	1 April 2017	-	-	<u>585,947</u>
Total	<u>1,894,235</u>	<u>24,058,000</u>		-	<u>(84,734)</u>	<u>1,809,501</u>



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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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27. SHARE AWARD SCHEMES (continued)

2013 Share Award Scheme (continued)

During the Period, no shares were issued for the 2013 Share Award Scheme (three months ended 31 March 2015: Nil).

The Group recognised a share award expense of RMB5,321,000 during the Period (three months ended 31 March 2015: RMB8,404,000).

28. OPERATING LEASE ARRANGEMENTS

**As lessee**

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

As at 31 March 2016 and 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within one year	39,635	70,634
In the second to fifth years, inclusive	107,819	79,559
After five years	<u>24,315</u>	<u>25,438</u>
	<u>171,769</u>	<u>175,631</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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31 March 2016

**29. COMMITMENTS**

In addition to the operating lease commitments detailed in note 28 above, the Group had the following capital commitments at the end of the reporting period:

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Contracted, but not provided for: Property, plant and equipment	<u>-</u>	<u>28,467</u>

**30. RELATED PARTY BALANCES AND TRANSACTIONS**

In addition to the transactions and balances disclosed elsewhere in these interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

**(a) Related party transactions**

	Notes	Three months ended 31 March 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Purchases of raw materials from a company under the common control of the directors	(i)	<u>1</u>	<u>1,459</u>
Purchases of finished goods from an associate	(i)	<u>1,664</u>	<u>46,585</u>
Interest from a loan to an associate	(ii)	<u>283</u>	<u>295</u>

Notes:

- (i) The transactions were conducted in accordance with mutually agreed terms.
- (ii) The loan to an associate is subject to interest at the rate of 3% per annum.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

30. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(b) Outstanding balances with related parties

At the end of the reporting period, the loan to an associate is unsecured, bears interest at a rate of 3% per annum and is repayable on 31 October 2016.

(c) Compensation of key management personnel of the Group

	Three months ended 31 March	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	8,887	12,819
Pension scheme contributions	159	340
Equity-settled share option expense	1,095	175
Equity-settled share award expense	<u>2,613</u>	<u>1,006</u>
Total compensation paid to key management personnel	<u>12,754</u>	<u>14,340</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**31. FINANCIAL INSTRUMENTS BY CATEGORY**

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

**31 March 2016**

**Financial assets**

	Notes	Held-to-maturity investment RMB'000 (Unaudited)	Financial assets at fair value through profit or loss RMB'000 (Unaudited)	Loans and receivables RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Bonds receivable		-	-	128,157	128,157
Loans receivable		-	-	77,459	77,459
Loan to an associate		-	-	40,000	40,000
Held-to-maturity investment		18,496	-	-	18,496
Non-current time deposits	17	-	-	16,859	16,859
Trade and bills receivables	15	-	-	417,976	417,976
Financial assets included in prepayments, deposits and other receivables		-	-	68,047	68,047
Derivative financial instrument	20	-	2,714	-	2,714
Pledged deposits	17	-	-	973,080	973,080
Cash and cash equivalents	17	-	-	1,491,040	1,491,040
		<u>18,496</u>	<u>2,714</u>	<u>3,212,618</u>	<u>3,233,828</u>

**Financial liabilities**

	Notes	Financial liabilities at fair value through profit or loss RMB'000 (Unaudited)	Financial liabilities at amortised cost RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Trade and bills payables	18	-	610,896	610,896
Financial liabilities included in other payables and accruals		-	629,243	629,243
Derivative financial instruments	20	23,158	-	23,158
Interest-bearing bank loans	21	-	3,729,615	3,729,615
Convertible bonds	22	-	2,669,738	2,669,738
		<u>23,158</u>	<u>7,639,492</u>	<u>7,662,650</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**31. FINANCIAL INSTRUMENTS BY CATEGORY (continued)**

**31 December 2015**

**Financial assets**

	Notes	Held-to-maturity investment RMB'000 (Audited)	Financial assets at fair value through profit or loss RMB'000 (Audited)	Loans and receivables RMB'000 (Audited)	Total RMB'000 (Audited)
Bonds receivable		-	-	124,003	124,003
Loans receivable		-	-	76,880	76,880
Loan to an associate		-	-	40,000	40,000
Held-to-maturity investment		17,901	-	-	17,901
Non-current time deposits	17	-	-	70,159	70,159
Trade and bills receivables	15	-	-	622,842	622,842
Financial assets included in prepayments, deposits and other receivables		-	-	162,896	162,896
Derivative financial instrument	20	-	2,728	-	2,728
Pledged deposits	17	-	-	1,927,000	1,927,000
Cash and cash equivalents	17	-	-	1,198,235	1,198,235
		<u>17,901</u>	<u>2,728</u>	<u>4,222,015</u>	<u>4,242,644</u>

**Financial liabilities**

	Notes	Financial liabilities at fair value through profit or loss RMB'000 (Audited)	Financial liabilities at amortised cost RMB'000 (Audited)	Total RMB'000 (Audited)
Trade and bills payables	18	-	618,711	618,711
Financial liabilities included in other payables and accruals		-	1,001,822	1,001,822
Derivative financial instruments	20	19,005	-	19,005
Interest-bearing bank loans	21	-	4,740,450	4,740,450
Convertible bonds	22	-	2,659,057	2,659,057
		<u>19,005</u>	<u>9,020,040</u>	<u>9,039,045</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

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

	Carrying amounts		Fair values	
	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
<b>Financial assets</b>				
Derivative financial instrument				
- Convertible option embedded in a loan receivable	<u>2,714</u>	<u>2,728</u>	<u>2,714</u>	<u>2,728</u>
<b>Financial liabilities</b>				
Derivative financial instruments				
- Forward currency contracts	9,065	5,559	9,065	5,559
- Put option embedded in the Roll-up Call Option	<u>14,093</u>	<u>13,446</u>	<u>14,093</u>	<u>13,446</u>
	<u>23,158</u>	<u>19,005</u>	<u>23,158</u>	<u>19,005</u>

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

#### 31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

- (a) The fair values of the non-current time deposits, loans receivable, loan to an associate, bonds receivable, held-to maturity investment and convertible bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for convertible bonds, and the suppliers' non-performance risk for loans and bonds receivables as at 31 March 2016 were assessed to be insignificant.
- (b) The convertible option embedded in a loan receivable is measured using valuation techniques of present value calculations using significant unobservable market inputs.
- (c) The derivative financial instrument arising from a put option embedded in the Roll-up Call Option is measured using valuation techniques of Monte Carlo simulation using significant unobservable market inputs.
- (d) The Group enters into forward currency contracts with various counterparties, principally financial institutions. Derivative financial instruments arising from the forward currency contracts are measured using market quoted prices. The carrying amounts of forward currency contracts are the same as their fair values.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instrument — Convertible option embedded in a loan receivable	Binomial tree model	Weighted average cost of capital ("WACC")	12.0% to 13.0%	1% increase in WACC would result in decrease in fair value by RMB814,000 1% decrease in WACC would result in increase in fair value by RMB1,329,000
		Discount rate	11.50% to 11.73%	1% increase in discount rate would result in increase in fair value by RMB30,000 1% decrease in discount rate would result in decrease in fair value by RMB31,000
Derivative financial instrument — Put option embedded in the Roll-up Call Option	Monte Carlo simulation	WACC	14.85% to 15.15%	1% increase in WACC would result in decrease in fair value by RMB798,000 1% decrease in WACC would result in increase in fair value by RMB67,000
		Volatility ("Vol")	44.48% to 45.37%	1% increase in Vol would result in decrease in fair value by RMB145,000 1% decrease in Vol would result in increase in fair value by RMB1,147,000



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

The asset measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instrument — Convertible option embedded in a loan receivable:				
As at 31 March 2016 (Unaudited)	- <u>          </u>	- <u>          </u>	2,714 <u>          </u>	2,714 <u>          </u>
As at 31 December 2015 (Audited)	- <u>          </u>	- <u>          </u>	2,728 <u>          </u>	2,728 <u>          </u>

The movements in fair value measurements within Level 3 during the period/year are as follows:

	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Convertible option embedded in a loan receivable:		
At 1 January	2,728	2,570
Total losses recognised in profit or loss	-	(2)
Exchange alignment	<u>(14)</u>	<u>160</u>
Fair value at end of period/year	<u>2,714</u>	<u>2,728</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)**

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active market (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
As at 31 March 2016				
Derivative financial instruments				
— Forward currency contracts	9,065	-	-	9,065
— Put option embedded in the Roll-up Call Option	-	-	14,093	14,093
	<u>9,065</u>	<u>-</u>	<u>14,093</u>	<u>23,158</u>

The movements in fair value measurements within Level 3 during the period/year are as follows:

	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Put option embedded in the Roll-up Call Option:		
At 1 January	13,446	-
Addition	-	358
Total losses recognised in profit or loss	-	13,067
Exchange alignment	647	21
Fair value at end of period/year	<u>14,093</u>	<u>13,446</u>

During the Period, there were no (three months ended 31 March 2015: no) transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

**32. EVENT AFTER THE END OF THE REPORTING PERIOD**

- (a) On 24 April 2016, the Group has entered into a syndicated facility agreement for a 3-year senior secured term loan facility in an aggregate amount of up to USD450 million. The total amount has been drawn in late April 2016.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

31 March 2016

**32. EVENT AFTER THE END OF THE REPORTING PERIOD (continued)**

- (b) On 3 May 2016, a total of 483,735 share options were granted under Share Option Scheme and a total of 127,811 awarded shares were resolved to be granted under the 2013 Share Award Scheme. The share options shall vest in accordance with the relevant timetables with a 6-year exercise period at an exercise price of HK\$21.05 per share, and among the awarded shares, 45,289 awarded shares will vest on 30 December 2016 and 82,522 awarded shares will vest on 1 April 2017.

**33. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

These unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 3 June 2016.

## Independent auditors' report



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

We have audited the consolidated financial statements of Biostime International Holdings Limited (the "Company") and its subsidiaries set out on pages F59 to F169, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Directors' responsibility for the consolidated financial statements**

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

#### **Auditors' responsibility**

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

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

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

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

**Independent auditors' report (continued)**  
**To the shareholders of Biostime International Holdings Limited**  
(Incorporated in the Cayman Islands with limited liability)

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**  
*Certified Public Accountants*

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

29 March 2016

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**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		<u>(1,833,996)</u>	<u>(1,804,632)</u>
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	6	(154,022)	(86,673)
Share of (losses)/profits of an associate	19	<u>(387)</u>	<u>592</u>
PROFIT BEFORE TAX	7	503,940	1,118,335
Income tax expense	9	<u>(210,619)</u>	<u>(311,549)</u>
PROFIT FOR THE YEAR		<u>293,321</u>	<u>806,786</u>
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		<u>70,560</u>	-
		116,538	(5,581)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>409,859</u>	<u>801,205</u>
Profit attributable to:			
Owners of the parent		251,461	806,786
Non-controlling interests		<u>41,860</u>	-
		<u>293,321</u>	<u>806,786</u>
Total comprehensive income attributable to:			
Owners of the parent		352,242	801,205
Non-controlling interests		<u>57,617</u>	-
		<u>409,859</u>	<u>801,205</u>

continued...

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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

Year ended 31 December 2015

	Note	2015 RMB	2014 RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		<u>0.41</u>	<u>1.34</u>
Diluted		<u>0.40</u>	<u>1.31</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	546,995	478,032
Prepaid land lease payments	13	61,765	63,243
Goodwill	14	4,956,392	76,000
Intangible assets	15	2,864,699	104,110
Bonds receivable	16	124,003	130,302
Loans receivable	17	54,896	53,531
Deposits	18	8,513	15,741
Investment in an associate	19	40,205	40,592
Loan to an associate	19	-	40,000
Held-to-maturity investment	20	17,901	18,810
Time deposits	24	70,159	1,146,183
Deferred tax assets	30	198,061	128,896
Pledged deposits	24	<u>250,000</u>	<u>-</u>
Total non-current assets		<u>9,193,589</u>	<u>2,295,440</u>
<b>CURRENT ASSETS</b>			
Inventories	21	856,224	797,027
Trade and bills receivables	22	622,842	12,043
Prepayments, deposits and other receivables	23	218,980	137,467
Loan to an associate	19	40,000	-
Loans receivable	17	21,984	39,457
Derivative financial instrument	27	2,728	2,570
Pledged deposits	24	1,677,000	-
Cash and cash equivalents	24	<u>1,198,235</u>	<u>3,347,157</u>
Total current assets		<u>4,637,993</u>	<u>4,335,721</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	25	618,711	294,542
Other payables and accruals	26	1,125,549	737,494
Derivative financial instruments	27	19,005	-
Interest-bearing bank loans	28	4,740,450	-
Tax payable		<u>175,609</u>	<u>235,588</u>
Total current liabilities		<u>6,679,324</u>	<u>1,267,624</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(2,041,331)</u>	<u>3,068,097</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,152,258</u>	<u>5,363,537</u>

continued...



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,152,258</u>	<u>5,363,537</u>
NON-CURRENT LIABILITIES			
Convertible bonds	29	2,659,057	2,410,526
Other payables and accruals	26	28,696	-
Deferred tax liabilities	30	<u>863,912</u>	<u>35,924</u>
Total non-current liabilities		<u>3,551,665</u>	<u>2,446,450</u>
Net assets		<u>3,600,593</u>	<u>2,917,087</u>
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Issued capital	32	5,387	5,197
Equity component of convertible bonds	29	66,978	66,978
Other reserves	35	<u>3,219,137</u>	<u>2,844,912</u>
		3,291,502	2,917,087
Non-controlling interests		<u>309,091</u>	-
Total equity		<u>3,600,593</u>	<u>2,917,087</u>

Luo Fei

Director

Chen Fufang

Director

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Year ended 31 December 2015

	Attributable to owners of the parent													
	Issued capital RMB'000	Share premium account RMB'000	Share component of convertible bonds RMB'000	Share held for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits <sup>#</sup> RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014	5,161	182,696	-	(67,167)	26,992	95	304,524	26,791	35,235	(59,743)	2,061,009 <sup>#</sup>	2,515,593	-	2,515,593
Profit for the year	-	-	-	-	-	-	-	-	-	-	806,786	806,786	-	806,786
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(5,581)	-	(5,581)	-	(5,581)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	(5,581)	806,786	801,205	-	801,205
Transfer to statutory reserve funds	-	-	-	-	-	-	42,100	-	-	-	(42,100)	-	-	-
Equity-settled share option arrangements	19	15,325	-	-	-	-	-	(1,373)	-	-	-	13,971	-	13,971
Equity-settled share award schemes	17	-	-	25,026	-	-	-	-	(24,373)	-	11,374	12,044	-	12,044
Issue of convertible bonds	-	-	66,978	-	-	-	-	-	-	-	-	66,978	-	66,978
Final 2013 dividend declared	-	-	-	-	-	-	-	-	-	-	(210,508)	(210,508)	-	(210,508)
Special 2013 dividend declared	-	-	-	-	-	-	-	-	-	-	(157,881)	(157,881)	-	(157,881)
Interim 2014 dividend	-	-	-	-	-	-	-	-	-	-	(124,315)	(124,315)	-	(124,315)
At 31 December 2014	5,197	198,021	66,978	(42,141)	26,992	95	346,624	25,418	10,862	(65,224)	2,344,365 <sup>#</sup>	2,917,087	-	2,917,087

<sup>#</sup> Retained profits have been adjusted for the proposed dividend in accordance with the current year's presentation, which is described in note 2.2 to the financial statements.

continued/...

BIOSYSTEM INTERNATIONAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2015

	Attributable to owners of the parent													
	Issued capital RMB'000	Share premium account RMB'000	Equity component of convertible bonds RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits <sup>a</sup> RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	5,197	198,021	66,978	(42,141)	26,992	95	346,624	25,418	10,862	(65,324)	2,344,365	2,917,087	-	2,917,087
Profit for the year	-	-	-	-	-	-	-	-	-	-	251,461	251,461	41,860	293,321
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	39,221	-	39,221	15,757	45,978
Exchange differences on net investment in a foreign operation	-	-	-	-	-	-	-	-	-	79,560	-	79,560	-	79,560
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	100,781	251,461	352,242	57,617	409,859
Transfer to statutory reserve funds	-	-	-	-	-	-	11,602	-	-	-	(11,602)	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of new shares for the acquisition of a subsidiary	168	226,799	-	-	-	-	-	-	-	-	-	226,967	-	226,967
Equity-settle share option arrangements	22	19,005	-	-	-	-	(18,504)	-	-	696	-	1,219	-	1,219
Equity-settled share award schemes	-	-	-	-	-	-	-	(9,963)	-	-	-	(9,963)	-	(9,963)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(4,118)	(4,118)
Final 2014 dividend declared	-	-	-	-	-	-	-	-	-	-	(196,050) <sup>#</sup>	(196,050)	-	(196,050)
At 31 December 2015	5,387	443,825 <sup>*</sup>	66,978	(42,141) <sup>*</sup>	26,992 <sup>*</sup>	95 <sup>*</sup>	358,226 <sup>*</sup>	6,914 <sup>*</sup>	899 <sup>*</sup>	35,457 <sup>*</sup>	2,388,870 <sup>*</sup>	3,291,502	309,091	3,600,593

\* These reserve accounts comprise the consolidated other reserves of RMB3,219,137,000 (2014: RMB2,844,912,000) in the consolidated statement of financial position.

# Dividend income arising from the shares held for the share award schemes of RMB1,109,000 is deducted from the aggregate of dividends proposed and paid. Dividend for the new shares issued under the share option arrangements of RMB215,000 is paid from the retained profits.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		503,940	1,118,335
Adjustments for:			
Bank interest income	5	(108,520)	(105,034)
Interest income from loans and bonds receivables	5	(10,177)	(8,085)
Finance costs	6	154,022	86,673
Fair value losses on derivative financial instruments	7	18,490	-
Share of losses/(profits) of an associate	19	387	(592)
Depreciation	7	58,629	41,879
Amortisation of intangible assets	7	27,066	7,310
Amortisation of prepaid land lease payments	7	1,478	1,478
Loss on disposal of items of property, plant and equipment	7	4,355	97
Write-down of inventories to net realisable value	7	7,694	984
Impairment of trade and bills receivables	7	3,936	-
Equity-settled share option expense	7	(10,619)	4,488
Equity-settled share award expense	7	(9,963)	12,044
		<u>640,718</u>	<u>1,159,577</u>
Decrease in inventories		34,707	173,882
(Increase)/decrease in trade and bills receivables		(169,829)	3,139
(Increase)/decrease in prepayments, deposits and other receivables		(14,766)	13,340
Decrease in trade and bills payables		(135,831)	(67,093)
Increase in other payables and accruals		288,432	25,998
Decrease in amounts due from directors		-	2,000
Decrease/(increase) in rental deposits		<u>1,905</u>	<u>(289)</u>
Cash generated from operations		645,336	1,310,554
Corporate income tax paid		<u>(279,604)</u>	<u>(338,382)</u>
Net cash flows from operating activities		<u>365,732</u>	<u>972,172</u>

continued/...

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Net cash flows from operating activities		<u>365,732</u>	<u>972,172</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(109,040)	(134,597)
Proceeds from disposal of items of property, plant and equipment		179	1,678
Additions to intangible assets		(3,711)	(13,824)
Acquisition of subsidiaries	37	(5,998,869)	-
Investments in bonds and loans receivables		-	(48,847)
Loan to an associate	19	-	(40,000)
Repayment of loans receivable		15,246	31,050
Interest received		39,402	77,455
Purchase of a shareholding in an associate	19	-	(40,000)
Decrease/(increase) in time deposits with original maturity of three months or more when acquired	24	817,000	(2,000)
Decrease/(increase) in time deposits with maturity date after one year	24	<u>1,076,024</u>	<u>(291,309)</u>
Net cash flows used in investing activities		<u>(4,163,769)</u>	<u>(460,394)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of convertible bonds		-	2,414,370
Exercise of share options	33	11,838	9,483
New bank loans	28	4,740,450	-
Increase in pledged deposits for bank loans	24	(1,927,000)	-
Repayment of bank loans		-	(750,613)
Interest paid		(57,622)	(8,690)
Dividends paid to owners of the parent		(196,050)	(492,703)
Dividends paid to non-controlling shareholders		<u>(1,118)</u>	<u>-</u>
Net cash flows from financing activities		<u>2,570,498</u>	<u>1,171,847</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,227,539)	1,683,625
Cash and cash equivalents at beginning of year		2,447,157	764,836
Effect of foreign exchange rate changes, net		<u>(104,383)</u>	<u>(1,304)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>1,115,235</u>	<u>2,447,157</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	24	<u>1,115,235</u>	<u>2,447,157</u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### 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.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 1. CORPORATE AND GROUP INFORMATION (continued)

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.

Particulars of the Company's principal subsidiaries are as follows:

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Biostime International Investment Limited ("Biostime Investment")	BVI	US\$814,999	100%	-	Overseas investments, financing and other business cooperation
Mama100 International Holdings Limited ("Mama100 Holdings")	Cayman Islands	HK\$0.01	100%	-	Mama100 membership management, trading and sales
Mama100 International Investment Limited ("Mama100 Investment")	BVI	US\$1	-	100%	Overseas investments, financing and other business cooperation
Biostime Hong Kong Limited ("Biostime HK")	Hong Kong	HK\$126,534,300	-	100%	Investment holding, international investment, trading and sales
Adimil (Changsha) Nutrition Products Limited ("Changsha Adimil")	PRC/Mainland China	RMB301,664,588	-	100%	Manufacture of infant formula products
Guangzhou Hapai Information Technology Co., Ltd. ("Guangzhou Hapai")*	PRC/Mainland China	US\$10,000,000	-	100%	Software and information technology services
Guangzhou Mama100 E-commerce Co., Limited ("Mama100 E-commerce")**	PRC/Mainland China	RMB10,000,000	-	100%	Online sales, software and information technology services
Healthy Times. Inc. ("Healthy Times")***	America	US\$1,000	-	100%	Manufacture of organic baby foods and baby care products
Biostime Healthy Hong Kong Limited <sup>△</sup>	Hong Kong	AU\$1	-	100%	Overseas investments, financing and other business cooperation



**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**1. CORPORATE AND GROUP INFORMATION (continued)**

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Biostime Healthy (BVI) Limited <sup>△</sup>	BVI	AU\$1	100%	-	Overseas investments, financing and other business cooperation
Biostime Healthy (Cayman) Limited <sup>△</sup>	Cayman	AU\$1	-	100%	Overseas investments, financing and other business cooperation
Biostime Healthy II (BVI) Limited <sup>△</sup>	BVI	AU\$1	-	100%	Overseas investments, financing and other business cooperation
Biostime Healthy Australia Pty Ltd <sup>△</sup>	Australia	AU\$1	-	100%	Overseas investments, financing and other business cooperation
Biostime Healthy Australia Holdings Pty Ltd <sup>△</sup>	Australia	AU\$1	-	100%	Overseas investments, financing and other business cooperation
Biostime Healthy Australia Investment Pty Ltd <sup>△</sup>	Australia	AU\$1	-	100%	Investment holding, financing and other business cooperation
Swisse Wellness Group Pty Ltd ("Swisse") <sup>***</sup>	Australia	AU\$6,963,111	-	83%	Investment holding, financing and other business cooperation
Swisse Wellness Pty Ltd <sup>***</sup>	Australia	AU\$100	-	83%	Research, development, procurement and sale of vitamins, health supplements, skin care and sports nutrition products for adults
S W International Pty Ltd <sup>***</sup>	Australia	AU\$100	-	83%	Investment holding, international investment, trading and sales
Swisse Wellness Pty Ltd (NZ) <sup>***</sup>	New Zealand	NZ\$10,100	-	83%	Trading and sales

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**1. CORPORATE AND GROUP INFORMATION (continued)**

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Swisse Wellness (UK) Limited <sup>***</sup>	United Kingdom	GBP£1	-	83%	Trading and sales
Swisse China Limited <sup>△</sup>	Hong Kong	HK\$1	-	83%	Trading and sales
Noisy Beast Pty Ltd <sup>***#</sup>	Australia	AU\$5,000	-	39%	Digital media and advertising
Noisy Beast UK Limited <sup>***#</sup>	United Kingdom	GBP£100	-	39%	Digital media and advertising

\* Registered as a wholly-foreign-owned enterprise under the laws of the PRC.

\*\* 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.

\*\*\* These subsidiaries were newly acquired during the year. Further details of the acquisition are included in note 37 to the financial statements.

# Noisy Beast Pty Ltd and Noisy Beast UK Limited are accounted for as subsidiaries of the Group even though the Group has only 39% equity interests in these companies based on the factors explained in note 3 to the financial statements.

△ These subsidiaries were newly set up during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board ("IASB") 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 37 to the financial statements. 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).

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.1 BASIS OF PREPARATION (continued)

##### Basis of consolidation (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 19 <i>Annual Improvements 2010-2012 Cycle</i> <i>Annual Improvements 2011-2013 Cycle</i>	<i>Defined Benefit Plans: Employee Contributions</i> Amendments to a number of IFRSs Amendments to a number of IFRSs
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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.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	<i>Financial Instruments</i> <sup>3</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>6</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>1</sup>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>1</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>5</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
IFRS 16	<i>Leases</i> <sup>4</sup>
Amendments to IAS 1	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to IAS 7	<i>Disclosure Initiative</i> <sup>2</sup>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> <sup>2</sup>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>1</sup>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> <sup>1</sup>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> <sup>1</sup>
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of IFRSs</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>5</sup> Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

<sup>6</sup> Originally intended to be effective for annual periods beginning on or after 1 January 2016, which has been deferred/removed by the IASB in December 2015. No mandatory effective date is yet determined.

Other than as further explained below, the directors do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's consolidated financial statements and the disclosure.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

## **BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

### **NOTES TO FINANCIAL STATEMENTS**

31 December 2015

#### **2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In July 2015, the IASB confirmed a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

#### **Investment in an associate**

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of the associate are included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investment in an associate.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Business combinations and goodwill**

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Business combinations and goodwill (continued)**

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

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

##### **Fair value measurement**

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

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

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

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

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fair value measurement (continued)

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

##### Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Related parties**

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

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Property, plant and equipment and depreciation

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

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

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

Building	4.5%
Plant and machinery	9% to 25%
Furniture, fixtures and office equipment	18% to 50%
Motor vehicles	18% to 25%
Leasehold improvements	8% to 38%

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Intangible assets (other than goodwill)**

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

##### *Trademark and brand name*

Trademark and brand name acquired separately are measured at historical cost. Trademark and brand name acquired in a business combination are valued at fair value based on the royalty relief method. Trademarks with indefinite useful lives are tested for impairment annually.

##### *Customer relationships/unpatented product formula/royalty agreement*

Customer relationships, unpatented product formula and royalty agreement acquired in a business combination are recognised at fair value at the acquisition date. The intangible assets have finite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of 14 years, 15 years and 8 years for customer relationships, unpatented product formula and royalty agreement, respectively.

##### *License*

License is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 18 years.

##### *Computer software*

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Intangible assets (other than goodwill) (continued)

A summary of the useful lives is listed below:

	Years
Trademark and brand name	Indefinite
Customer relationships	14
Unpatented product formula	15
Royalty agreement	8
License	18
Computer software	5

##### *Research and development costs*

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

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

##### **Leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Investments and other financial assets**

###### *Initial recognition and measurement*

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

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

###### *Subsequent measurement*

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

###### *Financial assets at fair value through profit or loss*

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investments and other financial assets (continued)

###### *Loans and receivables*

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

###### *Held-to-maturity investments*

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

##### Derecognition of financial assets

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Derecognition of financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### Impairment of financial assets

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

##### *Financial assets carried at amortised cost*

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

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

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



**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of financial assets (continued)**

*Financial assets carried at amortised cost (continued)*

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

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings.

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

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

*The subsequent measurement of financial liabilities depends on their classification as follows:*

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial liabilities (continued)

###### *Loans and borrowings*

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

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

##### Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

##### Derecognition of financial liabilities

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Inventories**

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

##### **Cash and cash equivalents**

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

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

##### **Provisions**

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

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

##### **Customer loyalty program**

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income tax (continued)**

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

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

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

**Government grants**

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

**Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Share-based payment

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

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

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Share-based payment (continued)

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

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

##### Other employee benefits

###### *Pension schemes*

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

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

##### Borrowing costs

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

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

##### Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as the Company's net investment in a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss.

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



## **BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

### **NOTES TO FINANCIAL STATEMENTS**

31 December 2015

#### **2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Foreign currencies (continued)**

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of the entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

#### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

**Judgements**

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

*Consolidation of entities in which the Group holds less than a majority of equity interest*

The Group considers that it controls Noisy Beast (UK) Limited and Noisy Beast Pty Ltd even though it owns less than 50% of the equity interests. This is because the Group has a majority of voting rights to control the relevant activities of Noisy Beast (UK) Limited and Noisy Beast Pty Ltd.

*Monetary item designated as the Company's net investment in a foreign operation*

An inter-company loan provided by the Company to a foreign operation has been designated as the Company's net investment in a foreign operation as the directors consider that the Company would not demand the repayment of the inter-company loan from the foreign operation in the foreseeable future.

If the inter-company loan is considered to be repaid in the foreseeable future and is not designated as the Company's net investment in a foreign operation, the foreign exchange difference included in the other expense and the exchange fluctuation reserve would have been decreased by the same amount of approximately RMB70,560,000.

*Tax provisions*

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

**Judgements (continued)**

*Deferred tax assets*

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

*Deferred tax liabilities*

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

If those undistributed earnings of the subsidiaries in Mainland China are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liability would have been increased by the same amount of approximately RMB 34,404,000.

**Estimation uncertainties**

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 14 to the financial statements.

*Impairment of trademark and brand name*

The Group determines whether the trademark and brand name is impaired at least on an annual basis. This requires an estimation of the value in use of the trademark and brand name. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the trademark and brand name and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 15 to the financial statements.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

**Estimation uncertainties (continued)**

*Provision for obsolete inventories*

Management reviews the aged analysis of inventories of the Group at each reporting date, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale or that will be sold below cost. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

As at 31 December 2015, the carrying amounts of inventories were approximately RMB856,224,000 (2014: RMB797,027,000) after netting off the allowance for inventories of approximately RMB19,752,000 (2014: RMB5,953,000).

*Deferred income*

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

*Impairment of loans and receivables*

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 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 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 37 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.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

4. OPERATING SEGMENT INFORMATION (continued)

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

4. OPERATING SEGMENT INFORMATION (continued)

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

4. OPERATING SEGMENT INFORMATION (continued)

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	-
	<u>4,818,561</u>	<u>4,731,563</u>

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

(b) Non-current assets

	2015 RMB'000	2014 RMB'000
Mainland China	758,464	701,718
Australia	2,763,024	-
Other countries	689	-
	<u>3,522,177</u>	<u>701,718</u>

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 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 revenue, other income and gains is as follows:

	2015 RMB'000	2014 RMB'000
<b>Revenue</b>		
Sale of goods	<u>4,818,561</u>	<u>4,731,563</u>
<b>Other income and gains</b>		
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	<u>6,964</u>	<u>3,126</u>
	<u>143,997</u>	<u>128,065</u>

#### 6. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank loans and convertible bonds	<u>154,022</u>	<u>86,673</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**7. PROFIT BEFORE TAX**

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

	Notes	2015 RMB'000	2014 RMB'000
Cost of inventories sold		1,826,302	1,803,648
Depreciation	12	58,629	41,879
Amortisation of intangible assets	15	27,066	7,310
Amortisation of land lease payments	13	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) (note 8(a)):			
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	33	(10,619)	4,488
Equity-settled share award expense	34	(9,963)	12,044
		<u>704,102</u>	<u>715,853</u>
Foreign exchange differences, net*		88,518	8,187
Fair value losses on derivative financial instruments*		18,490	-
Impairment of trade receivables*	22	3,936	-
Write-down of inventories to net realisable value <sup>#</sup>		<u>7,694</u>	<u>984</u>

\* 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.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

(a) Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 RMB'000	2014 RMB'000
Fees	<u>1,780</u>	<u>1,780</u>
Other emoluments:		
Salaries, allowances and benefits in kind	9,501	4,123
Performance-related bonuses	363	9,445
Equity-settled share option expense	(698)	288
Equity-settled share award expense	(343)	411
Pension scheme contributions	<u>151</u>	<u>134</u>
	<u>8,974</u>	<u>14,401</u>
	<u>10,754</u>	<u>16,181</u>

During the year and in prior years, share options were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 33 to the financial statements. Besides, share awards were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 34 to the financial statements. The fair values of these options and share awards, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

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

The remuneration of each of the directors and the chief executive for the year ended 31 December 2015 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance -related bonuses RMB'000	Equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2015							
<i>Executive directors:</i>							
Mr. Luo Fei (Chief executive)	200	6,235	244	(433)	(216)	76	6,106
Ms. Kong Qingjuan*	200	3,266	119	(266)	(127)	76	3,268
	<u>400</u>	<u>9,501</u>	<u>363</u>	<u>(699)</u>	<u>(343)</u>	<u>152</u>	<u>9,374</u>
<i>Non-executive directors:</i>							
Mr. Luo Yun	120	-	-	-	-	-	120
Mr. Wu Xiong	120	-	-	-	-	-	120
Mr. Chen Fufang	120	-	-	-	-	-	120
Dr. Zhang Wenhui	120	-	-	-	-	-	120
	<u>480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>480</u>
<i>Independent non-executive directors:</i>							
Mr. Ngai Wai Fung	300	-	-	-	-	-	300
Mr. Tan Wee Seng	300	-	-	-	-	-	300
Professor Xiao Baichun	300	-	-	-	-	-	300
	<u>900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>900</u>
	<u>1,780</u>	<u>9,501</u>	<u>363</u>	<u>(699)</u>	<u>(343)</u>	<u>152</u>	<u>10,754</u>

\*Ms. Kong Qingjuan has tendered her resignation as an executive director of the Company with effect from 21 January 2016.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

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

The remuneration of each of the directors and the chief executive for the year ended 31 December 2014 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance -related bonuses RMB'000	Equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2014							
<i>Executive directors:</i>							
Mr. Luo Fei (Chief executive)	200	2,740	6,311	178	261	67	9,757
Ms. Kong Qingjuan	<u>200</u>	<u>1,383</u>	<u>3,134</u>	<u>110</u>	<u>150</u>	<u>67</u>	<u>5,044</u>
	<u>400</u>	<u>4,123</u>	<u>9,445</u>	<u>288</u>	<u>411</u>	<u>134</u>	<u>14,801</u>
<i>Non-executive directors:</i>							
Mr. Luo Yun	120	-	-	-	-	-	120
Mr. Wu Xiong	120	-	-	-	-	-	120
Mr. Chen Fufang	120	-	-	-	-	-	120
Dr. Zhang Wenhui	<u>120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120</u>
	<u>480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>480</u>
<i>Independent non-executive directors:</i>							
Mr. Ngai Wai Fung	300	-	-	-	-	-	300
Mr. Tan Wee Seng	300	-	-	-	-	-	300
Professor Xiao Baichun	<u>300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300</u>
	<u>900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>900</u>
	<u>1,780</u>	<u>4,123</u>	<u>9,445</u>	<u>288</u>	<u>411</u>	<u>134</u>	<u>16,181</u>

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

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Five highest paid employees

The five highest paid employees during the year included two (2014: two) directors, details of whose remuneration are set out in note 8(a) above. Details of the remuneration for the year of the remaining three (2014: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	7,135	4,037
Performance-related bonuses	3,246	10,328
Equity-settled share option expense	(476)	257
Equity-settled share award expense	(330)	681
Pension scheme contributions	<u>151</u>	<u>200</u>
	<u>9,726</u>	<u>15,503</u>

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

	2015	2014
HK\$3,500,001 to HK\$4,000,000	1	-
HK\$4,000,001 to HK\$5,000,000	2	-
HK\$5,000,001 to HK\$6,000,000	-	1
HK\$6,000,001 to HK\$7,000,000	-	1
HK\$7,000,001 to HK\$8,000,000	<u>-</u>	<u>1</u>
	<u>3</u>	<u>3</u>

During the year and in prior years, share options were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. Besides, share awards were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are set out in note 34 to the financial statements. The fair values of these share options and share awards, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amount included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 9. INCOME TAX

	2015 RMB'000	2014 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 (note 30)	<u>72,306</u>	<u>(49,696)</u>
Total tax charge for the year	<u>210,619</u>	<u>311,549</u>

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.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**9. INCOME TAX (continued)**

	2015 RMB'000	2014 RMB'000
Profit before tax	<u>503,940</u>	<u>1,118,335</u>
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	<u>5,011</u>	<u>14,152</u>
Tax charge at the Group's effective rate	<u>210,619</u>	<u>311,549</u>

**10. DIVIDENDS**

	2015 RMB'000	2014 RMB'000
Interim - Nil (2014: HK\$0.26) per ordinary share	-	124,315
Proposed final – Nil (2014: HK\$0.41) per ordinary share	<u>-</u>	<u>196,944</u>
	<u>-</u>	<u>321,259</u>

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



**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**11. 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 RMB'000	2014 RMB'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>251,461</u>	<u>806,786</u>
		<b>Number of Shares</b>
<b>Shares</b>		
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	<u>(3,416,775)</u>	<u>(2,094,493)</u>
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<u>610,508,776</u>	<u>602,326,189</u>
Effect of dilution -- weighted average number of ordinary shares:		
Share options and awarded shares	<u>10,983,717</u>	<u>11,632,885</u>
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<u>621,492,493</u>	<u>613,959,074</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

12. PROPERTY, PLANT AND EQUIPMENT

	Note	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve- ments RMB'000	Con- struction in progress RMB'000	Total RMB'000
<b>Cost:</b>								
At 1 January 2015		89,351	72,169	100,814	46,929	14,747	268,713	592,723
Acquisition of subsidiaries	37	-	34,510	8,848	662	12,725	6,095	62,840
Additions		1,624	12,518	14,169	4,382	12,433	64,297	109,423
Disposals		-	(6,301)	(7,016)	(517)	(9,425)	-	(23,259)
Transfers		183,224	106,489	3,420	-	19,837	(313,367)	(397)*
Exchange alignment		-	2,045	527	40	771	366	3774.9
At 31 December 2015		<u>274,199</u>	<u>221,430</u>	<u>120,762</u>	<u>51,496</u>	<u>51,088</u>	<u>26,104</u>	<u>745,079</u>
<b>Accumulated depreciation:</b>								
At 1 January 2015		4,960	15,925	56,910	22,944	13,952	-	114,691
Acquisition of subsidiaries	37	-	29,225	6,081	598	5,333	-	41,237
Depreciation provided during the year		11,199	15,648	21,482	7,699	2,601	-	58,629
Disposals		-	(5,991)	(6,276)	(809)	(5,900)	-	(18,976)
Exchange alignment		-	1,772	370	36	325	-	2,503
At 31 December 2015		<u>16,159</u>	<u>56,579</u>	<u>78,567</u>	<u>30,468</u>	<u>16,111</u>	<u>-</u>	<u>198,084</u>
<b>Net carrying amount:</b>								
At 31 December 2015		<u>258,040</u>	<u>164,851</u>	<u>42,195</u>	<u>21,028</u>	<u>34,777</u>	<u>26,104</u>	<u>546,995</u>

\*During the year, construction in progress amounting to RMB397,000 was transferred to intangible assets, as disclosed in note 15 to the financial statements.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve- ments RMB'000	Con- struction in progress RMB'000	Total RMB'000
<b>Cost:</b>							
At 1 January 2014	89,337	64,325	85,379	33,889	14,461	113,039	409,430
Additions	14	6,616	16,730	14,916	286	156,996	195,558
Disposals	-	(11)	(1,274)	(1,876)	-	-	(3,161)
Transfers	-	1,322	-	-	-	(1,322)	-
Exchange alignment	-	(83)	(21)	-	-	-	(104)
At 31 December 2014	<u>89,351</u>	<u>72,169</u>	<u>100,814</u>	<u>46,929</u>	<u>14,747</u>	<u>268,713</u>	<u>592,723</u>
<b>Accumulated depreciation:</b>							
At 1 January 2014	-	8,786	36,988	16,333	12,136	-	74,243
Depreciation provided during the year	4,960	7,177	21,051	6,875	1,816	-	41,879
Disposals	-	(5)	(1,117)	(264)	-	-	(1,386)
Exchange alignment	-	(33)	(12)	-	-	-	(45)
At 31 December 2014	<u>4,960</u>	<u>15,925</u>	<u>56,910</u>	<u>22,944</u>	<u>13,952</u>	<u>-</u>	<u>114,691</u>
<b>Net carrying amount:</b>							
At 31 December 2014	<u>84,391</u>	<u>56,244</u>	<u>43,904</u>	<u>23,985</u>	<u>795</u>	<u>268,713</u>	<u>478,032</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

13. PREPAID LAND LEASE PAYMENTS

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	64,721	66,199
Recognised during the year (note 7)	<u>(1,478)</u>	<u>(1,478)</u>
Carrying amount at 31 December	63,243	64,721
Current portion included in prepayments, deposits and other receivables (note 23)	<u>(1,478)</u>	<u>(1,478)</u>
Non-current portion	<u>61,765</u>	<u>63,243</u>

14. GOODWILL

	2015 RMB'000	2014 RMB'000
<b>Cost:</b>		
At 1 January	76,000	76,000
Acquisition of subsidiaries (note 37)	4,613,711	-
Exchange alignment	<u>266,681</u>	<u>-</u>
At 31 December	<u>4,956,392</u>	<u>76,000</u>
<b>Accumulated impairment:</b>		
At 1 January	-	-
Impairment provided during the year	<u>-</u>	<u>-</u>
At 31 December	<u>-</u>	<u>-</u>
<b>Net carrying amount:</b>		
At 31 December	<u>4,956,392</u>	<u>76,000</u>

Impairment testing of goodwill

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

14. GOODWILL (continued)

	2014 RMB'000	Addition RMB'000	Exchange alignment RMB'000	2015 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
	<u>76,000</u>	<u>4,613,711</u>	<u>266,681</u>	<u>4,956,392</u>

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	<u>16.7%</u>	<u>17.9%</u>	<u>18.9%</u>

*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.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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15. INTANGIBLE ASSETS

	Notes	Trademark and brand name RMB'000	License RMB'000	Customer relationship RMB'000	Royalty agreement RMB'000	Unpatented product formula RMB'000	Computer software and others RMB'000	Total RMB'000
<b>Cost:</b>								
At 1 January 2015		-	103,780	-	-	-	9,103	112,883
Acquisition of subsidiaries	37	1,673,224	-	795,022	79,805	49,467	7,734	2,605,252
Additions		130	-	-	-	-	31,116	31,246
Transfer from construction in progress		-	-	-	-	-	397	397
Disposal		-	-	-	-	-	(793)	(793)
Exchange alignment		100,753	-	47,871	4,805	2,979	466	156,874
		<u>1,774,107</u>	<u>103,780</u>	<u>842,893</u>	<u>84,610</u>	<u>52,446</u>	<u>48,023</u>	<u>2,905,859</u>
At 31 December 2015								
<b>Accumulated amortisation:</b>								
At 1 January 2015		-	5,766	-	-	-	3,007	8,773
Acquisition of subsidiaries	37	-	-	-	-	-	5,082	5,082
Amortisation provided during the year		-	5,766	14,677	2,578	852	3,193	27,066
Disposal		-	-	-	-	-	(542)	(542)
Exchange alignment		-	-	375	66	22	318	781
		<u>-</u>	<u>11,532</u>	<u>15,052</u>	<u>2,644</u>	<u>874</u>	<u>11,058</u>	<u>44,160</u>
At 31 December 2015								
<b>Net carrying amount:</b>								
At 31 December 2015		<u>1,774,107</u>	<u>92,248</u>	<u>827,841</u>	<u>81,966</u>	<u>51,572</u>	<u>36,965</u>	<u>2,864,699</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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15. INTANGIBLE ASSETS (continued)

	Trademark and brand name RMB'000	License RMB'000	Customer relationship RMB'000	Royalty agreement RMB'000	Unpatented product formula RMB'000	Computer software and others RMB'000	Total RMB'000
<b>Cost:</b>							
At 1 January 2014	-	103,780	-	-	-	7,572	111,352
Additions	-	-	-	-	-	1,531	1,531
At 31 December 2014	-	103,780	-	-	-	9,103	112,883
<b>Accumulated amortisation:</b>							
At 1 January 2014	-	-	-	-	-	1,463	1,463
Amortisation provided during the year	-	5,766	-	-	-	1,544	7,310
At 31 December 2014	-	5,766	-	-	-	3,007	8,773
<b>Net carrying amount:</b>							
At 31 December 2014	-	98,014	-	-	-	6,096	104,110

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 15. INTANGIBLE ASSETS (continued)

##### Impairment testing of trademark and brand name

Management regarded trademark and brand name having an indefinite useful life because it is expected to generate net cash inflows indefinitely. And the value of trademark and brand name with indefinite useful life was assessed annually by using the relief-from royalty method calculated based on a five-year cash flow projection approved by senior management. The value is determined by estimating the value of future forgone royalty payments with the royalty saving ratio over the life of the asset by virtue of owning the asset.

The key assumptions, long term growth rate and discount rate used in the annual impairment testing of trademark and brand name with indefinite useful life in 2015 are as follows:

Sales amount (% annual growth rate)	5%-20%
Royalty saving ratio (%)	11%
Long term growth rate	<u>3%</u>

Sales amount is the average annual growth rate over the forecast period. It is based on past performance and management's expectations of market development of the trademark and brand name.

The growth rate assumption was in accordance with the Group's business plan and latest competitive landscape of the industry.

#### 16. BONDS RECEIVABLE

	2015 RMB'000	2014 RMB'000
Bonds receivable	<u>124,003</u>	<u>130,302</u>

The Group entered into a Bond Subscription Agreement with Isigny Sainte Mère ("ISM") on 30 July 2013, pursuant to which ISM would issue, and the Group would subscribe for 17,477,075 bonds, with a nominal value of EUR1 per bond, in three separate tranches, at the subscription price equal to the nominal value of the bonds. As at 31 December 2015, the Group has subscribed for 17,477,075 bonds (2014: 17,477,075 bonds).

The bonds bear interest at a rate of 5% per annum on the outstanding principal amount of the bonds. The maturity date of the bonds shall be 30 July 2023, 10 years from the date of the Bond Subscription Agreement.



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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17. LOANS RECEIVABLE

	2015 RMB'000	2014 RMB'000
Current portion of loans receivable	21,984	39,457
Loans receivable due after one year	<u>54,896</u>	<u>53,531</u>
Total loans receivable	<u><u>76,880</u></u>	<u><u>92,988</u></u>

	Effective interest rate	Maturity	2015 RMB'000	2014 RMB'000
Denominated in United States dollars (the "US\$")	3.00%	By instalments before December 2018	27,348	32,654
Denominated in Danish kroner (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	<u>49,532</u>	<u>60,334</u>
Total loans receivable			<u><u>76,880</u></u>	<u><u>92,988</u></u>

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

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

The convertible loan is separated into two components: the debt element and the conversion option element. The Group has classified the debt element and the conversion option element as loan receivable and derivative financial instrument, respectively. Details of the conversion option element are included in note 27 to the financial statements. The carrying amounts of the current portion and non-current portion of loans receivable approximate to their fair values.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

18. DEPOSITS

	2015 RMB'000	2014 RMB'000
Deposits paid for purchase of items of property, plant and equipment	4,486	9,809
Rental deposits	<u>4,027</u>	<u>5,932</u>
	<u>8,513</u>	<u>15,741</u>

19. INVESTMENT IN AN ASSOCIATE

	2015 RMB'000	2014 RMB'000
Share of net assets	<u>40,205</u>	<u>40,592</u>
Loan to an associate	<u>40,000</u>	<u>40,000</u>

The loan to an associate is unsecured, bears interest at a rate of 3% per annum, and is repayable at 31 October 2016.

The trade payable balance with the associate is disclosed in note 25 to the financial statements.

Particulars of the associate are as follows:

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 19. INVESTMENT IN AN ASSOCIATE (continued)

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

	2015 RMB'000	2014 RMB'000
Share of the associate's profit for the year	<u>(387)</u>	<u>592</u>
Share of the associate's comprehensive income	<u>(387)</u>	<u>592</u>
Carrying amount of the Group's investment in the associate	<u>40,205</u>	<u>40,592</u>

#### 20. HELD-TO-MATURITY INVESTMENT

	2015 RMB'000	2014 RMB'000
Investment in ISM	<u>17,901</u>	<u>18,810</u>

Pursuant to the Framework Agreement entered into with ISM on 1 July 2013, Biostime Pharma, a wholly-owned subsidiary of the Group, subscribed for 504,585 shares in the share capital of ISM ("Subscription Shares") with a nominal value of EUR5 per share and representing 20% of the total issued share capital of ISM as enlarged by the issuance of the Subscription Shares. Biostime Pharma is the only non-cooperative shareholder of ISM, while all the other shareholders of ISM are cooperative shareholders. ISM undertakes to use the proceeds from issuance of the Subscription Shares exclusively for the purpose of the financing of the infant formula production and packaging industrial facility.

In accordance with applicable law, the subscription price was determined as equivalent to the Subscription Shares' nominal value with no premium applicable. Pursuant to the Framework Agreement and the bylaws of ISM ("Bylaws"), in the event that the Subscription Shares are redeemed by ISM as a result of withdrawal by Biostime Pharma or exclusion of Biostime Pharma by ISM from ISM's share capital, the redemption price of the Subscription Shares shall be equal to the nominal value of the Subscription Shares.

Pursuant to the relevant French law and the Bylaws, notwithstanding the number of shares held by Biostime Pharma, the voting rights of Biostime Pharma (represented by its delegates), as a non-cooperative shareholder, shall not exceed 10% of all voting rights in the general meeting of shareholders of ISM.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 20. HELD-TO-MATURITY INVESTMENT (continued)

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

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

#### 21. INVENTORIES

	2015 RMB'000	2014 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	<u>352,094</u>	<u>102,812</u>
	<u>856,224</u>	<u>797,027</u>

#### 22. TRADE AND BILLS RECEIVABLES

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 22. TRADE AND BILLS RECEIVABLES (continued)

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 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:

	2015 RMB'000	2014 RMB'000
Within 1 month	289,922	1,513
1 to 3 months	313,809	10,529
Over 3 months	<u>19,111</u>	<u>1</u>
	<u>622,842</u>	<u>12,043</u>

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 RMB'000	2014 RMB'000
At beginning of year	-	-
Acquisition of subsidiaries	3,819	-
Impairment losses recognised (note 7)	4,170	-
Amount written off as uncollectible	(2,584)	-
Impairment losses reversed (note 7)	<u>(234)</u>	<u>-</u>
	<u>5,171</u>	<u>-</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**22. TRADE AND BILLS RECEIVABLES (continued)**

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.

**23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	2015 RMB'000	2014 RMB'000
Prepayments	4,578	31,172
Deposits	3,164	1,202
Other receivables	159,732	87,330
Prepaid expenses	50,028	16,285
Current portion of prepaid land lease payments (note 13)	<u>1,478</u>	<u>1,478</u>
	<u>218,980</u>	<u>137,467</u>

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

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24. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS

	2015 RMB'000	2014 RMB'000
Cash and bank balances	937,426	1,868,280
Time deposits	330,968	2,625,060
Pledged deposits	<u>1,927,000</u>	<u>-</u>
	3,195,394	4,493,340
Less:		
Non-pledged time deposits with maturity date after one year	(70,159)	(1,146,183)
Pledged deposits for bank loans with maturity date within one year	(1,677,000)	-
Pledged deposits for bank loans with maturity date after one year	<u>(250,000)</u>	<u>-</u>
Cash and cash equivalents as stated in the consolidated statement of financial position	1,198,235	3,347,157
Less:		
Non-pledged time deposits with original maturity of three months or more when acquired	<u>(83,000)</u>	<u>(900,000)</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows	<u>1,115,235</u>	<u>2,447,157</u>
Denominated in RMB (note)	2,774,053	3,598,252
Denominated in other currencies	<u>421,341</u>	<u>895,088</u>
	<u>3,195,394</u>	<u>4,493,340</u>

Note:

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 24. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS (continued)

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

#### 25. TRADE AND BILLS PAYABLES

	2015 RMB'000	2014 RMB'000
Trade payables	610,558	289,529
Bills payable	<u>8,153</u>	<u>5,013</u>
	<u>618,711</u>	<u>294,542</u>

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 RMB'000	2014 RMB'000
Within 1 month	370,967	273,967
1 to 3 months	220,867	19,825
Over 3 months	<u>26,877</u>	<u>750</u>
	<u>618,711</u>	<u>294,542</u>

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.



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26. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 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 (note 31)	23,707	31,397
Other payables	<u>226,663</u>	<u>90,033</u>
	<u>1,154,245</u>	<u>737,494</u>
Less:		
Non-current portion	<u>(28,696)</u>	<u>-</u>
Current portion	<u>1,125,549</u>	<u>737,494</u>

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

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	2015		2014	
		Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Convertible option embedded in					
a loan receivable	(a)	2,728	-	2,570	-
Forward currency contracts	(b)	-	5,559	-	-
Put option embedded in					
a Roll-up Call Option	(c)	<u>-</u>	<u>13,446</u>	<u>-</u>	<u>-</u>
		<u>2,728</u>	<u>19,005</u>	<u>2,570</u>	<u>-</u>

- (a) As described in note 17, 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.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- (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 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 shareholder 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 non-controlling shareholders. The Group has recognised the put option embedded in the Roll-up Call Option as derivative financial instrument at 30 September 2015 with an amount of RMB358,000.

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

#### 28. INTEREST-BEARING BANK LOANS

	2015			2014		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
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	<u>35,476</u>	-	-	-
			<u>4,740,450</u>	-	-	-

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 28. INTEREST-BEARING BANK LOANS (continued)

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 Healthy 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.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 29. CONVERTIBLE BONDS

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 29. CONVERTIBLE BONDS (continued)

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

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

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

	2015 RMB'000
Nominal value of convertible bonds issued	2,460,625
Equity component	(66,978)
Direct transaction costs	<u>(46,255)</u>
Liability component at the issuance date	2,347,392
Interest expense in 2014	77,983
Exchange alignment in 2014	<u>(14,849)</u>
Liability component at 31 December 2014	<u>2,410,526</u>
Interest expense in 2015	95,015
Exchange alignment in 2015	<u>153,516</u>
Liability component at 31 December 2015	<u><u>2,659,057</u></u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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30. DEFERRED TAX

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

Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2015	1,527	93,058	26,461	7,850	128,896
Acquisition of subsidiaries (note 37)	-	142,515	-	-	142,515
Credited/(charged) to the profit or loss for the year (note 9)	644	(88,474)	10,762	(1,923)	(78,991)
Exchange alignment	-	5,641	-	-	5,641
At 31 December 2015	<u>2,171</u>	<u>152,740</u>	<u>37,223</u>	<u>5,927</u>	<u>198,061</u>
At 1 January 2014	1,266	89,108	20,576	12,942	123,892
Credited/(charged) to the profit or loss for the year (note 9)	261	3,950	5,885	(5,092)	5,004
At 31 December 2014	<u>1,527</u>	<u>93,058</u>	<u>26,461</u>	<u>7,850</u>	<u>128,896</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

30. DEFERRED TAX (continued)

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2015	-	16,305	19,619	35,924
Acquisition of subsidiaries (note 37)	9,201	-	778,317	787,518
(Credited)/charged to the profit or loss for the year (note 9)	(4,938)	5,011 <sup>#</sup>	(6,758)	(6,685)
Exchange alignment	<u>428</u>	<u>-</u>	<u>46,727</u>	<u>47,155</u>
At 31 December 2015	<u>4,691</u>	<u>21,316</u>	<u>837,905</u>	<u>863,912</u>
At 1 January 2014	-	59,671	20,945	80,616
(Credited)/charged to the profit or loss for the year (note 9)	<u>-</u>	<u>(43,366)<sup>#</sup></u>	<u>(1,326)</u>	<u>(44,692)</u>
At 31 December 2014	<u>-</u>	<u>16,305</u>	<u>19,619</u>	<u>35,924</u>

<sup>#</sup> The amount as at 31 December 2015 represented a deferred tax provision of RMB5,011,000 (31 December 2014: RMB14,152,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of nil (31 December 2014: RMB57,518,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 30. DEFERRED TAX (continued)

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

	2015 RMB'000	2014 RMB'000
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	198,061	128,896
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	<u>(863,912)</u>	<u>(35,924)</u>
	<u>(665,851)</u>	<u>92,972</u>

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

As at 31 December 2015, the Group has not recognised deferred tax liabilities of RMB 34,404,000 (2014: RMB55,715,000) in respect of temporary differences relating to the unremitted profits of subsidiaries, amounting to RMB 688,080,000 (2014: RMB1,114,300,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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



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31. DEFERRED INCOME

	2015 RMB'000	2014 RMB'000
Customer loyalty program		
At 1 January	31,397	51,768
Addition	380,858	416,114
Recognised as revenue during the year	<u>(388,548)</u>	<u>(436,485)</u>
At 31 December	<u><u>23,707</u></u>	<u><u>31,397</u></u>

32. SHARE CAPITAL

Shares

	2015	2014
Authorised:		
10,000,000,000 (2014: 10,000,000,000) ordinary shares of HK\$0.01 each	<u>HK\$100,000,000</u>	<u>HK\$100,000,000</u>
Issued and fully paid:		
630,080,426 (2014: 606,825,765) ordinary shares of HK\$0.01 each	<u>HK\$6,300,804</u>	<u>HK\$6,068,258</u>
Equivalent to	<u>RMB5,387,000</u>	<u>RMB5,197,000</u>

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

	Number of shares in issue	Share capital HK\$'000	Equivalent to RMB'000
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))	<u>2,103,316</u>	<u>21</u>	<u>17</u>
	<u>4,531,765</u>	<u>45</u>	<u>36</u>
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 37)	<u>20,513,085</u>	<u>205</u>	<u>168</u>
	<u>23,254,661</u>	<u>233</u>	<u>190</u>
At 31 December 2015	<u><u>630,080,426</u></u>	<u><u>6,301</u></u>	<u><u>5,387</u></u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 32. SHARE CAPITAL (continued)

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.

#### Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 33 to the financial statements.

#### Share award schemes

Details of the Company's share award schemes and the shares awarded under the schemes are included in note 34 to the financial statements.

#### 33. SHARE OPTION SCHEMES

##### Pre-IPO Share Option Scheme

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 33. SHARE OPTION SCHEMES (continued)

##### Pre-IPO Share Option Scheme (continued)

- (a) the subscription price per share for all options granted under the Pre-IPO Share Option Scheme is HK\$2.53;
- (b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further share options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date;
- (c) all share options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

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

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

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

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

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

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

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33. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme (continued)

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

	2015		2014	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	2.53	6,929	2.53	9,179
Forfeited during the year	2.53	(3,556)	2.53	(216)
Exercised during the year	2.53	<u>(2,242)</u>	2.53	<u>(2,034)</u>
At 31 December	2.53	<u>1,131</u>	2.53	<u>6,929</u>

The weighted average share price at the date of exercise for share options exercised under the Pre-IPO Share Option Scheme during the year was HK\$33.34 per share (2014: HK\$49.00 per share).

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme at 31 December 2015 are as follows:

Number of options '000	Exercise price HK\$ per share	Exercise period
<u>1,131</u>	2.53	17-12-14 to 17-12-16

The Group reversed a share option expense related to share options under the Pre-IPO Share Option Scheme of RMB6,191,000 during the year ended 31 December 2015, because of the failure to satisfy the vesting condition (2014: recognised an expense of RMB2,236,000). Share option reserve of RMB7,000 related to the forfeited shares that have been vested was transferred to retained profits during the year(2014:Nil).

2,242,000 share options under the Pre-IPO Share Option Scheme were exercised during the year, resulting in the issue of 2,242,000 ordinary shares of the Company and new share capital of HK\$22,420 (equivalent to RMB18,000) and share premium of HK\$5,649,000 (before issue expenses, and equivalent to RMB4,597,000). An amount of RMB4,703,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 33. SHARE OPTION SCHEMES (continued)

##### Pre-IPO Share Option Scheme (continued)

The exercise in full of the outstanding share options under the Pre-IPO Share Option Scheme would, under the present capital structure of the Company, result in the issue of 1,131,000 additional ordinary shares of the Company and additional share capital of HK\$11,000 (equivalent to RMB9,000) and share premium of HK\$2,850,000 (equivalent to RMB2,388,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 813,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.1% of the Company's shares in issue as at that date.

##### Share Option Scheme

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 33. SHARE OPTION SCHEMES (continued)

##### Share Option Scheme (continued)

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

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

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

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

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

On 29 December 2015, a total of 18,868,509 shares were granted under the Share Option Scheme with principal terms as follows:

- (a) the subscription price per share for all options granted under the Pre-IPO Share Option Scheme is HK\$15.58;
- (b) Among the 18,868,509 share options, 2,732,019 share options (the "Group 1 Share Options") granted shall vest in accordance with the timetable below:

<b>Vesting Date</b>	<b>Percentage of share options to vest</b>
1 April 2017	30% of the total number of share options granted
1 April 2018	30% of the total number of share options granted
1 April 2019	40% of the total number of share options granted

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**33. SHARE OPTION SCHEMES (continued)**

**Share Option Scheme (continued)**

Among the 18,868,509 share options, 16,136,490 share options (the "Group 2 Share Options") granted shall vest in accordance with the timetable below:

Vesting Date	Percentage of share options to vest
30 December 2016	50% of the total number of share options granted
1 November 2017	30% of the total number of share options granted
1 November 2018	20% of the total number of share options granted

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

The fair value of the share options granted during the year under the Share Option Scheme was estimated as below at the date of grant, using the Hull White model, taking into account the terms and conditions upon which the share options were granted:

Group 1 Share Options:

	First batch	Second batch	Third batch
Dividend yield (%)	8.48%	8.48%	8.48%
Expected volatility (%)	42.70%	42.70%	42.70%
Risk-free interest rate (%)	1.21%	1.21%	1.21%
Fair value (RMB'000)	<u>2,518</u>	<u>2,428</u>	<u>3,064</u>

Group 2 Share Options:

	First batch	Second batch	Third batch
Dividend yield (%)	8.48%	8.48%	8.48%
Expected volatility (%)	42.70%	42.70%	42.70%
Risk-free interest rate (%)	1.21%	1.21%	1.21%
Fair value (RMB'000)	<u>24,898</u>	<u>14,599</u>	<u>9,282</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

33. SHARE OPTION SCHEMES (continued)

Share Option Scheme (continued)

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

	2015		2014	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	18.11	2,739	18.11	3,518
Granted during the year	15.58	18,869*	-	-
Forfeited during the year	18.19	(1,293)	19.26	(385)
Exercised during the year	17.58	<u>(500)</u>	17.31	<u>(394)</u>
At 31 December	15.71	<u>19,815</u>	18.11	<u>2,739</u>

\*Among these share options granted, 723,075 share options were granted to the executive directors.

The weighted average share price at the date of exercise for share options exercised under the Share Option Scheme during the year was HK\$35.19 per share (2014: HK\$46.24 per share).

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



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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33. SHARE OPTION SCHEMES (continued)

Share Option Scheme (continued)

31 December 2015 Number of options '000	31 December 2014 Number of options '000	Exercise price* HK\$ per share	Exercise period
-	84	15.312	17-12-13 to 17-12-16
-	79	11.52	17-12-13 to 17-12-16
90	90	12.12	17-12-13 to 17-12-16
6	92	19.64	17-12-13 to 17-12-16
-	202	24.70	17-12-13 to 17-12-16
135	192	15.312	17-12-14 to 17-12-16
130	199	11.52	17-12-14 to 17-12-16
90	90	12.12	17-12-14 to 17-12-16
152	152	19.64	17-12-14 to 17-12-16
343	307	24.70	17-12-14 to 17-12-16
-	256	15.312	17-12-15 to 17-12-16
-	266	11.52	17-12-15 to 17-12-16
-	120	12.12	17-12-15 to 17-12-16
-	201	19.64	17-12-15 to 17-12-16
-	409	24.70	17-12-15 to 17-12-16
820	-	15.58	1-4-17 to 29-12-21
820	-	15.58	1-4-18 to 29-12-21
1,093	-	15.58	1-4-19 to 29-12-21
8,068	-	15.58	30-12-16 to 29-12-21
4,841	-	15.58	1-11-17 to 29-12-21
<u>3,227</u>	<u>-</u>	15.58	1-11-18 to 29-12-21
<u>19,815</u>	<u>2,739</u>		

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 33. SHARE OPTION SCHEMES (continued)

##### Share Option Scheme (continued)

The Group reversed a share option expense related to share options under the Share Option Scheme of RMB4,428,000 during the year ended 31 December 2015, because of the failure to satisfy the vesting condition (2014: recognised an expense of RMB2,252,000). Share option reserve of RMB689,000 related to the forfeited shares that have been vested was transferred to retained profits during the year (2014: Nil).

500,000 share options under the Share Option Scheme were exercised during the year, resulting in the issue of 500,000 ordinary shares of the Company and new share capital of HK\$5,000 (equivalent to RMB4,000) and share premium of HK\$8,890,000 (equivalent to RMB7,219,000) (before issue expenses). An amount of RMB2,486,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

The exercise in full of the outstanding share options under the Share Option Scheme would, under the present capital structure of the Company, result in the issue of 19,815,000 additional ordinary shares of the Company and additional share capital of HK\$198,000 (equivalent to RMB166,000) and share premium of HK\$291,451,000 (equivalent to RMB244,172,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 19,052,000 share options outstanding under the Share Option Scheme, which represented approximately 3.0% of the Company's shares in issue as at that date.

#### 34. SHARE AWARD SCHEMES

##### Share Award Scheme

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**34. SHARE AWARD SCHEMES (continued)**

Share Award Scheme (continued)

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

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

During the year ended 31 December 2015, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (2014: Nil).

Summary of particulars of the shares granted under the Share Award Scheme (the "Awarded Shares") during the year is as follows:

Date of grant	Number of outstanding awarded shares as at 31 December 2014 and newly granted during the year	Fair value RMB	Vesting date	Number of Awarded Shares		Outstanding awarded shares as at 31 December 2015
				Vested during the year	Forfeited during the year	
10 October 2014	645,600	12,783,000	30 October 2015	-	(645,600)	-
31 December 2015	<u>932,817</u>	<u>12,301,000</u>	31 December 2016	-	-	<u>932,817*</u>
Total	<u>1,578,417</u>	<u>25,084,000</u>		-	<u>(645,600)</u>	<u>932,817</u>

\* Among these Awarded Shares granted, 241,025 Awarded Shares were granted to the executive directors.

The Group reversed a share award expense of RMB2,652,000 during the year for the awarded shares granted on 10 October 2014, because of the failure to satisfy the vesting condition (2014: recognised an expense of RMB3,834,000).

At the date of approval of these financial statements, 932,817 outstanding Awarded Shares are held by the Trustee of the Share Award Scheme for relevant grantees; and 380,642 shares (including those Awarded Shares forfeited) are held by the Trustee and have yet to be awarded.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**34. SHARE AWARD SCHEMES (continued)**

2013 Share Award Scheme

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

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

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

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

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

Date of grant	Number of outstanding awarded shares as at 31 December 2014 and newly granted during the year	Fair value RMB	Vesting date	Number of Awarded Shares		Outstanding awarded shares as at 31 December 2015
				Vested during the year	Forfeited during the year	
10 October 2014	1,998,285	40,588,000	30 November 2015	-	(1,998,285)	-
1 July 2015	68,300	1,173,000	30 June 2016	-	-	68,300
1 July 2015	68,300	1,173,000	30 June 2017	-	-	68,300
29 December 2015	1,171,688	14,474,000	30 December 2016	-	-	1,171,688
29 December 2015	<u>585,947</u>	<u>7,238,000</u>	1 April 2017	-	-	<u>585,947</u>
Total	<u>3,892,520</u>	<u>64,646,000</u>		<u>-</u>	<u>(1,998,285)</u>	<u>1,894,235</u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 34. SHARE AWARD SCHEMES (continued)

##### 2013 Share Award Scheme (continued)

During the year ended 31 December 2015, no shares were issued for the 2013 Share Award Scheme (2014: 2,103,316 shares).

The Group reversed a share award expense of RMB8,210,000 during the year for the awarded shares granted on 10 October 2014, because of the failure to satisfy the vesting condition (2014: recognised an expense of RMB8,210,000). The Group recognised a share award expense of RMB899,000 during the year for the awarded shares granted on 1 July 2015.

At the date of approval of these financial statements, 1,809,501 shares of the Company are held by the trustee of the 2013 Share Award Scheme for relevant grantees; and 293,815 shares (including those Awarded Shares forfeited) are held by the trustee and have yet to be awarded.

#### 35. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 7 and 8 of the financial statements.

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

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

The Group's exchange difference reserve movement in current year represents 1) the accumulated exchange difference reserve arising from the translation of financial statements of certain subsidiaries with functional currencies other than the Group's reporting currency with an amount of RMB30,221,000; and 2) the exchange difference arising from the monetary item that is designated as the Company's net investment in a foreign operation, with an amount of RMB70,560,000.

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS**

Details of the Group's subsidiaries that have material non-controlling interests is set out below:

	2015	2014
Percentage of equity interest held by non-controlling interests:		
Swisse and its subsidiaries	<u>17%</u>	<u>-</u>
	2015	2014
	RMB'000	RMB'000
Profit for the year allocated to non-controlling interests:		
Swisse and its subsidiaries	<u>39,924</u>	<u>-</u>
Accumulated balances of non-controlling interests at the reporting dates:		
Swisse and its subsidiaries	<u>301,707</u>	<u>-</u>

The following tables illustrate the summarised financial information of Swisse and its subsidiaries since the date of completion of the acquisition. The amounts disclosed are before any inter-company eliminations:

	2015	2014
	RMB'000	RMB'000
Revenue	855,135	-
Total expenses	(605,682)	-
Profit for the year	249,453	-
Total comprehensive income for the year	<u>231,191</u>	<u>-</u>
Current assets	482,170	-
Non-current assets	63,950	-
Current liabilities	(643,036)	-
Non-current liabilities	<u>(33,387)</u>	<u>-</u>
Net cash flows from operating activities	213,680	-
Net cash flows used in investing activities	(10,062)	-
Net cash flows used in financing activities	<u>(1,118)</u>	<u>-</u>
Net increase in cash and cash equivalents	<u>202,500</u>	<u>-</u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 37. 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)	<u>164,270</u>	<u>732,495</u>
		<u>1,449,901</u>	<u>6,490,037</u>

(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 32 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.

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

37. BUSINESS COMBINATIONS (continued)

(a) Acquisition of Swisse (continued)

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	12	21,603
Intangible assets	15	2,600,170
Deferred tax assets	30	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	30	(787,518)
Other liabilities		<u>(5,869)</u>
Total identifiable net assets at fair value		2,188,195
Non-controlling interests		(252,592)
Derivative financial instrument	27	(358)
Goodwill on acquisition	14	<u>4,554,792</u>
Total consideration for acquisition		<u>6,490,037</u>
Satisfied by:		
Cash		6,263,070
Share		<u>226,967</u>
		<u>6,490,037</u>



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 37. BUSINESS COMBINATIONS (continued)

##### (a) Acquisition of Swisse (continued)

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 RMB 64,623,000 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	<u>202,801</u>
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	<u>(23,119)</u>
	<u>(5,957,487)</u>

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 37. BUSINESS COMBINATIONS (continued)

##### (b) Acquisition of 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 sale 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 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		<u>(104)</u>
Total identifiable net assets at fair value		5,639
Goodwill on acquisition	14	<u>58,919</u>
Total consideration for acquisition		<u>64,558</u>
Satisfied by cash		<u><u>64,558</u></u>

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.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**37. BUSINESS COMBINATIONS (continued)**

(b) Acquisition of Healthy Times (continued)

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	<u>57</u>
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	<u>(535)</u>
	<u><u>(65,036)</u></u>

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.

**38. CONTINGENT LIABILITIES**

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

**39. PLEDGE OF ASSETS**

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 28 to the financial statements.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 40. OPERATING LEASE ARRANGEMENTS

##### As lessee

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

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

	2015 RMB'000	2014 RMB'000
Within one year	70,634	29,448
In the second to fifth years, inclusive	79,559	21,864
After five years	<u>25,438</u>	<u>4,043</u>
	<u>175,631</u>	<u>55,355</u>

#### 41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40 above, the Group had the following capital commitments at the end of the reporting periods:

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for:		
Intangible assets	-	825
Fixed assets	<u>28,467</u>	<u>24,206</u>
	<u>28,467</u>	<u>25,031</u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 42. RELATED PARTY BALANCES AND TRANSACTIONS

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

##### (a) Related party transactions

	Notes	2015 RMB'000	2014 RMB'000
Purchases of raw materials from a company under common control of directors	(i)	<u>1,916</u>	<u>6,377</u>
Purchases of finish goods from an associate	(ii)	<u>84,876</u>	<u>25,498</u>
Loan to an associate	(iii)	<u>-</u>	<u>40,000</u>

Notes:

- (i) The transactions were conducted in accordance with mutually agreed terms. The related party transactions constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.
- (ii) The transactions were conducted in accordance with mutually agreed terms.
- (iii) The loan to an associate is unsecured and bears interest at the rate of 3% per annum, and will be repaid on 31 October 2016.

##### (b) Outstanding balances with related parties

- (i) At the end of the reporting period, the balance owing to the supplier arising from a company under common control of directors was RMB1,000 (2014: RMB1,645,000).
- (ii) Details of the Group's trade balance with the associate as at the end of the reporting period are disclosed in note 25.
- (iii) Details of the Group's loan to the associate as at the end of the reporting period are included in note 19 to the financial statements.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

42. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

In addition to the amounts paid to the Company's directors as disclosed in note 8(a), compensation of other key management personnel of the Group is as follows:

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	38,469	51,202
Pension scheme contributions	1,126	1,016
Equity-settled share option expense	(1,890)	731
Equity-settled share award expense	<u>(2,214)</u>	<u>2,459</u>
Total compensation paid to key management personnel	<u>35,491</u>	<u>55,408</u>

43. FINANCIAL INSTRUMENTS BY CATEGORY

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

2015

Financial assets

	Notes	Held-to- maturity investment RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Bonds receivable	16	-	-	124,003	124,003
Loans receivable	17	-	-	76,880	76,880
Loan to an associate	19	-	-	40,000	40,000
Held-to-maturity investment	20	17,901	-	-	17,901
Non-current time deposits	24	-	-	70,159	70,159
Trade and bills receivables	22	-	-	622,842	622,842
Financial assets included in prepayments, deposits and other receivables		-	-	162,896	162,896
Derivative financial instrument	27	-	2,728	-	2,728
Pledged deposits	24	-	-	1,927,000	1,927,000
Cash and cash equivalents	24	-	-	<u>1,198,235</u>	<u>1,198,235</u>
		<u>17,901</u>	<u>2,728</u>	<u>4,222,015</u>	<u>4,242,644</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2015

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	25	-	618,711	618,711
Financial liabilities included in other payables and accruals		-	1,001,822	1,001,822
Derivative financial instruments	27	19,005	-	19,005
Interest-bearing bank loans	28	-	4,740,450	4,740,450
Convertible bond	29	-	2,659,057	2,659,057
		<u>19,005</u>	<u>9,020,040</u>	<u>9,039,045</u>

2014

Financial assets

	Notes	Held-to-maturity investment RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Bonds receivable	16	-	-	130,302	130,302
Loans receivable	17	-	-	92,988	92,988
Loan to an associate	19	-	-	40,000	40,000
Held-to-maturity investment	20	18,810	-	-	18,810
Non-current time deposits	24	-	-	1,146,183	1,146,183
Trade and bills receivables	22	-	-	12,043	12,043
Financial assets included in prepayments, deposits and other receivables		-	-	88,532	88,532
Derivative financial instrument	27	-	2,570	-	2,570
Cash and cash equivalents	24	-	-	3,347,157	3,347,157
		<u>18,810</u>	<u>2,570</u>	<u>4,857,205</u>	<u>4,878,585</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2014

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	25	-	294,542	294,542
Financial liabilities included in other payables and accruals		-	488,482	488,482
Interest-bearing bank loans	28	-	-	-
Convertible bond	29	-	2,410,526	2,410,526
		<u>-</u>	<u>3,193,550</u>	<u>3,193,550</u>

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
<b>Financial assets</b>				
Derivative financial instrument				
- Convertible option embedded in a loan receivable	<u>2,728</u>	<u>2,570</u>	<u>2,728</u>	<u>2,570</u>
<b>Financial liabilities</b>				
Derivative financial instruments				
- Forward currency contracts	(5,559)	-	(5,559)	-
- Put option embedded in a Roll-up Call Option	<u>(13,446)</u>	-	<u>(13,446)</u>	-
	<u>(19,005)</u>	-	<u>(19,005)</u>	-

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

- (a) The fair values of the non-current time deposits, loans receivable, bonds receivable, held-to maturity investment and convertible bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for convertible bonds, and the suppliers' non-performance risk for loans and bonds receivables as at 31 December 2015 was assessed to be insignificant.
- (b) The convertible option embedded in a loan receivable is measured using valuation techniques of present value calculations using significant unobservable market inputs.
- (c) The derivative financial instrument arising from a put option embedded in the Roll-up Call Option is measured using valuation techniques of Monte Carlo simulation using significant unobservable market inputs.
- (d) The Group enters into forward currency contracts with various counterparties, principally financial institutions. Derivative financial instruments arising from the forward currency contracts are measured using market quoted prices. The carrying amounts of forward currency contracts are the same as their fair values.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instrument—— Convertible option embedded in a loan receivable	Binomial tree model	Weighted average cost of capital (WACC)	12.0% to 13.0%	1% increase in WACC would result in decrease in fair value by RMB915,000 1% decrease in WACC would result in increase in fair value by RMB1,336,000
		Discount rate	9.19% to 9.38%	1% increase in discount would result in increase in fair value by RMB32,000 1% decrease in discount would result in decrease in fair value by RMB33,000
Derivative financial instrument—— Put option embedded in a Roll-up Call option	Monte Carlo simulation	Weighted average cost of capital (WACC)	14.85% to 15.15%	1% increase in WACC would result in increase in fair value by RMB524,000 1% decrease in WACC would result in decrease in fair value by RMB303,000
		Volatility (Vol)	46.57% to 47.51%	1% increase in Vol would result in decrease in fair value by RMB558,000 1% decrease in WACC would result in increase in fair value by RMB588,000

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instrument — Convertible option embedded in a loan receivable:				
As at 31 December 2015	-	-	<u>2,728</u>	<u>2,728</u>
As at 31 December 2014	-	-	<u>2,570</u>	<u>2,570</u>

The movements in fair value measurements within Level 3 during the year are as follows:

	2015 RMB'000	2014 RMB'000
Convertible option embedded in loan receivable:		
At 1 January	2,570	5,936
Total losses recognised in profit or loss	(2)	-
Exchange alignment	<u>160</u>	<u>(3,366)</u>
At 31 December	<u>2,728</u>	<u>2,570</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)**

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2015				
Derivative financial instruments				
—Forward currency contracts	5,559	-	-	5,559
—Put option embedded in a Roll-up Call Option	-	-	13,446	13,446
	<u>5,559</u>	<u>-</u>	<u>13,446</u>	<u>19,005</u>

The movements in fair value measurements within Level 3 during the year are as follows:

	2015 RMB'000	2014 RMB'000
Put option embedded in a Roll-up Call Option:		
At 1 January	-	-
Acquisition (note 27)	358	-
Total losses recognised in profit or loss	13,067	-
Exchange alignment	21	-
At 31 December	<u>13,446</u>	<u>-</u>

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2014: Nil).

**45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

The Group also enters into derivative transactions, e.g. forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### *Interest rate risk*

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2015	50	(4,044)
Year ended 31 December 2015	(50)	4,044
Year ended 31 December 2014	50	1,116
Year ended 31 December 2014	<u>(50)</u>	<u>(1,116)</u>

##### *Foreign currency risk*

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 0.17% (2014: Nil) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 66% (2014: 83.8%) of costs were denominated in the units' functional currencies. Certain operating units of the Group used forward currency contracts to eliminate the foreign currency exposures. The Group also has certain bank balances denominated in AUD, HK\$, US\$ and Euro. In addition, the Group has investments denominated in Euro, and provided loans to suppliers denominated in US\$ and DKK and issued convertible loans in HK\$.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Foreign currency risk (continued)*

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

	Increase/ (decrease) in AUD/US\$/Euro/HK\$/DKK rates	Increase/(decrease) in profit before tax	
		2015 RMB'000	2014 RMB'000
	%		
If the RMB weakens against the US\$	5	1,706	22,591
If the RMB strengthens against the US\$	(5)	(1,706)	(22,591)
If the RMB weakens against the Euro	5	4,531	3,584
If the RMB strengthens against the Euro	(5)	(4,531)	(3,584)
If the RMB weakens against the HK\$	5	(327)	(90,529)
If the RMB strengthens against the HK\$	(5)	327	90,529
If the RMB weakens against the DKK	5	2,477	2,988
If the RMB strengthens against the DKK	(5)	(2,477)	(2,988)
If the AUD weakens against the US\$	5	620	-
If the AUD strengthens against the US\$	(5)	(620)	-
If the AUD weakens against the Euro	5	(1,954)	-
If the AUD strengthens against the Euro	(5)	1,954	-
If the AUD weakens against the NZD	5	3,031	-
If the AUD strengthens against the NZD	(5)	(3,031)	-
If the AUD weakens against the GBP	5	1,092	-
If the AUD strengthens against the GBP	(5)	(1,092)	-

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### *Credit risk*

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

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

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

##### *Liquidity risk*

The Group recorded net current liabilities of RMB2,041 million as at 31 December 2015, which was mainly resulted from the Bridge Loan of approximately RMB2,901 million obtained for the acquisition of 83% equity interests in Swisse as disclosed in note 37 to the financial statements. 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.

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

Except for the convertible bonds of RMB2,659,057,000 and RMB2,410,526,000 as at 31 December 2015 and 31 December 2014 respectively, which are due on 20 February 2019, and other payables and accruals of RMB28,696,000 as at 31 December 2015 which are due in 1 to 5 years, the Group's financial liabilities as at 31 December 2015 and 2014 would be due within 12 months.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2015

#### 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### *Capital management*

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

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

	2015 RMB'000	2014 RMB'000
Total liabilities	<u>10,230,989</u>	<u>3,714,074</u>
Total assets	<u>13,831,582</u>	<u>6,631,161</u>
Liabilities to assets ratio	<u>74%</u>	<u>56%</u>

#### 46. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform to the current year's presentation and disclosures.

#### 47. EVENT AFTER THE END OF THE REPORTING PERIOD

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



**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2015

**48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 RMB'000	2014 RMB'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	23	8
Loans receivable	54,896	53,531
Investments in subsidiaries	4,000,822	3,790,750
Due from subsidiaries	3,646,583	-
Deferred tax assets	<u>355</u>	<u>335</u>
Total non-current assets	<u>7,702,679</u>	<u>3,844,624</u>
<b>CURRENT ASSETS</b>		
Prepayments, deposits and other receivables	4,833	31,393
Due from subsidiaries	1,260,073	1,456,603
Loans to subsidiaries	239,894	1,117,106
Loans receivable	21,984	39,457
Derivative financial instrument	2,728	2,570
Cash and cash equivalents	<u>26,440</u>	<u>477,303</u>
Total current assets	<u>1,555,952</u>	<u>3,124,432</u>
<b>CURRENT LIABILITIES</b>		
Trade payables	36,236	30,567
Due to subsidiaries	923,557	52,294
Other payables and accruals	52,701	13,561
Tax payable	-	1,398
Interest-bearing bank borrowings	<u>974,045</u>	<u>-</u>
Total current liabilities	<u>1,986,539</u>	<u>97,820</u>
NET CURRENT LIABILITIES/ASSETS	<u>(430,587)</u>	<u>3,026,612</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>7,272,092</u>	<u>6,871,236</u>
<b>NON-CURRENT LIABILITIES</b>		
Convertible bonds	<u>2,659,057</u>	<u>2,410,526</u>
Net assets	<u>4,613,035</u>	<u>4,460,710</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	2015 RMB'000	2014 RMB'000
Net assets	<u>4,613,035</u>	<u>4,460,710</u>
EQUITY		
Issued capital	5,387	5,197
Equity component of convertible bonds (note)	66,978	66,978
Reserves (note)	<u>4,540,670</u>	<u>4,388,535</u>
Total equity	<u>4,613,035</u>	<u>4,460,710</u>

Luo Fei

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Director

Chen Fufang

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Director

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2015

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Equity component of convertible bonds RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2014	182,696	-	(67,167)	3,260,270	26,791	35,235	(359,615)	375,309	3,453,519
Total comprehensive income for the year	-	-	-	-	-	-	7,677	1,026,854	1,034,531
Equity-settled share option arrangements	15,325	-	-	-	(1,373)	-	-	-	13,952
Equity-settled share award schemes	-	-	25,026	-	-	(24,373)	-	11,374	12,027
Issue of convertible bonds	-	66,978	-	-	-	-	-	-	66,978
Final 2013 dividend declared	-	-	-	-	-	-	-	(674) <sup>#</sup>	(674)
Special 2013 dividend	-	-	-	-	-	-	-	(505) <sup>#</sup>	(505)
Interim 2014 dividend	-	-	-	-	-	-	-	(124,315)	(124,315)
At 31 December 2014 and 1 January 2015	<u>198,021</u>	<u>66,978</u>	<u>(42,141)</u>	<u>3,260,270</u>	<u>25,418</u>	<u>10,862</u>	<u>(351,938)</u>	<u>1,288,043</u>	<u>4,455,513</u>
Total comprehensive income for the year	-	-	-	-	-	-	261,082	(130,930)	130,152
Issue of shares for the acquisition of Swisse	226,799	-	-	-	-	-	-	-	226,799
Equity-settled share option arrangements	19,005	-	-	-	(18,504)	-	-	696	1,197
Equity-settled share award schemes	-	-	-	-	-	(9,963)	-	-	(9,963)
Final 2014 dividend declared	-	-	-	-	-	-	-	(196,050) <sup>#</sup>	(196,050)
At 31 December 2015	<u>443,825</u>	<u>66,978</u>	<u>(42,141)</u>	<u>3,260,270</u>	<u>6,914</u>	<u>899</u>	<u>(90,856)</u>	<u>961,759</u>	<u>4,607,648</u>

<sup>#</sup> Dividend income arising from the shares held for the share award schemes of RMB1,109,000 is deducted from the aggregate of dividends proposed and paid. Dividend for the new shares issued under the share option arrangements of RMB215,000 is paid from the retained profits.

## **BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

### **NOTES TO FINANCIAL STATEMENTS**

31 December 2015

#### **48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)**

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

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

#### **49. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 29 March 2016.

## Independent auditors' report



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

We have audited the consolidated financial statements of Biostime International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages F172 to F267, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' responsibility for the consolidated financial statements

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

### Auditors' responsibility

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

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

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

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

**Independent auditors' report (continued)**  
**To the shareholders of Biostime International Holdings Limited**  
(Incorporated in the Cayman Islands with limited liability)

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**  
*Certified Public Accountants*

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

24 March 2015

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	5	4,731,563	4,561,299
Cost of sales		<u>(1,804,632)</u>	<u>(1,586,179)</u>
Gross profit		2,926,931	2,975,120
Other income and gains	5	128,065	106,397
Selling and distribution costs		(1,587,764)	(1,513,046)
Administrative expenses		(175,268)	(177,313)
Other expenses		(87,548)	(55,573)
Finance costs	6	(86,673)	(10,589)
Share of profit of an associate	22	592	-
Fine on the violation of Anti-Monopoly Law	7	<u>-</u>	<u>(162,900)</u>
PROFIT BEFORE TAX	8	1,118,335	1,162,096
Income tax expense	10	<u>(311,549)</u>	<u>(341,381)</u>
PROFIT FOR THE YEAR		<u>806,786</u>	<u>820,715</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>(5,581)</u>	<u>(823)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>801,205</u>	<u>819,892</u>
Profit attributable to owners of the parent	11	<u>806,786</u>	<u>820,715</u>
Total comprehensive income attributable to owners of the parent		<u>801,205</u>	<u>819,892</u>

continued...

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		<u>1.34</u>	<u>1.37</u>
Diluted		<u>1.31</u>	<u>1.34</u>

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



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	478,032	326,187
Prepaid land lease payments	15	63,243	64,721
Goodwill	16	76,000	76,000
Intangible assets	17	104,110	109,889
Bonds receivable	18	130,302	98,092
Loans receivable	19	53,531	85,497
Deposits	20	15,741	14,755
Investment in an associate	22	40,592	-
Loan to an associate	22	40,000	-
Held-to-maturity investment	23	18,810	21,240
Time deposits	27	1,146,183	854,874
Deferred tax assets	32	128,896	123,892
Total non-current assets		<u>2,295,440</u>	<u>1,775,147</u>
<b>CURRENT ASSETS</b>			
Inventories	24	797,027	971,893
Trade and bills receivables	25	12,043	15,182
Prepayments, deposits and other receivables	26	137,467	110,935
Due from directors	42	-	2,000
Loans receivable	19	39,457	27,090
Derivative financial instrument	19	2,570	5,936
Restricted bank deposit	27	-	70,000
Cash and cash equivalents	27	<u>3,347,157</u>	<u>1,662,836</u>
Total current assets		<u>4,335,721</u>	<u>2,865,872</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	28	294,542	361,634
Other payables and accruals	29	737,494	719,838
Interest-bearing bank loans	30	-	750,613
Tax payable		<u>235,588</u>	<u>212,725</u>
Total current liabilities		<u>1,267,624</u>	<u>2,044,810</u>
NET CURRENT ASSETS		<u>3,068,097</u>	<u>821,062</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,363,537</u>	<u>2,596,209</u>

continued...

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,363,537</u>	<u>2,596,209</u>
NON-CURRENT LIABILITIES			
Convertible bonds	31	2,410,526	-
Deferred tax liabilities	32	<u>35,924</u>	<u>80,616</u>
Total non-current liabilities		<u>2,446,450</u>	<u>80,616</u>
Net assets		<u>2,917,087</u>	<u>2,515,593</u>
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Issued capital	34	5,197	5,161
Equity component of convertible bonds	31	66,978	-
Reserves	37(a)	2,647,968	2,143,222
Proposed dividends	12	<u>196,944</u>	<u>367,210</u>
Total equity		<u>2,917,087</u>	<u>2,515,593</u>

**Luo Fei**

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*Director*

**Kong Qingjuan**

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*Director*

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Year ended 31 December 2014

	Attributable to owners of the parent												
	Issued capital RMB'000	Share premium account RMB'000	Share component of convertible bonds RMB'000	Equity Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
At 1 January 2013	5,161	390,649	-	(30,595)	26,992	95	167,307	16,716	22,985	(58,920)	1,368,215	413,957	2,322,652
Profit for the year	-	-	-	-	-	-	-	-	-	-	820,715	-	820,715
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(823)	-	-	(823)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	(823)	820,715	-	819,892
Transfer to statutory reserve funds	-	-	-	-	-	-	137,217	-	-	-	(137,217)	-	-
Equity-settled share option arrangements	-	-	-	-	-	-	-	10,075	-	-	-	-	10,075
Shares purchased for the Share Award Scheme	-	-	-	(64,093)	-	-	-	-	-	-	-	-	(64,093)
Equity-settled Share Award Scheme	-	-	-	27,431	-	-	-	-	12,250	-	9,296	-	48,977
Final 2012 dividend declared	-	1,036 <sup>#</sup>	-	-	-	-	-	-	-	-	-	(189,933)	(188,897)
Special 2012 dividend declared	-	1,221 <sup>#</sup>	-	-	-	-	-	-	-	-	-	(224,024)	(222,803)
Interim 2013 dividend	-	(119,437)	-	-	-	-	-	-	-	-	-	-	(119,437)
Interim 2013 special dividend	-	(90,773)	-	-	-	-	-	-	-	-	-	-	(90,773)
Proposed final 2013 dividend	-	-	-	-	-	-	-	-	-	-	(209,834)	209,834	-
Proposed special 2013 dividend	-	-	-	-	-	-	-	-	-	-	(157,376)	157,376	-
At 31 December 2013	5,161	182,696	-	(67,167)	26,992	95	304,524	26,791	35,235	(59,743)	1,693,799	367,210	2,515,593

continued/...

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2014

	Attributable to owners of the parent												
	Issued capital RMB'000	Share premium account RMB'000	Equity component of convertible bonds RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
At 1 January 2014	5,161	182,696	-	(67,167)	26,992	95	304,524	26,791	35,235	(59,743)	1,693,799	367,210	2,515,593
Profit for the year	-	-	-	-	-	-	-	-	-	-	806,786	-	806,786
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(5,581)	-	-	(5,581)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	(5,581)	806,786	-	801,205
Transfer to statutory reserve funds	-	-	-	-	-	-	42,100	-	-	-	(42,100)	-	-
Equity-settled share option arrangements	19	15,325	-	-	-	-	-	(1,373)	-	-	-	-	13,971
Equity-settled Share Award Scheme	17	-	-	25,026	-	-	-	-	(24,373)	-	11,374	-	12,044
Issue of convertible bonds	31	-	66,978	-	-	-	-	-	-	-	-	-	66,978
Final 2013 dividend declared	12	-	-	-	-	-	-	-	-	-	(674) <sup>#</sup>	(209,834)	(210,508)
Special 2013 dividend declared	12	-	-	-	-	-	-	-	-	-	(505) <sup>#</sup>	(157,376)	(157,881)
Interim 2014 dividend	12	-	-	-	-	-	-	-	-	-	(124,315)	-	(124,315)
Proposed final 2014 dividend	12	-	-	-	-	-	-	-	-	-	(196,944)	196,944	-
At 31 December 2014	5,197	198,021 <sup>*</sup>	66,978	(42,141) <sup>*</sup>	26,992 <sup>*</sup>	95 <sup>*</sup>	346,624 <sup>*</sup>	25,418 <sup>*</sup>	10,862 <sup>*</sup>	(65,324) <sup>*</sup>	2,147,421 <sup>*</sup>	196,944	2,917,087

\* These reserve accounts comprise the consolidated other reserves of RMB2,647,968,000 (2013: RMB2,143,222,000) in the consolidated statement of financial position.

# Dividend income arising from the shares held for the Share Award Scheme is deducted from the aggregate of dividends proposed and paid. Dividend for the new shares issued under the share option arrangements is paid from the retained profits.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		1,118,335	1,162,096
Adjustments for:			
Bank interest income	5	(105,034)	(82,932)
Interest income from loans and bonds receivable	5	(8,085)	(4,654)
Finance costs	6	86,673	10,589
Share of profit of an associate	22	(592)	-
Depreciation	8	41,879	25,665
Amortisation of intangible assets	8	7,310	480
Amortisation of prepaid land lease payments	8	1,478	419
Loss on disposal of items of property, plant and equipment	8	97	36
Write-down of inventories to net realisable value	8	984	3,707
Equity-settled share option expense	8	4,488	10,075
Equity-settled share award expense	8	12,044	48,977
		<u>1,159,577</u>	<u>1,174,458</u>
Decrease/(increase) in inventories		173,882	(452,333)
Decrease/(increase) in trade and bills receivables		3,139	(14,810)
Decrease/(increase) in prepayments, deposits and other receivables		13,340	(795)
(Decrease)/increase in trade and bills payables		(67,093)	98,516
Increase in other payables and accruals		25,998	205,226
Decrease/(increase) in amounts due from directors		2,000	(2,000)
Increase in rental deposits		(289)	(321)
		<u>1,310,554</u>	<u>1,007,941</u>
Cash generated from operations		<u>1,310,554</u>	<u>1,007,941</u>
Corporate income tax paid		<u>(338,382)</u>	<u>(347,468)</u>
Net cash flows from operating activities		<u>972,172</u>	<u>660,473</u>

continued/...

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000 (Restated)
Net cash flows from operating activities		<u>972,172</u>	<u>660,473</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		(134,597)	(135,700)
Proceeds from disposal of items of property, plant and equipment		1,678	122
Additions to intangible assets		(13,824)	(2,230)
Acquisition of a subsidiary	38	-	(350,000)
Held-to-maturity investment	23	-	(21,240)
Investment in bonds and loans receivable		(48,847)	(98,092)
Loan to an associate	22	(40,000)	-
Repayment of loans receivable		31,050	9,212
Interest received		77,455	59,540
Investment in an associate	22	(40,000)	-
(Increase)/decrease in time deposits with original maturity of three months or more when acquired	27	(2,000)	370,451
(Increase)/decrease in non-current time deposits	27	<u>(291,309)</u>	<u>87,188</u>
Net cash flows used in investing activities		<u>(460,394)</u>	<u>(80,749)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of convertible bonds		2,414,370	-
Exercise of share options	35	9,483	-
Purchase of shares held under the Share Award Scheme		-	(64,093)
New bank loans		-	645,186
Repayment of bank loans		(750,613)	(165,099)
Interest paid		(8,690)	(8,758)
Dividends paid to owners of the parent		<u>(492,703)</u>	<u>(621,910)</u>
Net cash flows from/(used in) financing activities		<u>1,171,847</u>	<u>(214,674)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		764,836	400,615
Effect of foreign exchange rate changes, net		<u>(1,304)</u>	<u>(829)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>2,447,157</u></u>	<u><u>764,836</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	27	<u><u>2,447,157</u></u>	<u><u>764,836</u></u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	8	5
Loans receivable	19	53,531	85,497
Investments in subsidiaries	21	3,790,750	3,763,629
Deferred tax assets	32	<u>335</u>	<u>334</u>
Total non-current assets		<u>3,844,624</u>	<u>3,849,465</u>
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	26	31,393	26,989
Due from subsidiaries	21	1,456,603	567,783
Loans to subsidiaries	21	1,117,106	-
Loans receivable	19	39,457	27,090
Derivative financial instrument	19	2,570	5,936
Cash and cash equivalents	27	<u>477,393</u>	<u>174,253</u>
Total current assets		<u>3,124,432</u>	<u>802,051</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	28	30,567	39,511
Due to subsidiaries	21	52,294	26,878
Other payables and accruals	29	13,561	7,231
Tax payable		1,398	1,393
Interest-bearing bank loans	30	<u>-</u>	<u>750,613</u>
Total current liabilities		<u>97,820</u>	<u>825,626</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>3,026,612</u>	<u>(23,575)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,871,236</u>	<u>3,825,890</u>
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds	31	<u>2,410,526</u>	<u>-</u>
Net assets		<u><u>4,460,710</u></u>	<u><u>3,825,890</u></u>

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BIOSTIME INTERNATIONAL HOLDINGS LIMITED

STATEMENT OF FINANCIAL POSITION (continued)

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Net assets		<u>4,460,710</u>	<u>3,825,890</u>
EQUITY			
Issued capital	34	5,197	5,161
Equity component of convertible bonds	31	66,978	-
Reserves	37(b)	4,191,591	3,453,519
Proposed dividends	12	<u>196,944</u>	<u>367,210</u>
Total equity		<u>4,460,710</u>	<u>3,825,890</u>

Luo Fei

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Director

Kong Qingjuan

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Director



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 1. CORPORATE INFORMATION

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

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

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

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.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 1. CORPORATE INFORMATION (continued)

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.

#### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board (the "IASB"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance (Cap.32).

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.

##### **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 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.1 BASIS OF PREPARATION (continued)

##### Basis of consolidation (continued)

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

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised)	<i>Investment Entities</i>
Amendments to IAS 32	<i>Offsetting Financial Assets And Financial Liabilities</i>
Amendments to IAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>
Amendments to IFRS 2 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Definition of Vesting Condition<sup>1</sup></i>
Amendments to IFRS 3 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Accounting for Contingent Consideration in a Business Combination<sup>1</sup></i>
Amendments to IFRS 13 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendments to IFRS 1 included in <i>Annual Improvements 2011-2013 Cycle</i>	<i>Meaning of Effective IFRSs</i>

<sup>1</sup>Effective from 1 July 2014

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

IFRS 9	<i>Financial Instruments</i> <sup>4</sup>
Amendments to IFRS 10 and IAS 28 (Revised)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28 (Revised)	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>2</sup>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>2</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>5</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
Amendments to IAS 1	<i>Disclosure Initiative</i> <sup>2</sup>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> <sup>2</sup>
Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
Amendments to IAS 27 (Revised)	<i>Equity Method in Separate Financial Statements</i> <sup>2</sup>
<i>Annual Improvements 2010-2012 Cycle</i>	<i>Amendments to a number of IFRSs</i> <sup>1</sup>
<i>Annual Improvements 2011-2013 Cycle</i>	<i>Amendments to a number of IFRSs</i> <sup>1</sup>
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of IFRSs</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>5</sup> Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to IFRS 10 and IAS 28 (Revised) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (Revised) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)**

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle sets out amendments to a number of IFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

*IFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

The Annual Improvements to IFRSs 2012–2014 Cycle sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2016. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Subsidiaries

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

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

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

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

##### Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associate are included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investment in an associate.

The results of an associate are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in an associate is treated as non-current assets and is stated at cost less any impairment losses.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Business combinations and goodwill**

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

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

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

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

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

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Business combinations and goodwill (continued)**

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

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

##### **Fair value measurement**

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

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

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

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

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

## **BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

### **NOTES TO FINANCIAL STATEMENTS**

31 December 2014

#### **2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Fair value measurement (continued)**

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

##### **Impairment of non-financial assets**

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

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Related parties**

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

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Property, plant and equipment and depreciation

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

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

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

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Intangible assets (other than goodwill)**

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

##### *Computer software*

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

##### *License*

License is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 18 years.

##### *Research and development costs*

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

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

##### **Operating leases**

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

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

##### **Investments and other financial assets**

##### *Initial recognition and measurement*

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Investments and other financial assets (continued)**

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

##### *Subsequent measurement*

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

##### *Financial assets at fair value through profit or loss*

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

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

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

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

##### *Loans and receivables*

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investments and other financial assets (continued)

###### *Held-to-maturity investments*

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

##### Derecognition of financial assets

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Impairment of financial assets

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

##### *Financial assets carried at amortised cost*

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

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

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

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Financial liabilities**

###### *Initial recognition and measurement*

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

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

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

###### *Subsequent measurement*

###### *Loans and borrowings*

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

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

##### **Convertible bonds**

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Derecognition of financial liabilities**

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

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

**Inventories**

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

**Cash and cash equivalents**

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

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

## **BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

### **NOTES TO FINANCIAL STATEMENTS**

31 December 2014

#### **2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Provisions**

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

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

##### **Customer loyalty program**

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

##### **Income tax**

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Government grants

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

##### Revenue recognition

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

- (a) from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

##### Share-based payment

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. Further details of fair values are given in notes 35 and 36 to the financial statements.

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Share-based payment (continued)**

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

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Other employee benefits

###### *Pension schemes*

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

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

##### Borrowing costs

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

##### Dividends

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Foreign currencies

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

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

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

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

##### **Judgements**

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

##### *Tax provisions*

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

##### *Deferred tax assets*

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

##### *Deferred tax liabilities*

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

If those undistributed earnings of the subsidiaries in Mainland China are considered to be repatriated and distributed by way of dividends, the deferred income tax charge and deferred income tax liability would have been increased by the same amount of approximately RMB55,715,000.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

**Estimation uncertainties**

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 16 to the financial statements.

*Provision for obsolete inventories*

Management reviews the aged analysis of inventories of the Group at each reporting date, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale or that will be sold below cost. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2014, the carrying amounts of inventories were approximately RMB797,027,000 (2013: RMB971,893,000) after netting off the allowance for inventories of approximately RMB5,953,000 (2013: RMB4,969,000).

*Deferred income*

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

*Impairment of loans and receivables*

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 4. OPERATING SEGMENT INFORMATION

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

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

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

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

During the years ended 31 December 2014 and 2013, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2014:

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2013:

	Infant formulas RMB'000	Probiotic supplements RMB'000	Dried baby food and nutrition supplements RMB'000	Baby care products RMB'000	Unallocated RMB'000	Total RMB'000
<b>Segment revenue:</b>						
Sales to external customers	<u>3,752,116</u>	<u>458,164</u>	<u>198,778</u>	<u>152,241</u>	<u>-</u>	<u>4,561,299</u>
<b>Segment results</b>	2,421,955	360,182	110,530	82,453	-	2,975,120
<i>Reconciliations:</i>						
Interest income						87,586
Other income and unallocated gains						18,811
Corporate and other unallocated expenses						(1,908,832)
Finance costs						<u>(10,589)</u>
Profit before tax						<u>1,162,096</u>
<b>Other segment information:</b>						
Depreciation and amortisation	<u>823</u>	<u>2,039</u>	<u>893</u>	<u>160</u>	<u>22,649</u>	<u>26,564</u>
Write-down/(back) of inventories to net realisable value	<u>3,430</u>	<u>35</u>	<u>431</u>	<u>(189)</u>	<u>-</u>	<u>3,707</u>
Capital expenditure*	<u>294,945<sup>#</sup></u>	<u>3,978</u>	<u>321</u>	<u>42</u>	<u>130,914</u>	<u>430,200<sup>#</sup></u>

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

<sup>#</sup> Capital expenditure of infant formulas segment has been restated as the purchase price allocation for the business combination has been completed in the year ended 31 December 2014. Further details of the acquisition are included in note 38 to the financial statements.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 5. REVENUE, OTHER INCOME AND GAINS

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

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

	2014 RMB'000	2013 RMB'000
<b>Revenue</b>		
Sale of goods	<u>4,731,563</u>	<u>4,561,299</u>
<b>Other income and gains</b>		
Bank interest income	105,034	82,932
Interest income from loans and bonds receivable	8,085	4,654
Foreign exchange gain	-	14,021
Service income	1,239	1,193
Government subsidies	10,581	1,218
Others	<u>3,126</u>	<u>2,379</u>
	<u>128,065</u>	<u>106,397</u>

#### 6. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest on bank loans	8,690	10,589
Interest on convertible bonds	<u>77,983</u>	<u>-</u>
	<u>86,673</u>	<u>10,589</u>

#### 7. FINE ON THE VIOLATION OF ANTI-MONOPOLY LAW

On 6 August 2013, BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, received an Administrative Punishment Decision (the "Decision") issued by the National Development and Reform Commission of the PRC (the "NDRC"). According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the Anti-Monopoly Law of the PRC (the "PRC AML") by providing fixed prices for its products in its distribution agreements with its distributors, and therefore should be subject to a fine in the amount of RMB162.9 million according to Article 46 of the PRC AML, which approximated to 6% of the sales of infant formula for the year 2012.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**8. PROFIT BEFORE TAX**

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

	Notes	2014 RMB'000	2013 RMB'000
Cost of inventories sold		1,803,648	1,582,472
Depreciation	14	41,879	25,665
Amortisation of intangible assets	17	7,310	480
Amortisation of land lease payments	15	1,478	419
Auditors' remuneration		2,900	2,730
Research and development costs*		49,724	43,725
Minimum lease payments under operating leases in respect of buildings		55,255	38,371
Loss on disposal of items of property, plant and equipment		97	36
Employee benefit expenses (including directors' and chief executive's remuneration (note g(a)):			
Wages and salaries		558,308	671,031
Pension scheme contributions (defined contribution schemes)		109,087	78,797
Staff welfare and other expenses		31,926	31,783
Equity-settled share option expense	35	4,488	10,075
Equity-settled share award expense	36	<u>12,044</u>	<u>48,977</u>
		<u>715,853</u>	<u>840,663</u>
Foreign exchange differences, net		8,187	(14,021)
Write-down of inventories to net realisable value <sup>#</sup>		<u>984</u>	<u>3,707</u>

\* 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.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

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

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014 RMB'000	2013 RMB'000
Fees	<u>1,780</u>	<u>1,780</u>
Other emoluments:		
Salaries, allowances and benefits in kind	4,123	3,007
Performance-related bonuses	9,445	10,266
Equity-settled share option expense	288	457
Equity-settled share award expense	411	2,017
Pension scheme contributions	<u>134</u>	<u>124</u>
	<u>14,401</u>	<u>15,871</u>
	<u><u>16,181</u></u>	<u><u>17,651</u></u>

In prior years, share options were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 35 to the financial statements. Besides, share awards were granted to the directors and chief executive in respect of their services to the Group, further details of which are set out in note 36 to the financial statements. The fair value of these options and share awards, which has been recognised in the statement of profit or loss and other comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

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

The remuneration of each of the directors and the chief executive for the year ended 31 December 2014 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance -related bonuses RMB'000	Equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2014							
<i>Executive directors:</i>							
Mr. Luo Fei (Chief executive)	200	2,740	6,311	178	261	67	9,757
Ms. Kong Qingjuan	<u>200</u>	<u>1,383</u>	<u>3,134</u>	<u>110</u>	<u>150</u>	<u>67</u>	<u>5,044</u>
	<u>400</u>	<u>4,123</u>	<u>9,445</u>	<u>288</u>	<u>411</u>	<u>134</u>	<u>14,801</u>
<i>Non-executive directors:</i>							
Mr. Luo Yun	120	-	-	-	-	-	120
Mr. Wu Xiong	120	-	-	-	-	-	120
Mr. Chen Fufang	120	-	-	-	-	-	120
Dr. Zhang Wenhui	<u>120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120</u>
	<u>480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>480</u>
<i>Independent non-executive directors:</i>							
Mr. Ngai Wai Fung	300	-	-	-	-	-	300
Mr. Tan Wee Seng	300	-	-	-	-	-	300
Professor Xiao Baichun	<u>300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300</u>
	<u>900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>900</u>
	<u>1,780</u>	<u>4,123</u>	<u>9,445</u>	<u>288</u>	<u>411</u>	<u>134</u>	<u>16,181</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

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

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

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

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

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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

(b) Five highest paid employees

The five highest paid employees during the year included two (2013: two) directors, details of whose remuneration are set out in note 9(a) above. Details of the remuneration for the year of the remaining three (2013: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2014 RMB'000	2013 RMB'000
Salaries, allowances and benefits in kind	4,037	2,569
Performance-related bonuses	10,328	13,722
Equity-settled share option expense	257	409
Equity-settled share award expense	681	2,070
Pension scheme contributions	<u>200</u>	<u>185</u>
	<u><u>15,503</u></u>	<u><u>18,955</u></u>

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

	2014	2013
HK\$5,000,001 to HK\$5,500,000	1	-
HK\$6,500,001 to HK\$7,000,000	1	-
HK\$7,000,001 to HK\$7,500,000	-	1
HK\$7,500,001 to HK\$8,000,000	1	1
HK\$9,000,001 to HK\$9,500,000	<u>-</u>	<u>1</u>
	<u><u>3</u></u>	<u><u>3</u></u>

In prior years, share options were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. Besides, share awards were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are set out in note 36 to the financial statements. The fair value of these share options and share awards, which has been recognised in the consolidated statement of profit or loss and other comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 10. INCOME TAX

	2014 RMB'000	2013 RMB'000
Group:		
Current -- Charge for the year		
Mainland China	355,130	395,819
Hong Kong	5,759	8,401
France	356	183
Deferred (note 32)	<u>(49,696)</u>	<u>(63,022)</u>
Total tax charge for the year	<u>311,549</u>	<u>341,381</u>

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

#### Hong Kong profits tax

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

#### 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.

#### France corporate income tax

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED****NOTES TO FINANCIAL STATEMENTS**

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**10. INCOME TAX (continued)**

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

	2014 RMB'000	2013 RMB'000
Group:		
Profit before tax	<u>1,118,335</u>	<u>1,162,096</u>
Tax at the applicable PRC enterprise income tax rate	279,584	290,524
Overseas tax differential	2,357	(3,902)
Expenses not deductible for tax	18,280	57,940
Income not subject to tax	(5,194)	(1,049)
Tax losses not recognised	2,370	5,313
Effect of withholding tax at 5% (2013: 5%) on the distributable profits of the Group's subsidiaries in Mainland China	14,152	30,569
Refund of withholding tax payment at a lower rate of 5%	<u>-</u>	<u>(38,014)</u>
Tax charge at the Group's effective rate	<u>311,549</u>	<u>341,381</u>

**11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT**

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a profit of RMB1,026,854,000 (2013: a profit of RMB479,710,000) which has been dealt with in the financial statements of the Company (note 37(b)).

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 12. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Dividends on ordinary shares declared and paid during the year:		
Interim -- HK\$0.26 (2013: HK\$0.25) per ordinary share	124,315	119,437
Interim special -- nil (2013: HK\$0.19) per ordinary share	-	90,773
Proposed final -- HK\$0.41 (2013: HK\$0.44) per ordinary share	196,944	209,834
Proposed special -- nil (2013: HK\$0.33) per ordinary share	<u>-</u>	<u>157,376</u>
	<u>321,259</u>	<u>577,420</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 602,326,189 (2013: 599,639,595) in issue during the year.

The calculation of the diluted earnings per share amount for the year is based on the year for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the 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.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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**13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)**

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

	2014 RMB'000	2013 RMB'000
<b><u>Earnings</u></b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>806,786</u>	<u>820,715</u>

	<b>Number of Shares</b>	
<b><u>Shares</u></b>		
Weighted average number of ordinary shares in issue	604,420,682	602,294,000
Weighted average number of shares held for the Share Award Schemes	<u>(2,094,493)</u>	<u>(2,654,405)</u>
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	<u>602,326,189</u>	<u>599,639,595</u>
Effect of dilution -- weighted average number of ordinary shares:		
Share options and awarded shares	<u>11,632,885</u>	<u>13,480,561</u>
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	<u>613,959,074</u>	<u>613,120,156</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve- ments RMB'000	Con- struction in progress RMB'000	Total RMB'000
<b>Cost:</b>							
At 1 January 2014	89,337	64,325	85,379	33,889	14,461	113,039	400,430
Additions	14	6,616	16,730	14,916	286	156,996	195,558
Disposals	-	(11)	(1,274)	(1,876)	-	-	(3,161)
Transfers	-	1,322	-	-	-	(1,322)	-
Exchange alignment	-	(83)	(21)	-	-	-	(104)
At 31 December 2014	<u>89,351</u>	<u>72,169</u>	<u>100,814</u>	<u>46,929</u>	<u>14,747</u>	<u>268,713</u>	<u>592,723</u>
<b>Accumulated depreciation:</b>							
At 1 January 2014	-	8,786	36,988	16,333	12,136	-	74,243
Depreciation provided during the year	4,960	7,177	21,051	6,875	1,816	-	41,879
Disposals	-	(5)	(1,117)	(264)	-	-	(1,386)
Exchange alignment	-	(33)	(12)	-	-	-	(45)
At 31 December 2014	<u>4,960</u>	<u>15,925</u>	<u>56,910</u>	<u>22,944</u>	<u>13,952</u>	-	<u>114,691</u>
<b>Net carrying amount:</b>							
At 31 December 2014	<u>84,391</u>	<u>56,244</u>	<u>43,904</u>	<u>23,985</u>	<u>795</u>	<u>268,713</u>	<u>478,032</u>



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve- ments RMB'000	Con- struction in progress RMB'000	Total RMB'000
<b>Cost:</b>							
At 1 January 2013	-	17,998	57,060	30,986	14,018	6,554	126,616
Additions	-	256	19,581	3,049	446	106,485	129,817
Acquisition of a subsidiary (note 38) (Restated)	89,337	46,076	9,700	-	-	-	145,113
Disposals	-	(14)	(964)	(146)	-	-	(1,124)
Exchange alignment	-	9	2	-	(3)	-	8
At 31 December 2013 (Restated)	<u>89,337</u>	<u>64,325</u>	<u>85,379</u>	<u>33,889</u>	<u>14,461</u>	<u>113,039</u>	<u>400,430</u>
<b>Accumulated depreciation:</b>							
At 1 January 2013	-	6,814	22,958	10,945	8,825	-	49,542
Depreciation provided during the year	-	1,980	14,852	5,519	3,314	-	25,665
Disposals	-	(12)	(823)	(131)	-	-	(966)
Exchange alignment	-	4	1	-	(3)	-	2
At 31 December 2013	-	<u>8,786</u>	<u>36,988</u>	<u>16,333</u>	<u>12,136</u>	-	<u>74,243</u>
<b>Net carrying amount:</b>							
At 31 December 2013 (Restated)	<u>89,337</u>	<u>55,539</u>	<u>48,391</u>	<u>17,556</u>	<u>2,325</u>	<u>113,039</u>	<u>326,187</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvement RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
<b>Cost:</b>			
At 1 January 2014	86	-	86
Additions	-	6	6
Exchange alignment	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2014	<u>86</u>	<u>6</u>	<u>92</u>
<b>Accumulated depreciation:</b>			
At 1 January 2014	81	-	81
Depreciation provided during the year	2	1	3
Exchange alignment	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2014	<u>83</u>	<u>1</u>	<u>84</u>
<b>Net carrying amount:</b>			
At 31 December 2014	<u><u>3</u></u>	<u><u>5</u></u>	<u><u>8</u></u>
<b>Cost:</b>			
At 1 January 2013	89	-	89
Additions	-	-	-
Exchange alignment	<u>(3)</u>	<u>-</u>	<u>(3)</u>
At 31 December 2013	<u>86</u>	<u>-</u>	<u>86</u>
<b>Accumulated depreciation:</b>			
At 1 January 2013	82	-	82
Depreciation provided during the year	2	-	2
Exchange alignment	<u>(3)</u>	<u>-</u>	<u>(3)</u>
At 31 December 2013	<u>81</u>	<u>-</u>	<u>81</u>
<b>Net carrying amount:</b>			
At 31 December 2013	<u><u>5</u></u>	<u><u>-</u></u>	<u><u>5</u></u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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15. PREPAID LAND LEASE PAYMENTS

	Group	
	2014 RMB'000	2013 RMB'000 (Restated)
Carrying amount at 1 January	66,199	20,566
Acquisition of a subsidiary (note 38)	-	46,052
Recognised during the year (note 8)	<u>(1,478)</u>	<u>(419)</u>
Carry amount at 31 December	64,721	66,199
Current portion included in prepayments, deposits and other receivables (note 26)	<u>(1,478)</u>	<u>(1,478)</u>
Non-current portion	<u><u>63,243</u></u>	<u><u>64,721</u></u>

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

16. GOODWILL

	Group	
	2014 RMB'000	2013 RMB'000 (Restated)
<b>Cost:</b>		
At 1 January	76,000	-
Acquisition of a subsidiary (note 38)	<u>-</u>	<u>76,000</u>
At 31 December	<u>76,000</u>	<u>76,000</u>
<b>Accumulated impairment:</b>		
At 1 January	-	-
Impairment provided during the year	<u>-</u>	<u>-</u>
At 31 December	<u>-</u>	<u>-</u>
<b>Net carrying amount:</b>		
At 31 December	<u><u>76,000</u></u>	<u><u>76,000</u></u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 16. GOODWILL (continued)

##### Impairment testing of goodwill

Goodwill acquired through business combination is allocated to the infant formulas cash-generating unit for impairment testing.

The recoverable amount of the infant formula products 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. The discount rate applied to the cash flow projections is 13.93%. The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 3%, taking into account of the industry growth rate, past experience and the medium or long term growth target of the infant formula products cash-generating unit.

Assumptions were used in the value in use calculation of the infant formulas cash-generating units for 31 December 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*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 unit.

*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 infant formulas, discount rates and raw materials price inflation are consistent with external information sources.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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17. INTANGIBLE ASSETS

	Computer software RMB'000	License RMB'000	Total RMB'000
<b>Cost:</b>			
At 1 January 2014	7,572	103,780	111,352
Additions during the year	<u>1,531</u>	<u>-</u>	<u>1,531</u>
At 31 December 2014	9,103	103,780	112,883
<b>Accumulated amortisation:</b>			
At 1 January 2014	1,463	-	1,463
Amortisation provided during the period	<u>1,544</u>	<u>5,766</u>	<u>7,310</u>
At 31 December 2014	<u>3,007</u>	<u>5,766</u>	<u>8,773</u>
<b>Net carrying amount:</b>			
At 31 December 2014	<u>6,096</u>	<u>98,014</u>	<u>104,110</u>
<b>Cost:</b>			
At 1 January 2013	2,134	-	2,134
Additions during the year	5,438	-	5,438
Acquisition of a subsidiary (Restated) (note 38)	<u>-</u>	<u>103,780</u>	<u>103,780</u>
At 31 December 2013	<u>7,572</u>	<u>103,780</u>	<u>111,352</u>
<b>Accumulated amortisation:</b>			
At 1 January 2013	983	-	983
Amortisation provided during the year	<u>480</u>	<u>-</u>	<u>480</u>
At 31 December 2013	<u>1,463</u>	<u>-</u>	<u>1,463</u>
<b>Net carrying amount:</b>			
At 31 December 2013 (Restated)	<u>6,109</u>	<u>103,780</u>	<u>109,889</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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**18. BONDS RECEIVABLE**

	Group	
	2014 RMB'000	2013 RMB'000
Bonds receivable	<u>130,302</u>	<u>98,092</u>

The Group entered into a Bond Subscription Agreement with Isigny Sainte Mère ("ISM") on 30 July 2013, pursuant to which ISM would issue, and the Group would subscribe for 17,477,075 bonds, with a nominal value of EUR1 per bond, in three separate tranches, at the subscription price equal to the nominal value of the bonds. As at 31 December 2014, the Group has subscribed for 17,477,075 bonds (2013: 11,651,384 bonds).

The bonds bear interest at a rate of 5% per annum on the outstanding principal amount of the bonds. The maturity date of the bonds shall be 30 July 2023, 10 years from the date of the Bond Subscription Agreement.

**19. LOANS RECEIVABLE AND DERIVATIVE FINANCIAL INSTRUMENT**

			Group and the Company	
			2014 RMB'000	2013 RMB'000
Current portion of loans receivable			39,457	27,090
Loans receivable due after one year			<u>53,531</u>	<u>85,497</u>
Total loans receivable			<u>92,988</u>	<u>112,587</u>
Derivative financial instrument			<u>2,570</u>	<u>5,936</u>
	Effective interest rate	Maturity	2014 RMB'000	2013 RMB'000
Denominated in United States dollars (the "US\$")	3.00%	By instalments before December 2018	32,654	33,863
Denominated in Danish kroner (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	<u>60,334</u>	<u>78,724</u>
Total loans receivable			<u>92,988</u>	<u>112,587</u>

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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**19. LOANS RECEIVABLE AND DERIVATIVE FINANCIAL INSTRUMENT (continued)**

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

The convertible loan is separated into two components: the debt element and the conversion option element. The Group has classified the debt element and the conversion option element as loan receivable and derivative financial instrument, respectively. The fair value of the conversion option at 31 December 2014 was RMB2,570,000 (31 December 2013: RMB5,936,000).

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

**20. DEPOSITS**

	<b>Group</b>	
	2014 RMB'000	2013 RMB'000
Deposits paid for purchase of items of property, plant and equipment	9,809	9,112
Rental deposits	<u>5,932</u>	<u>5,643</u>
	<u><u>15,741</u></u>	<u><u>14,755</u></u>

**21. INVESTMENTS IN SUBSIDIARIES**

	<b>Company</b>	
	2014 RMB'000	2013 RMB'000
Unlisted investments, at cost	3,660,325	3,648,075
Capital contribution in respect of employee share-based compensation	<u>130,425</u>	<u>115,554</u>
	<u><u>3,790,750</u></u>	<u><u>3,763,629</u></u>
Loans to subsidiaries	<u><u>1,117,106</u></u>	<u><u>-</u></u>

Loans to subsidiaries bear interest at 3% to 3.5% per annum and repayable within one year.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 21. INVESTMENTS IN SUBSIDIARIES (continued)

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB1,456,603,000 (2013: RMB567,783,000) and RMB52,294,000 (2013: RMB26,878,000), respectively, are unsecured, interest-free and are payable on demand.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BiosTime, Inc. (Guangzhou) ("BiosTime Guangzhou")*	PRC/Mainland China	US\$73,010,000	100%	-	Research, development, processing of meat, fruit and vegetable powder and candy, sale of nutritional food, milk formulas and personal care products for infants and adults
Biostime (Guangzhou) Health Products Limited ("Biostime Health")*	PRC/Mainland China	US\$34,100,000	100%	-	Research, development, manufacture and sale of health products and special nutritional foods
BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou")*	PRC/Mainland China	US\$1,000,000	100%	-	Wholesale, retail and import and export of personal care products for infants
Biostime Pharma	France	EUR10,000	100%	-	Trading of infant food and nutritional products
Biostime (Guangzhou) Education Management Inc. ("Biostime Education")*	PRC/Mainland China	US\$2,000,000	100%	-	Early childhood education advisory business and trading of related baby suppliers
Biostime International Investment Limited ("Biostime Investment")	BVI	US\$814,999	100%	-	Overseas investments, financing and other business cooperation



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**21. INVESTMENTS IN SUBSIDIARIES (continued)**

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Biostime Hong Kong Limited ("Biostime HK")	Hong Kong	HK\$126,534,300	-	100%	Investment holding, international investment, trading and sales
Parenting Power International Holdings Limited ("Parenting Power Holdings")	Cayman Islands	HK\$0.01	100%	-	Parenting education advisory business, trading and sales
Parenting Power Investment Limited ("Parenting Power Investment")	BVI	USD1	-	100%	Overseas investments, financing and other business cooperation
Parenting Power Hong Kong Limited ("Parenting Power HK")	Hong Kong	HK\$1	-	100%	Holding, investment, education management, trading and sales
Mama100 International Holdings Limited ("Mama100 Holdings")	Cayman Islands	HK\$0.01	100%	-	Mama100 membership management, trading and sales
Mama100 International Investment Limited ("Mama100 Investment")	BVI	USD1	-	100%	Overseas investments, financing and other business cooperation
Mama100 Hong Kong Limited ("Mama100 HK")	Hong Kong	HK\$1	-	100%	Investment holding, international investment, trading and sales
Adimil (Changsha) Nutrition Products Limited ("Changsha Adimil")	PRC/Mainland China	RMB211,165,206	-	100%	Manufacture of infant formula products
Guangzhou Hapai Information Technology Co., Ltd. ("Guangzhou Hapai")*	PRC/Mainland China	USD1,499,990	-	100%	Software and information technology services

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 21. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Biostime Europe Holdings S.à.r.l. ("Biostime Europe")	Luxembourg	EUR1	100%	-	Overseas investments, financing and other business cooperation
Biostime Luxebourg S.à.r.l. ("Biostime Luxebourg")	Luxembourg	EUR1	-	100%	Overseas investments, financing and other business cooperation
Guangzhou Mama100 E-commerce Co., Limited ("Mama100 E-commerce")**	PRC/Mainland China	RMB2,000,000	-	100%	Online sales, software and information technology services

\* Registered as a wholly-foreign-owned enterprise under the laws of the PRC.

\*\* 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.

In 2013, the Group acquired Changsha Adimil from a third party. Further details of this acquisition are included in note 38 to the financial statements.

#### 22. INVESTMENT IN AN ASSOCIATE

	Group	
	2014 RMB'000	2013 RMB'000
Unlisted shares, at cost	40,000	-
Share of net assets	<u>592</u>	<u>-</u>
	<u>40,592</u>	<u>-</u>
Loan to an associate	<u>40,000</u>	<u>-</u>

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

The Group's trade payable balances with the associates are disclosed in note 28 to the financial statements, respectively.

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**22. INVESTMENT IN AN ASSOCIATE (continued)**

Particulars of the associate are as follows:

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

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

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

	2014 RMB'000	2013 RMB'000
Share of the associate's profit for the year	<u>592</u>	<u>-</u>
Share of the associate's comprehensive income	<u>592</u>	<u>-</u>
Carrying amount of the Group's investment in the associate	<u>40,592</u>	<u>-</u>

**23. HELD-TO-MATURITY INVESTMENT**

	<b>Group</b>	
	2014 RMB'000	2013 RMB'000
Investment in ISM	<u>18,810</u>	<u>21,240</u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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#### 23. HELD-TO-MATURITY INVESTMENT (continued)

Pursuant to the Framework Agreement entered into with ISM on 1 July 2013, Biostime Pharma, a wholly-owned subsidiary of the Group, subscribed for 504,585 shares in the share capital of ISM ("Subscription Shares") with a nominal value of EUR5 per share and representing 20% of the total issued share capital of ISM as enlarged by the issuance of the Subscription Shares. Biostime Pharma is the only non-cooperative shareholder of ISM, while all the other shareholders of ISM are cooperative shareholders. ISM undertakes to use the proceeds from issuance of Subscription Shares exclusively for the purpose of the financing of the infant formula production and packaging industrial facility.

In accordance with applicable law, the subscription price was determined as equivalent to the Subscription Shares' nominal value with no premium applicable. Pursuant to the Framework Agreement and the bylaws of ISM ("Bylaws"), in the event that the Subscription Shares are redeemed by ISM as a result of withdrawal by Biostime Pharma or exclusion of Biostime Pharma by ISM from ISM's share capital, the redemption price of the Subscription Shares shall be equal to the nominal value of the Subscription Shares.

Pursuant to the relevant French law and the Bylaws, notwithstanding the number of shares held by Biostime Pharma, the voting rights of Biostime Pharma (represented by its delegates), as a non-cooperative shareholder, shall not exceed 10% of all voting rights in the general meeting of shareholders of ISM.

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

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

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**24. INVENTORIES**

	<b>Group</b>	
	2014	2013
	RMB'000	RMB'000
Raw materials	535,693	445,516
Raw materials in transit	156,031	375,522
Work in progress	2,491	2,881
Finished goods	<u>102,812</u>	<u>147,974</u>
	<u><u>797,027</u></u>	<u><u>971,893</u></u>

**25. TRADE AND BILLS RECEIVABLES**

	<b>Group</b>	
	2014	2013
	RMB'000	RMB'000
Trade receivables	1,529	475
Bills receivable	10,514	14,707
Less: Impairment provision	<u>-</u>	<u>-</u>
	<u><u>12,043</u></u>	<u><u>15,182</u></u>

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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**25. TRADE AND BILLS RECEIVABLES (continued)**

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:

	<b>Group</b>	
	2014 RMB'000	2013 RMB'000
Within 1 month	1,513	7,605
1 to 3 months	10,529	7,576
Over 3 months	<u>1</u>	<u>1</u>
	<u><u>12,043</u></u>	<u><u>15,182</u></u>

The above aged analysis included the bills receivable balance of RMB10,514,000 (2013: RMB14,707,000).

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.

**26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	2014 RMB'000	2013 RMB'000 (Restated)	2014 RMB'000	2013 RMB'000
Prepayments	31,172	26,538	27,736	23,689
Deposits	1,202	1,867	166	115
Other receivables	87,330	77,577	3,491	3,185
Prepaid expenses	16,285	3,475	-	-
Current portion of prepaid land lease payments (note 15)	<u>1,478</u>	<u>1,478</u>	<u>-</u>	<u>-</u>
	<u><u>137,467</u></u>	<u><u>110,935</u></u>	<u><u>31,393</u></u>	<u><u>26,989</u></u>

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Cash and bank balances	1,868,280	824,836	477,303	174,253
Time deposits	<u>2,625,060</u>	<u>1,762,874</u>	<u>-</u>	<u>-</u>
	4,493,340	2,587,710	477,303	174,253
Less:				
Non-pledged time deposits with maturity date after one year	(1,146,183)	(854,874)	-	-
Restricted bank deposit for business combination	<u>-</u>	<u>(70,000)</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents as stated in the consolidated statement of financial position	3,347,157	1,662,836	477,303	174,253
Less:				
Non-pledged time deposits with original maturity of three months or more when acquired	<u>(900,000)</u>	<u>(898,000)</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows	<u>2,447,157</u>	<u>764,836</u>	<u>477,303</u>	<u>174,253</u>
Denominated in RMB (note)	3,598,252	2,382,215	48,543	5,307
Denominated in other currencies	<u>895,088</u>	<u>205,495</u>	<u>428,760</u>	<u>168,946</u>
	<u>4,493,340</u>	<u>2,587,710</u>	<u>477,303</u>	<u>174,253</u>

Note:

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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**27. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS (continued)**

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

**28. TRADE AND BILLS PAYABLES**

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Trade payables	289,529	354,760	30,567	39,511
Bills payable	<u>5,013</u>	<u>6,874</u>	<u>-</u>	<u>-</u>
	<u><u>294,542</u></u>	<u><u>361,634</u></u>	<u><u>30,567</u></u>	<u><u>39,511</u></u>

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

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Within 1 month	273,967	356,646	30,567	39,511
1 to 3 months	19,825	4,731	-	-
Over 3 months	<u>750</u>	<u>257</u>	<u>-</u>	<u>-</u>
	<u><u>294,542</u></u>	<u><u>361,634</u></u>	<u><u>30,567</u></u>	<u><u>39,511</u></u>

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

Included in the Group's trade payables are amounts due to the Group's associate of RMB20,498,000 (2013: nil), which are repayable on similar credit terms to those offered by the major suppliers of the Group.



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Advances from customers	11,725	10,824	-	-
Salaries and welfare payables	87,900	126,773	1,214	1,866
Accruals	402,252	323,624	12,347	5,365
Other tax payables	114,187	127,130	-	-
Deferred income (note 33)	31,397	51,768	-	-
Other payables	<u>90,033</u>	<u>79,719</u>	<u>-</u>	<u>-</u>
	<u>737,494</u>	<u>719,838</u>	<u>13,561</u>	<u>7,231</u>

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

30. INTEREST-BEARING BANK LOANS

	Group and the Company					
	2014			2013		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Unsecured bank loans	-	-	-	HIBOR+2.25%	On demand	568,941
Unsecured bank loans	-	-	-	2.87%	On demand	35,380
Unsecured bank loans	-	-	<u>-</u>	1.24%	On demand	<u>146,292</u>
			<u>-</u>			<u>750,613</u>

As at 31 December 2013, all the Group's bank loans are denominated in HK\$ and US\$ at aggregate amounts of RMB546,430,000 and RMB204,183,000, respectively.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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#### 31. CONVERTIBLE BONDS

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

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

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

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

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

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

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**NOTES TO FINANCIAL STATEMENTS**

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**31. CONVERTIBLE BONDS (continued)**

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

	2014 RMB'000	2013 RMB'000
Nominal value of convertible bonds issued during the year	2,460,625	-
Equity component	(66,978)	-
Direct transaction costs	<u>(46,255)</u>	<u>-</u>
Liability component at the issuance date	2,347,392	-
Interest expense	77,983	-
Exchange alignment	<u>(14,849)</u>	<u>-</u>
Liability component	<u><u>2,410,526</u></u>	<u><u>-</u></u>

**32. DEFERRED TAX**

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

Deferred tax assets

**Group**

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Total RMB'000
At 1 January 2014	1,266	89,108	20,576	12,942	123,892
Credited/(charged) to the profit or loss for the year	<u>261</u>	<u>3,950</u>	<u>5,885</u>	<u>(5,092)</u>	<u>5,004</u>
At 31 December 2014	<u><u>1,527</u></u>	<u><u>93,058</u></u>	<u><u>26,461</u></u>	<u><u>7,850</u></u>	<u><u>128,896</u></u>
At 1 January 2013	324	56,370	13,649	8,345	78,688
Credited/(charged) to the profit or loss for the year	<u>942</u>	<u>32,738</u>	<u>6,927</u>	<u>4,597</u>	<u>45,204</u>
At 31 December 2013	<u><u>1,266</u></u>	<u><u>89,108</u></u>	<u><u>20,576</u></u>	<u><u>12,942</u></u>	<u><u>123,892</u></u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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32. DEFERRED TAX (continued)

Deferred tax assets (continued)

Company

		Accrued liabilities and future deductible expenses RMB'000
At 1 January 2014		334
Credited to the profit or loss	for the year	<u>1</u>
At 31 December 2014		<u><u>335</u></u>
At 1 January 2013		-
Credited to the profit or loss	for the year	<u>334</u>
At 31 December 2013		<u><u>334</u></u>

Deferred tax liabilities

Group

	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000 (Restated)	Total RMB'000
At 1 January 2014	59,671	20,945	80,616
(Credited)/charged to the profit or loss for the period	<u>(43,366)<sup>#</sup></u>	<u>(1,326)</u>	<u>(44,692)</u>
At 31 December 2014	<u><u>16,305</u></u>	<u><u>19,619</u></u>	<u><u>35,924</u></u>
At 1 January 2013	77,489	-	77,489
(Credited)/charged to the profit or loss for the year	<u>(17,818)<sup>#</sup></u>	<u>20,945</u>	<u>3,127</u>
At 31 December 2013	<u><u>59,671</u></u>	<u><u>20,945</u></u>	<u><u>80,616</u></u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 32. DEFERRED TAX (continued)

- # The amount as at 31 December 2014 represented a deferred tax provision of RMB14,152,000 (31 December 2013: RMB30,569,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB57,518,000 (31 December 2013: RMB48,387,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

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

	Group	
	2014 RMB'000	2013 RMB'000 (Restated)
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	128,896	123,892
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	<u>(35,924)</u>	<u>(80,616)</u>
	<u>92,972</u>	<u>43,276</u>

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

As at 31 December 2014, the Group has not recognised deferred tax liabilities of RMB55,715,000 (2013: RMB27,167,000) in respect of temporary differences relating to the unremitted profits of subsidiaries, amounting to RMB1,114,300,000 (2013: RMB543,340,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

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**33. DEFERRED INCOME**

	Group	
	2014	2013
	RMB'000	RMB'000
Customer loyalty program		
At 1 January	51,768	33,381
Addition	416,114	555,907
Recognised as revenue during the year	<u>(436,485)</u>	<u>(537,520)</u>
At 31 December	<u><u>31,397</u></u>	<u><u>51,768</u></u>

**34. SHARE CAPITAL**

**Shares**

	2014	2013
Authorised:		
10,000,000,000 (2013: 10,000,000,000) ordinary shares of HK\$0.01 each	<u>HK\$100,000,000</u>	<u>HK\$100,000,000</u>
Issued and fully paid:		
606,825,765 (2013: 602,294,000) ordinary shares of HK\$0.01 each	<u>HK\$6,068,258</u>	<u>HK\$6,022,940</u>
Equivalent to	<u>RMB5,197,000</u>	<u>RMB5,161,000</u>

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

	Number of shares in issue	Share capital HK\$'000	Equivalent to RMB'000
At 31 December 2013 and 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))	<u>2,103,316</u>	<u>21</u>	<u>17</u>
	<u>4,531,765</u>	<u>45</u>	<u>36</u>
At 31 December 2014	<u><u>606,825,765</u></u>	<u><u>6,068</u></u>	<u><u>5,197</u></u>

Notes:

- (a) During the year, the subscription rights attaching to 2,428,449 share options were exercised, resulting in the issue of 2,428,449 shares of HK\$0.01 each and the increase in share capital of HK\$24,000 (equivalent to RMB19,000).

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 34. SHARE CAPITAL (continued)

Notes: (continued)

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

##### Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 35 to the financial statements.

##### Share Award Schemes

Details of the Company's share award schemes and the shares awarded under the schemes are included in note 36 to the financial statements.

#### 35. SHARE OPTION SCHEMES

##### Pre-IPO Share Option Scheme

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

- (a) the subscription price per share for all options granted under the Pre-IPO Share Option Scheme is HK\$2.53;
- (b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further share options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date;
- (c) all share options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

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

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**35. SHARE OPTION SCHEMES (continued)**

**Pre-IPO Share Option Scheme (continued)**

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

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

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

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

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

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

	2014		2013	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	2.53	9,179	2.53	9,951
Forfeited during the year	2.53	(216)	2.53	(772)
Exercised during the year	2.53	<u>(2,034)</u>	2.53	-
At 31 December	2.53	<u>6,929</u>	2.53	<u>9,179</u>

The weighted average share price at the date of exercise for share options exercised under the Pre-IPO Share Option Scheme during the year was HK\$49.00 per share (2013: No share options were exercised).



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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#### 35. SHARE OPTION SCHEMES (continued)

##### Pre-IPO Share Option Scheme (continued)

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme at 31 December 2014 are as follows:

Number of options '000	Exercise price HK\$ per share	Exercise period
655	2.53	17-12-13 to 17-12-16
2,689	2.53	17-12-14 to 17-12-16
<u>3,585</u>	2.53	17-12-15 to 17-12-16
<u>6,929</u>		

The Group recognised a share option expense related to share options under the Pre-IPO Share Option Scheme of RMB2,236,000 during the year ended 31 December 2014 (2013: RMB3,360,000).

2,034,233 share options under the Pre-IPO Share Option Scheme were exercised during the year, resulting in the issue of 2,034,233 ordinary shares of the Company and new share capital of HK\$20,000 (equivalent to RMB16,000) and share premium of HK\$5,126,000 (before issue expenses, and equivalent to RMB4,061,000). An amount of RMB4,040,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

The exercise in full of the outstanding share options under the Pre-IPO Share Option Scheme would, under the present capital structure of the Company, result in the issue of 6,929,000 additional ordinary shares of the Company and additional share capital of HK\$69,000 (equivalent to RMB55,000) and share premium of HK\$17,461,000 (equivalent to RMB13,774,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 6,920,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.1% of the Company's shares in issue as at that date.

##### Share Option Scheme

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 35. SHARE OPTION SCHEMES (continued)

##### Share Option Scheme (continued)

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 35. SHARE OPTION SCHEMES (continued)

##### Share Option Scheme (continued)

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

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

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

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

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

	<u>2014</u>		<u>2013</u>	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	18.11	3,518	17.95	4,059
Forfeited during the year	19.26	(385)	16.64	(541)
Exercised during the year	17.31	<u>(394)</u>	-	<u>-</u>
At 31 December	18.11	<u>2,739</u>	18.11	<u>3,518</u>

The weighted average share price at the date of exercise for share options exercised under the Share Option Scheme during the year was HK\$46.24 per share (2013: No share options were exercised).

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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35. SHARE OPTION SCHEMES (continued)

Share Option Scheme (continued)

31 December 2014 Number of options '000	31 December 2013 Number of options '000	Exercise price* HK\$ per share	Exercise period
84	211	15.312	17-12-13 to 17-12-16
79	224	11.52	17-12-13 to 17-12-16
90	90	12.12	17-12-13 to 17-12-16
92	175	19.64	17-12-13 to 17-12-16
202	355	24.70	17-12-13 to 17-12-16
192	211	15.312	17-12-14 to 17-12-16
199	224	11.52	17-12-14 to 17-12-16
90	90	12.12	17-12-14 to 17-12-16
152	175	19.64	17-12-14 to 17-12-16
307	355	24.70	17-12-14 to 17-12-16
256	283	15.312	17-12-15 to 17-12-16
266	299	11.52	17-12-15 to 17-12-16
120	120	12.12	17-12-15 to 17-12-16
201	233	19.64	17-12-15 to 17-12-16
<u>409</u>	<u>473</u>	24.70	17-12-15 to 17-12-16
<u>2,739</u>	<u>3,518</u>		

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

The Group recognised a share option expense related to share options under the Share Option Scheme of RMB2,252,000 during the year ended 31 December 2014 (2013: RMB6,715,000).

394,216 share options under the Share Option Scheme were exercised during the year, resulting in the issue of 394,216 ordinary shares of the Company and new share capital of HK\$4,000 (equivalent to RMB3,000) and share premium of HK\$6,821,000 (equivalent to RMB5,403,000) (before issue expenses). An amount of RMB1,821,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

The exercise in full of the outstanding share options under the Share Option Scheme would, under the present capital structure of the Company, result in the issue of 2,739,000 additional ordinary shares of the Company and additional share capital of HK\$27,000 (equivalent to RMB22,000) and share premium of HK\$49,435,000 (equivalent to RMB38,997,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 2,698,000 share options outstanding under the Share Option Scheme, which represented approximately 0.4% of the Company's shares in issue as at that date.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 36. SHARE AWARD SCHEMES

##### Share Award Scheme

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

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

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

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

During the year ended 31 December 2014, no ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (2013: RMB64,093,000).

Summary of particulars of the shares granted under the Share Award Scheme (the "Awarded Shares") during the year is as follows:

Date of grant	Number of outstanding awarded shares as at 31 December 2013 and newly granted during the year	Fair value RMB	Vesting date	Number of Awarded Shares		Outstanding awarded shares as at 31 December 2014
				Vested during the year	Forfeited during the year	
25 March 2013	1,180,387	38,803,000	25 March 2014	(1,086,666)	(93,721)	-
21 October 2013	817,394	40,252,000	30 November 2014	-	(817,394)	-
10 October 2014	662,427	12,783,000	30 October 2015	-	(16,827)	645,600 <sup>1</sup>
Total	<u>2,660,208</u>	<u>91,838,000</u>		<u>(1,086,666)</u>	<u>(927,942)</u>	<u>645,600</u>

<sup>1</sup>: Among these Awarded Shares granted, 17,600 Awarded Shares were granted to the executive directors.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 36. SHARE AWARD SCHEMES (continued)

##### Share Award Scheme (continued)

The Group recognised a share award expense of RMB3,834,000 during the year (2013: RMB4,977,000). No amount was recognised for the awarded shares granted on 21 October 2013 as the awarded shares granted did not vest because of failure to satisfy the vesting condition.

1,086,666 shares held for the Share Award Scheme amounted to RMB25,043,000 were awarded upon vesting during the year (2013: RMB27,431,000). Share award reserve of RMB11,374,000 related to the forfeited Awarded Shares was transferred to retained profits for the forfeited Awarded Shares during the year (2013: RMB9,296,000).

At the date of approval of these financial statements, 745,933 outstanding Awarded Shares are held by the Trustee of the Share Award Scheme for relevant grantees; and 567,526 shares (including those Awarded Shares forfeited) are held by the Trustee and have yet to be awarded.

##### 2013 Share Award Scheme

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

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

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**36. SHARE AWARD SCHEMES (continued)**

2013 Share Award Scheme (continued)

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

Date of grant	Number of awarded shares granted during the year	Fair value RMB	Vesting date	Number of Awarded Shares		Outstanding awarded shares as at 31 December 2014
				Vested during the year	Forfeited during the year	
22 April 2014	1,265,644	50,658,000	23 December 2014	-	(1,265,644)	-
10 October 2014	<u>2,103,316</u>	<u>40,588,000</u>	30 October 2015	-	(105,031)	<u>1,998,285</u>
Total	<u>3,368,960</u>	<u>91,246,000</u>		-	(1,370,675)	<u>1,998,285</u>

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

The Group recognised a share award expense of RMB8,210,000 during the year (2013: nil). No amount was recognised for the awarded shares granted on 22 April 2014 as the awarded shares granted did not vest because of failure to satisfy the vesting condition.

At the date of approval of these financial statements, 2,103,316 shares of the Company is issued and held by the trustee of the 2013 Share Award Scheme for relevant grantees.

**37. RESERVES**

**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 7 and 8 of the financial statements.

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

37. RESERVES (continued)

(a) Group (continued)

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

(b) Company

	Notes	Share premium account RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2013		390,649	(30,505)	3,260,270	16,716	22,985	(243,693)	253,513	3,669,935
Total comprehensive income for the year		-	-	-	-	-	(115,922)	479,710	363,788
Equity-settled share option arrangements	35	-	-	-	10,075	-	-	-	10,075
Shares purchased for the Share Award Scheme	36	-	(64,093)	-	-	-	-	-	(64,093)
Equity-settled Share Award Scheme	36	-	27,431	-	-	12,250	-	9,296	48,977
Final 2012 dividend declared		1,036 <sup>#</sup>	-	-	-	-	-	-	1,036
Special 2012 dividend		1,221 <sup>#</sup>	-	-	-	-	-	-	1,221
Interim 2013 dividend	12	(119,437)	-	-	-	-	-	-	(119,437)
Interim 2013 special dividend	12	(90,773)	-	-	-	-	-	-	(90,773)
Proposed final 2013 dividend	12	-	-	-	-	-	-	(209,834)	(209,834)
Proposed final special 2013 dividend	12	-	-	-	-	-	-	(157,376)	(157,376)
At 31 December 2013 and 1 January 2014		<u>182,696</u>	<u>(67,167)</u>	<u>3,260,270</u>	<u>26,791</u>	<u>35,235</u>	<u>(359,615)</u>	<u>375,309</u>	<u>3,453,519</u>

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BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

37. RESERVES (continued)

(b) Company (continued)

	Notes	Share premium account RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2013 and 1 January 2014		182,696	(67,167)	3,260,270	26,791	35,235	(359,615)	375,309	3,453,519
Total comprehensive income for the year		-	-	-	-	-	7,677	1,026,854	1,034,531
Equity-settled share option arrangements	35	15,325	-	-	(1,373)	-	-	-	13,952
Equity-settled Share Award Scheme	36	-	25,026	-	-	(24,373)	-	11,374	12,027
Final 2013 dividend declared		-	-	-	-	-	-	(674) <sup>#</sup>	(674)
Special 2013 dividend		-	-	-	-	-	-	(505) <sup>#</sup>	(505)
Interim 2014 dividend	12	-	-	-	-	-	-	(124,315)	(124,315)
Proposed final 2014 dividend	12	-	-	-	-	-	-	(196,944)	(196,944)
Proposed final special 2014 dividend	12	-	-	-	-	-	-	-	-
At 31 December 2014		<u>198,021</u>	<u>(42,141)</u>	<u>3,260,270</u>	<u>25,418</u>	<u>10,862</u>	<u>(351,938)</u>	<u>1,091,099</u>	<u>4,191,591</u>

<sup>#</sup> Dividend income arising on the shares held for the Share Award Scheme is deducted from the aggregate of dividends proposed and paid. Dividend for the new shares issued under the share option arrangements is paid from the retained profits.

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 38. BUSINESS COMBINATION

On 30 December 2013, the Group acquired 100% interest in Changsha Yingke Nutrition Products Company Limited from a third party, which was renamed as Adimil (Changsha) Nutrition Products Limited ("Changsha Adimil"). Changsha Adimil is engaged in the manufacture of infant formula products. The acquisition was made as part of the Group's strategy to manufacture certain of the Group's infant formula products in China. The purchase consideration for the acquisition was RMB350,000,000 in the form of cash.

By the end of last reporting period, the purchase price allocation of Changsha Adimil was incomplete, pending on the finalisation of valuation of certain property, plant and equipment, land lease payments and intangible assets, and the determination of the tax basis of the assets and liabilities acquired.

By the date of approval of these financial statements, the valuation of the property, plant and equipment, land lease payments and intangible assets have been completed, and the purchase price allocation has been completed as follows:

	Notes	Preliminary fair value recognised on acquisition RMB'000	Final fair value recognised on acquisition RMB'000 (Restated)
Property, plant and equipment	14	140,948	145,113
Prepaid land lease payments	15	66,052	46,052
Intangible assets	17	-	103,780
Deferred tax liability	32	-	(20,945)
Total identifiable net assets at fair value		<u>207,000</u>	<u>274,000</u>
Goodwill on acquisition	16	<u>143,000</u>	<u>76,000</u>
Satisfied by cash		<u>350,000</u>	<u>350,000</u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 38. BUSINESS COMBINATION (continued)

The quantitative impact on the financial statements is summarised below:

Impact on the consolidated statement of financial position:

	As at 31 December 2013 RMB'000
Increase in property, plant and equipment	4,165
Decrease in prepaid land lease payments	(19,540)
Decrease in goodwill	(67,000)
Increase in intangible assets	<u>103,780</u>
Increase in total non-current assets	<u>21,405</u>
Decrease in current portion of prepaid land lease payments included in prepayments, deposits and other receivables	<u>(460)</u>
Increase in net current assets	<u>20,945</u>
Increase in deferred tax liabilities	<u>20,945</u>

The restatement did not have any impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013, nor any impact on the earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2013.

#### 39. CONTINGENT LIABILITIES

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**40. OPERATING LEASE ARRANGEMENTS**

**As lessee**

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

As at 31 December 2014 and 2013, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>		<b>Company</b>	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Within one year	29,448	49,771	578	350
In the second to fifth years, inclusive	21,864	43,143	1,004	-
After five years	<u>4,043</u>	<u>5,227</u>	<u>-</u>	<u>-</u>
	<u>55,355</u>	<u>98,141</u>	<u>1,582</u>	<u>350</u>

**41. COMMITMENTS**

In addition to the operating lease commitments detailed in note 40 above, the Group had the following capital commitments at the end of the reporting period:

	<b>Group</b>		<b>Company</b>	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Contracted, but not provided for:				
Intangible assets	825	333	-	-
Fixed assets	<u>24,206</u>	<u>112,089</u>	<u>-</u>	<u>-</u>
	<u>25,031</u>	<u>112,422</u>	<u>-</u>	<u>-</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**42. LOANS TO DIRECTORS**

Loans to directors, disclosed pursuant to section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap.622) with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap.32), are as follows:

**Group**

	31 December 2014 RMB'000	Maximum amount outstanding during the year RMB'000	31 December 2013 RMB'000	Security held
Luo Fei	-	1,154	1,154	None
Wu Xiong	-	520	520	None
Chen Fufang	-	238	238	None
Kong Qingjuan	-	88	88	None
	<u>-</u>	<u>2,000</u>	<u>2,000</u>	

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

**43. RELATED PARTY BALANCES AND TRANSACTIONS**

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

**(a) Related party transactions**

	Note	2014 RMB'000	2013 RMB'000
Purchases of raw materials from a company under common control of directors	(i)	<u>6,377</u>	<u>5,630</u>
Purchases of finish goods from an associate	(ii)	<u>25,498</u>	<u>-</u>
Loan to an associate	(iii)	<u>40,000</u>	<u>-</u>

Notes:

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**43. RELATED PARTY BALANCES AND TRANSACTIONS (continued)**

**(a) Related party transactions (continued)**

Notes: (continued)

- (ii) The transactions were conducted in accordance with mutually agreed terms.
- (iii) The loan to an associate is unsecured and bears interest at the rate of 3% per annum, and is repayable within 2 years.

**(b) Outstanding balances with related parties**

- (i) At the end of the reporting period, the balance owing to the supplier arising from a company under common control of directors was RMB1,645,000 (2013: RMB254,000).
- (ii) Details of the Group's trade balance with the associate as at the end of the reporting period are disclosed in note 28.
- (iii) Details of the Group's loan to the associate as at the end of the reporting period are included in note 22 to the financial statements.
- (iv) Details of the Group's loans to the Company's directors are included in note 42 to the financial statements.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**43. RELATED PARTY BALANCES AND TRANSACTIONS (continued)**

**(c) Compensation of key management personnel of the Group**

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

	2014 RMB'000	2013 RMB'000
Short-term employee benefits	51,202	56,294
Pension scheme contributions	1,016	873
Equity-settled share option expense	731	1,169
Equity-settled share award expense	<u>2,459</u>	<u>6,719</u>
Total compensation paid to key management personnel	<u>55,408</u>	<u>65,055</u>

**44. FINANCIAL INSTRUMENTS BY CATEGORY**

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

**Financial assets**

	2014	Group			
		Notes	Held-to-maturity investment RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000
Bonds receivable	18	-	-	130,302	130,302
Loans receivable	19	-	-	92,988	92,988
Held-to-maturity investment	23	18,810	-	-	18,810
Non-current time deposits	27	-	-	1,146,183	1,146,183
Trade and bills receivables	25	-	-	12,043	12,043
Financial assets included in prepayments, deposits and other receivables		-	-	88,532	88,532
Derivative financial instrument	19	-	2,570	-	2,570
Cash and cash equivalents	27	-	-	<u>3,347,157</u>	<u>3,347,157</u>
		<u>18,810</u>	<u>2,570</u>	<u>4,817,205</u>	<u>4,838,585</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

	2013	Group			
		Notes	Held-to-maturity investment RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000
Bonds receivable	18	-	-	98,092	98,092
Loans receivable	19	-	-	112,587	112,587
Held-to-maturity investment	23	21,240	-	-	21,240
Non-current time deposits	27	-	-	854,874	854,874
Trade and bills receivables	25	-	-	15,182	15,182
Financial assets included in prepayments, deposits and other receivables		-	-	79,444	79,444
Due from directors	42	-	-	2,000	2,000
Derivative financial instrument	19	-	5,936	-	5,936
Restricted bank deposit	27	-	-	70,000	70,000
Cash and cash equivalents	27	-	-	1,662,836	1,662,836
		<u>21,240</u>	<u>5,936</u>	<u>2,895,015</u>	<u>2,922,191</u>
	2014			Company	
		Notes	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Loans receivable	19	-	-	92,988	92,988
Loans to subsidiaries	21	-	-	1,117,106	1,117,106
Due from subsidiaries	21	-	-	1,456,603	1,456,603
Financial assets included in prepayments, deposits and other receivables		-	-	3,657	3,657
Derivative financial instrument	19	-	2,570	-	2,570
Cash and cash equivalents	27	-	-	477,303	477,303
			<u>2,570</u>	<u>3,147,657</u>	<u>3,150,227</u>



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

44. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

2013		Company		
	Notes	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Loans receivable	19	-	112,587	112,587
Due from subsidiaries	21	-	567,783	567,783
Financial assets included in prepayments, deposits and other receivables		-	3,300	3,300
Derivative financial instrument	19	5,936	-	5,936
Cash and cash equivalents	27	-	174,253	174,253
		<u>5,936</u>	<u>857,923</u>	<u>863,859</u>

Financial liabilities at amortised cost

Group

	Notes	2014 RMB'000	2013 RMB'000
Trade and bills payables	28	294,542	361,634
Financial liabilities included in other payables and accruals		488,482	399,935
Interest-bearing bank loans	30	-	750,613
		<u>783,024</u>	<u>1,512,182</u>

Company

	Notes	2014 RMB'000	2013 RMB'000
Trade payables	28	30,567	39,511
Due to subsidiaries	21	52,294	26,878
Financial liabilities included in other payables and accruals		12,347	5,365
Interest-bearing bank loans	30	-	750,613
Convertible bonds	31	2,410,526	-
		<u>2,505,734</u>	<u>822,367</u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The Group and the Company

	Carrying amounts		Fair values	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
<b>Financial assets</b>				
Derivative financial instrument	<u>2,570</u>	<u>5,936</u>	<u>2,570</u>	<u>5,936</u>

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

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

- (a) The fair values of the non-current time deposits, loans receivable, bonds receivable, and held-to maturity investment have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans, and the suppliers' non-performance risk for loans and bonds receivable as at 31 December 2014 was assessed to be insignificant.
- (b) The derivative financial instrument embedded in a loan receivable is measured using valuation techniques of present value calculations.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2014

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

	Valuation technique	Significant unobservable input	Range	Sensitivity of the input to fair value
Derivative financial instrument	Discounted cash flow method	Weighted average cost of capital (WACC)	12.0% to 14.0%	1% increase in WACC would result in increase in fair value by RMB445,000
				1% decrease in WACC would result in decrease in fair value by RMB1,194,000
		Discount for lack of marketability	31.9% to 33.9%	1% increase in discount would result in decrease in fair value by RMB31,000
				1% decrease in discount would result in increase in fair value by RMB65,000

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

**Fair value hierarchy**

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

Assets measured at fair value:

	Group and Company Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instrument				
As at 31 December 2013	-	-	5,936	5,936
As at 31 December 2014	-	-	2,570	2,570

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

##### *Interest rate risk*

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

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

	Increase/ (decrease) in basis points	Group Increase/ (decrease) in profit before tax RMB'000	Company Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2014	50	1,116	465
Year ended 31 December 2014	(50)	(1,116)	(465)
Year ended 31 December 2013	50	(2,835)	(3,326)
Year ended 31 December 2013	(50)	2,835	3,326

##### *Foreign currency risk*

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the unit's functional currencies. Approximately 83.8% (2013: 89.2%) of the Group's purchases were denominated in currencies other than the functional currencies of the operating units making the purchase. The Group also has certain bank balances denominated in HK\$, US\$ and Euro. In addition, the Group has investments denominated in Euro, and provided loans to suppliers denominated in US\$ and DKK and issued convertible loans in HK\$. The Group did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations. However, the Group makes rolling forecasts on its foreign currency expenses and arranges payments, so as to alleviate the impact on its business due to exchange rate fluctuations.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2014

**46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

*Foreign currency risk (continued)*

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

	Increase/ (decrease) in US\$/Euro/HK\$/DKK rate	2014 RMB'000	Increase/ (decrease) in profit before tax 2013 RMB'000
	%		
If the RMB weakens against the US\$	5	22,591	(436)
If the RMB strengthens against the US\$	(5)	(22,591)	436
If the RMB weakens against the Euro	5	3,584	(7,004)
If the RMB strengthens against the Euro	(5)	(3,584)	7,004
If the RMB weakens against the HK\$	5	(90,529)	(29,818)
If the RMB strengthens against the HK\$	(5)	90,529	29,818
If the RMB weakens against the DKK	5	2,988	3,950
If the RMB strengthens against the DKK	(5)	(2,988)	(3,950)

*Credit risk*

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

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

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

*Liquidity risk*

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

Except for the convertible bonds of RMB2,410,526,000 as at 31 December 2014 which are due 20 February 2019, the Group's financial liabilities as at 31 December 2014 and 2013 would be due within 12 months.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2014

#### 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### *Capital management*

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 31 December 2013.

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

	2014 RMB'000	2013 RMB'000 (Restated)
Total liabilities	<u>3,714,074</u>	<u>2,125,426</u>
Total assets	<u>6,631,161</u>	<u>4,641,019</u>
Liabilities to assets ratio	<u>56%</u>	<u>46%</u>

#### 47. COMPARATIVE AMOUNTS

As further explained in note 38, the purchase price allocation for the business combination has been completed in the year ended 31 December 2014, certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment. The statement of financial position as at 1 January 2013 was not presented as the retrospective restatement has no effect on the information in the statement of financial position at the beginning of the preceding year.

#### 48. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

#### 49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2015.

## Independent auditors' report



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

We have audited the consolidated financial statements of Biostime International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages F270 to F354, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Directors' responsibility for the consolidated financial statements**

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

#### **Auditors' responsibility**

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

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

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

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

**Independent auditors' report (continued)**  
**To the shareholders of Biostime International Holdings Limited**  
(Incorporated in the Cayman Islands with limited liability)

**Opinion**

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

**Ernst & Young**  
*Certified Public Accountants*

22<sup>nd</sup> Floor  
CITIC Tower  
1 Tim Mei Avenue,  
Central Hong Kong

25 March 2014



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

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

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BIOSTIME INTERNATIONAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	32	5,161	5,161
Reserves	35(a)	2,143,222	1,903,534
Proposed dividends	12	<u>367,210</u>	<u>413,957</u>
Total equity		<u>2,515,593</u>	<u>2,322,652</u>

Luo Fei

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Director

Kong Qingjuan

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Director

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to owners of the parent												
	Issued capital	Share premium account	Share account	Share Award Scheme	Contributed surplus	Capital reserve	Statutory reserve	Share option reserve	Share award reserve	Exchange fluctuation reserve	Retained profits	Proposed dividends	Total
Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	5,161	915,177	-	-	26,992	95	80,456	8,370	-	(64,063)	711,960	293,412	1,977,560
Profit for the year	-	-	-	-	-	-	-	-	-	-	743,106	-	743,106
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	5,143	-	-	5,143
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	5,143	743,106	-	748,249
Transfer to statutory reserve funds	-	-	-	-	-	-	86,851	-	-	-	(86,851)	-	-
Equity-settled share option arrangements	-	-	-	-	-	-	-	8,346	-	-	-	-	8,346
Shares purchased for the Share Award Scheme	-	-	-	(56,756)	-	-	-	-	-	-	-	-	(56,756)
Equity-settled Share Award Scheme	-	-	-	26,251	-	-	-	-	22,985	-	-	-	49,236
Final 2011 dividend declared	12	-	910 <sup>#</sup>	-	-	-	-	-	-	-	-	(132,035)	(131,125)
Special 2011 dividend declared	12	-	1,112 <sup>#</sup>	-	-	-	-	-	-	-	-	(161,377)	(160,265)
Interim 2012 dividend	12	-	(112,593)	-	-	-	-	-	-	-	-	-	(112,593)
Proposed final 2012 dividend	12	-	(189,933)	-	-	-	-	-	-	-	-	189,933	-
Proposed final special 2012 dividend	12	-	(224,024)	-	-	-	-	-	-	-	-	224,024	-
At 31 December 2012	5,161	390,649*	-	(30,505)*	26,992*	95*	167,307*	16,716*	22,985	(58,920)*	1,368,215*	413,957	2,322,652

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BIOSTIME INTERNATIONAL HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2013

	Attributable to owners of the parent												
	Notes	Issued capital RMB'000	Share premium account RMB'000	Shares held for the Share Award Scheme RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
At 1 January 2013		5,161	390,649	(30,505)	26,992	95	167,307	16,716	22,985	(58,920)	1,368,215	413,957	2,322,652
Profit for the year		-	-	-	-	-	-	-	-	-	820,715	-	820,715
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(823)	-	-	-	(823)
Total comprehensive income for the year		-	-	-	-	-	-	-	(823)	-	820,715	-	819,892
Transfer to statutory reserve funds		-	-	-	-	-	137,217	-	-	-	(137,217)	-	-
Equity-settled share option arrangements	33	-	-	-	-	-	-	10,075	-	-	-	-	10,075
Shares purchased for the Share Award Scheme	34	-	-	(64,093)	-	-	-	-	-	-	-	-	(64,093)
Equity-settled Share Award Scheme	34	-	-	27,431	-	-	-	-	-	-	-	-	48,977
Final 2012 dividend declared	12	-	1,036*	-	-	-	-	-	-	-	9,296	(189,933)	(188,897)
Special 2012 dividend declared	12	-	1,221*	-	-	-	-	-	-	-	-	(224,024)	(222,803)
Interim 2013 dividend	12	-	(119,437)	-	-	-	-	-	-	-	-	-	(119,437)
Interim 2013 special dividend	12	-	(90,773)	-	-	-	-	-	-	-	-	-	(90,773)
Proposed final 2013 dividend	12	-	-	-	-	-	-	-	-	-	(209,834)	209,834	-
Proposed special 2013 dividend	12	-	-	-	-	-	-	-	-	-	(157,376)	157,376	-
At 31 December 2013		5,161	182,696*	(67,167)*	26,992*	95*	304,524*	26,791*	35,235*	(59,743)*	1,693,799*	367,210	2,515,593

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended 31 December 2013

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

continued/...

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

Year ended 31 December 2013

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**STATEMENT OF FINANCIAL POSITION**

31 December 2013

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

**Luo Fei**

*Director*

**Kong Qingjuan**

*Director*



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 1. CORPORATE INFORMATION

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

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

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

#### 2.1 BASIS OF PREPARATION

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

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

##### **Basis of consolidation**

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.1 BASIS OF PREPARATION (continued)

##### Basis of consolidation (continued)

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

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>4</sup> No mandatory effective date yet determined but is available for adoption

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

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

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Subsidiaries

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

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

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

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

##### Business combinations and goodwill

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Business combinations and goodwill (continued)

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

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Impairment of non-financial assets**

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

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2013

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Related parties**

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

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Property, plant and equipment and depreciation

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

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

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

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Intangible assets (other than goodwill)**

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

##### *Computer software*

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

##### *Research and development costs*

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

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

##### **Operating leases**

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investments and other financial assets

###### *Initial recognition and measurement*

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

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

###### *Subsequent measurement*

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

###### *Financial assets at fair value through profit or loss*

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investments and other financial assets (continued)

###### *Loans and receivables*

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

###### *Held-to-maturity investments*

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

##### Derecognition of financial assets

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Impairment of financial assets

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

##### *Financial assets carried at amortised cost*

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Financial liabilities**

###### *Initial recognition and measurement*

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

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

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

###### *Subsequent measurement*

###### *Loans and borrowings*

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

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

##### **Derecognition of financial liabilities**

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

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

##### **Inventories**

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Cash and cash equivalents**

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

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

##### **Provisions**

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

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

##### **Customer loyalty program**

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Income tax (continued)

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

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

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

##### Government grants

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

##### Revenue recognition

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

- (a) from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Share-based payment

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

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

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

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Share-based payment (continued)

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

##### Other employee benefits

###### *Pension schemes*

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

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

##### Borrowing costs

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

##### Dividends

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Foreign currencies

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

##### **Judgements**

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

##### *Tax provisions*

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

##### *Deferred tax assets*

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

##### *Deferred tax liabilities*

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

##### **Estimation uncertainties**

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

##### *Provision for obsolete inventories*

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

##### *Deferred income*

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

##### *Impairment of loans and receivables*

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 4. OPERATING SEGMENT INFORMATION

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

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

The corresponding items of segment information for 2012 have been restated.

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

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

During the years ended 31 December 2013 and 2012, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2013:

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2012:

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 5. REVENUE, OTHER INCOME AND GAINS

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

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

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

#### 6. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest on bank loans	<u>10,589</u>	<u>2,106</u>

#### 7. FINE ON THE VIOLATION OF ANTI-MONOPOLY LAW

On 6 August 2013, BiosTime, Inc. (Guangzhou) ("Biostime Guangzhou"), a wholly-owned subsidiary of the Company, received an Administrative Punishment Decision (the "Decision") issued by the National Development and Reform Commission of the PRC (the "NDRC"). According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of the Anti-Monopoly Law of the PRC (the "PRC AML") by providing fixed prices for its products in its distribution agreements with its distributors, and therefore should be subject to a fine in the amount of RMB162.9 million according to Article 46 of the PRC AML, which approximated to 6% of the sales of infant formula of the year 2012.

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**8. PROFIT BEFORE TAX**

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

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

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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

(a) Directors' and chief executive's remuneration

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

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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

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

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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

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

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

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

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

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



**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2013

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

(b) Five highest paid employees

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

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

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

	2013	2012
HK\$4,000,001 to HK\$4,500,000	-	1
HK\$4,500,001 to HK\$5,000,000	-	1
HK\$5,500,001 to HK\$6,000,000	-	1
HK\$7,000,001 to HK\$7,500,000	1	-
HK\$7,500,001 to HK\$8,000,000	1	-
HK\$9,000,001 to HK\$9,500,000	<u>1</u>	<u>-</u>
	<u><u>3</u></u>	<u><u>3</u></u>

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 10. INCOME TAX

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

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

#### Hong Kong profits tax

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

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

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

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

#### France corporate income tax

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED****NOTES TO FINANCIAL STATEMENTS**

31 December 2013

**10. INCOME TAX (continued)**

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

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

**11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT**

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

31 December 2013

**12. DIVIDENDS**

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

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

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

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)**

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improve- ments RMB'000	Con- struction in progress RMB'000	Others RMB'000	Total RMB'000
<b>Cost:</b>								
At 1 January 2013	-	17,998	57,060	30,986	14,018	6,554	-	126,616
Additions	-	256	19,581	3,049	446	106,485	-	129,817
Acquisition of a subsidiary (note 36)	89,337	46,076	4,355	-	-	-	1,180	140,948
Disposals	-	(14)	(964)	(146)	-	-	-	(1,124)
Exchange alignment	-	9	2	-	(3)	-	-	8
At 31 December 2013	<u>89,337</u>	<u>64,325</u>	<u>80,034</u>	<u>33,889</u>	<u>14,461</u>	<u>113,039</u>	<u>1,180</u>	<u>395,265</u>
<b>Accumulated depreciation:</b>								
At 1 January 2013	-	6,814	22,958	10,945	8,825	-	-	49,542
Depreciation provided during the year (note 8)	-	1,980	14,852	5,519	3,314	-	-	25,665
Disposals	-	(12)	(823)	(131)	-	-	-	(966)
Exchange alignment	-	4	1	-	(3)	-	-	2
At 31 December 2013	-	<u>8,786</u>	<u>36,988</u>	<u>16,333</u>	<u>12,136</u>	-	-	<u>74,243</u>
<b>Net carrying amount:</b>								
At 31 December 2013	<u>89,337</u>	<u>55,539</u>	<u>43,046</u>	<u>17,556</u>	<u>2,325</u>	<u>113,039</u>	<u>1,180</u>	<u>322,022</u>

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

BIOSTI BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

15. PREPAID LAND LEASE PAYMENTS

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

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



**BIOSTIME INTERNATIONAL HOLDINGS LIMITED****NOTES TO FINANCIAL STATEMENTS**

31 December 2013

**16. GOODWILL**

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

17. INTANGIBLE ASSETS

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

18. BONDS RECEIVABLE

	Group	
	2013 RMB'000	2012 RMB'000
Bonds receivable	<u>98,092</u>	<u>-</u>

The Group entered into a Bond Subscription Agreement with Isigny Sainte Mère ("ISM") on 30 July 2013, pursuant to which ISM would issue, and the Group would subscribe for 17,477,075 bonds, with a nominal value of EUR1 per bond, in three separate tranches, at the subscription price equal to the nominal value of the bonds. As at 31 December 2013, the Group has subscribed for 11,651,384 bonds.

The bonds bear interest at a rate of 5% per annum on the outstanding principal amount of the bonds. The maturity date of the bonds shall be 30 July 2023, 10 years from the date of the Bond Subscription Agreement.

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2013

19. LOANS RECEIVABLE

	Group and Company	
	2013 RMB'000	2012 RMB'000
Current portion of loans receivable	27,090	12,597
Loans receivable due after one year	<u>85,497</u>	<u>110,484</u>
Total loans receivable	<u>112,587</u>	<u>123,081</u>
Derivative financial instrument	<u>5,936</u>	<u>-</u>

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

	Effective interest rate	Maturity	2013 RMB'000	2012 RMB'000
Denominated in United States dollars (the "US\$")	3.00%	By instalments before December 2018	33,863	33,942
Denominated in Danish kroner (the "DKK")	DKK CIBOR rate +1%	By instalments before January 2017	<u>78,724</u>	<u>89,139</u>
Total loans receivable			<u>112,587</u>	<u>123,081</u>

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED****NOTES TO FINANCIAL STATEMENTS**

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**20. DEPOSITS**

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

**21. HELD-TO-MATURITY INVESTMENT**

	<b>Group</b>	
	2013 RMB'000	2012 RMB'000
Investment in ISM	<u>21,240</u>	<u>-</u>

**Share Subscription**

Pursuant to the Framework Agreement entered into with ISM on 1 July 2013, Biostime Pharma, a wholly-owned subsidiary of the Group, subscribed for 504,585 shares in the share capital of ISM ("Subscription Shares") with a nominal value of EUR5 per share and representing 20% of the total issued share capital of ISM as enlarged by the issuance of the Subscription Shares. Biostime Pharma is the only non-cooperative shareholder of ISM, while all the other shareholders of ISM are cooperative shareholders. ISM undertakes to use the proceeds from issuance of Subscription Shares exclusively for the purpose of the financing of the infant formula production and packaging industrial facility.

In accordance with applicable law, the subscription price was determined as equivalent to the Subscription Shares' nominal value with no premium applicable. Pursuant to the Framework Agreement and the bylaws of ISM ("Bylaws"), in the event that the Subscription Shares are redeemed by ISM as a result of withdrawal by Biostime Pharma or exclusion of Biostime Pharma by ISM from ISM's share capital, the redemption price of the Subscription Shares shall be equal to the nominal value of the Subscription Shares.

Pursuant to the relevant French law and the Bylaws, notwithstanding the number of shares held by Biostime Pharma, the voting rights of Biostime Pharma (represented by its delegates), as a non-cooperative shareholder, shall not exceed 10% of all voting rights in the general meeting of shareholders of ISM.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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#### 21. HELD-TO-MATURITY INVESTMENT (continued)

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

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

#### 22. INVESTMENTS IN SUBSIDIARIES

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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**22. INVESTMENTS IN SUBSIDIARIES (continued)**

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BiosTime, Inc. (Guangzhou) ("BiosTime Guangzhou") *	PRC/Mainland China	US\$73,010,000	100%	-	Research, development, processing of meat, fruit and vegetable powder and candy, sale of nutritional food, milk formulas and personal care products for infants and adults
BiosTime (Guangzhou) Health Products Limited ("BiosTime Health") *	PRC/Mainland China	US\$34,100,000	100%	-	Research, development, manufacture and sale of health products and special nutritional foods
BMcare Baby Products Inc. (Guangzhou) ("BMcare Guangzhou") *	PRC/Mainland China	US\$1,000,000	100%	-	Wholesale, retail and import and export of personal care products for infants
BiosTime Pharma	France	EUR10,000	100%	-	Trading of infant food and nutritional products
BiosTime (Guangzhou) Education Management Inc. ("BiosTime Education") *	PRC/Mainland China	US\$2,000,000	100%	-	Early childhood education advisory business and trading of related baby suppliers
BiosTime International Investment Limited ("BiosTime Investment")	BVI	US\$814,999	100%	-	Overseas investments, financing and other business cooperation
BiosTime Hong Kong Limited ("BiosTime HK")	Hong Kong	HK\$126,534,299	-	100%	Investment holding, international investment, trading and sales

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**22. INVESTMENTS IN SUBSIDIARIES (continued)**

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

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

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**23. INVENTORIES**

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

**24. TRADE AND BILLS RECEIVABLES**

	<b>Group</b>	
	2013 RMB'000	2012 RMB'000
Trade receivables	475	272
Bills receivable	14,707	100
Less: Impairment provision	<u>-</u>	<u>-</u>
	<u><u>15,182</u></u>	<u><u>372</u></u>

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

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

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

	<b>Group</b>	
	2013 RMB'000	2012 RMB'000
Within 1 month	7,605	150
1 to 3 months	7,576	134
Over 3 months	<u>1</u>	<u>88</u>
	<u><u>15,182</u></u>	<u><u>372</u></u>

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



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**NOTES TO FINANCIAL STATEMENTS**

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**24. TRADE AND BILLS RECEIVABLES (continued)**

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

**25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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

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

Note:

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**26. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS (continued)**

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

**27. TRADE AND BILLS PAYABLES**

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Trade payables	354,760	262,170	39,511	223,048
Bills payable	<u>6,874</u>	<u>948</u>	<u>-</u>	<u>-</u>
	<u><u>361,634</u></u>	<u><u>263,118</u></u>	<u><u>39,511</u></u>	<u><u>223,048</u></u>

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

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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28. OTHER PAYABLES AND ACCRUALS

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

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

29. INTEREST-BEARING BANK LOANS

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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30. DEFERRED TAX

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

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED****NOTES TO FINANCIAL STATEMENTS**

31 December 2013

**30. DEFERRED TAX (continued)**

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

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

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

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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31. DEFERRED INCOME

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

32. SHARE CAPITAL

Shares

	2013	2012
Authorised:		
10,000,000,000 (2012: 10,000,000,000) ordinary shares of HK\$0.01 each	<u>HK\$100,000,000</u>	<u>HK\$100,000,000</u>
Issued and fully paid:		
602,294,000 (2012: 602,294,000) ordinary shares of HK\$0.01 each	<u>HK\$6,022,940</u>	<u>HK\$6,022,940</u>
Equivalent to	<u>RMB5,161,000</u>	<u>RMB5,161,000</u>

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 33. SHARE OPTION SCHEMES

##### Pre-IPO Share Option Scheme

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

- (a) the subscription price per share for all options granted under the Pre-IPO Share Option Scheme is HK\$2.53;
- (b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further share options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date;
- (c) all share options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

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

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

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

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



BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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33. SHARE OPTION SCHEMES (continued)

Pre-IPO Share Option Scheme

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

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

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 33. SHARE OPTION SCHEMES

##### Pre-IPO Share Option Scheme (continued)

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

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

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

##### Share Option Scheme

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

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

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**33. SHARE OPTION SCHEMES (continued)**

**Share Option Scheme (continued)**

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

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

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

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

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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33. SHARE OPTION SCHEMES (continued)

Share Option Scheme (continued)

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

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

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

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

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

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

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 34. SHARE AWARD SCHEMES

##### Share Award Scheme

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

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

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

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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34. SHARE AWARD SCHEMES (continued)

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

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

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

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

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

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

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

2013 Share Award Scheme

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 34. SHARE AWARD SCHEMES (continued)

##### 2013 Share Award Scheme (continued)

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

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

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

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

#### 35. RESERVES

##### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 6 and 7 of the financial statements.

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

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

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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35. RESERVES (continued)

(b) Company

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

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



## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 35. RESERVES (continued)

##### (b) Company (continued)

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

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

#### 36. BUSINESS COMBINATION

On 30 December 2013, the Group acquired 100% interest in Changsha Yingke from a third party. Changsha Yingke is primarily engaged in the manufacture of infant formula products. The acquisition was made as part of the Group's strategy to manufacture certain of the Group's infant formula products in China. The purchase consideration for the acquisition was in the form of cash, with RMB177,000,000 paid at the acquisition date, RMB103,000,000 paid on 31 December 2013 and the remaining RMB70,000,000 would be settled pending several conditions.

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

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

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 36. BUSINESS COMBINATION (continued)

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

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

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

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

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

#### 37. CONTINGENT LIABILITIES

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

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**38. OPERATING LEASE ARRANGEMENTS**

**As lessee**

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

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

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

**39. COMMITMENTS**

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

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Contracted, but not provided for:				
Intangible assets	333	1,826	-	-
Fixed assets	<u>112,089</u>	<u>84,866</u>	<u>-</u>	<u>-</u>
	<u>112,422</u>	<u>86,692</u>	<u>-</u>	<u>-</u>

**BIOSTIME INTERNATIONAL HOLDINGS LIMITED****NOTES TO FINANCIAL STATEMENTS**

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**40. LOANS TO DIRECTORS**

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

Group

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

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

**41. RELATED PARTY BALANCES AND TRANSACTIONS**

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

**(a) Related party transactions**

	2013 RMB'000	2012 RMB'000
Purchases from a company under common control of directors	<u>5,630</u>	<u>2,354</u>

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

**(b) Outstanding balances with related parties**

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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41. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

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

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

42. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

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

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

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42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

2012		Group			
	Notes	Held-to-maturity investment RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Loans receivable	19	-	-	123,081	123,081
Non-current time deposits	26	-	-	942,062	942,062
Trade and bills receivables	24	-	-	372	372
Financial assets included in prepayments, deposits and other receivables		-	-	62,640	62,640
Cash and cash equivalents	26	-	-	1,669,066	1,669,066
		-	-	2,797,221	2,797,221
2013		Company			
	Notes		Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Loans receivable	19		-	112,587	112,587
Due from subsidiaries	22		-	567,783	567,783
Financial assets included in prepayments, deposits and other receivables			-	3,300	3,300
Derivative financial instrument	19		5,936	-	5,936
Cash and cash equivalents	26		-	174,253	174,253
			5,936	857,923	863,859

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42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

2012	Notes	Company		
		Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Loans receivable	19	-	123,081	123,081
Due from subsidiaries	22	-	532,777	532,777
Financial assets included in prepayments, deposits and other receivables		-	4,644	4,644
Cash and cash equivalents	26	-	147,503	174,503
		-	808,005	808,005

Financial liabilities at amortised cost

Group

	Notes	2013 RMB'000	2012 RMB'000
Trade and bills payables	27	361,634	263,118
Financial liabilities included in other payables and accruals		399,935	207,295
Interest-bearing bank borrowings	29	750,613	270,526
		1,512,182	740,939

Company

	Notes	2013 RMB'000	2012 RMB'000
Trade payables	27	39,511	223,048
Due to subsidiaries	22	26,878	29,005
Financial liabilities included in other payables and accruals		5,365	2,579
Interest-bearing bank borrowings	29	750,613	270,526
		822,367	525,158

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

The Group and the Company

	Carrying amounts		Fair values	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
<b>Financial assets</b>				
Derivative financial instrument	<u>5,936</u>	<u>-</u>	<u>5,936</u>	<u>-</u>

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposit, loans receivable, amounts due from directors, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- (a) The fair values of the non-current time deposits, loans receivable, bonds receivable, and held-to-maturity investment have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans, and the suppliers' non-performance risk for loans and bonds receivable as at 31 December 2013 was assessed to be insignificant.
- (b) The derivative financial instrument embedded in a loan receivable is measured using valuation techniques of present value calculations.



**BIOSTIME INTERNATIONAL HOLDINGS LIMITED**

**NOTES TO FINANCIAL STATEMENTS**

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**43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)**

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

	Valuation technique	Significant unobservable input	Range	Sensitivity of the input to fair value
Derivative financial instrument	Discounted cash flow method	Weighted average cost of capital (WACC)	12.2% to 14.2%	1% increase in WACC would result in decrease in fair value by RMB1,856,000 1% decrease in WACC would result in increase in fair value by RMB2,521,000
		Discount for lack of marketability	31.9% to 33.9%	1% increase in discount would result in decrease in fair value by RMB445,000 1% decrease in discount would result in increase in fair value by RMB225,000

Discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

**Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Group and Company Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instrument				
As at 31 December 2013	-	-	5,936	5,936

The Group and the Company did not have any financial assets measured at fair value as at 31 December 2012.

# BIOSTIME INTERNATIONAL HOLDINGS LIMITED

## NOTES TO FINANCIAL STATEMENTS

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### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, time deposits, and bank loans. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables and deposits and trade and other payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

#### *Interest rate risk*

In respect of the floating interest rate instruments, the Group is subject to the cash flow interest rate risk, while for the fixed interest rate instruments, the Group is subject to fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax by assuming the floating rate borrowings outstanding at the end of the reporting period were outstanding for the whole year.

	Increase/ (decrease) in basis points	Group Increase/ (decrease) in profit before tax RMB'000	Company Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2013	50	(2,835)	(3,326)
Year ended 31 December 2013	(50)	2,835	3,326
Year ended 31 December 2012	50	461	461
Year ended 31 December 2012	(50)	(461)	(461)

BIOSTIME INTERNATIONAL HOLDINGS LIMITED

NOTES TO FINANCIAL STATEMENTS

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Foreign currency risk*

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the unit's functional currencies. Approximately 89.2% (2012: 90.1%) of the Group's purchases were denominated in currencies other than the functional currencies of the operating units making the purchase. The Group also has certain bank balances denominated in HK\$, US\$ and Euro. In addition, the Group has investments denominated in Euro, provided loans to suppliers denominated in US\$ and DKK and borrowed bank loans in HK\$ and US\$. The Group did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations. However, the Group makes rolling forecasts on its foreign currency expenses and arranges payments, so as to alleviate the impact on its business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US\$, Euro, HK\$ and DKK exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in US\$/Euro/HK\$/DKK rate		Increase/ (decrease) in profit before tax
	%	2013 RMB'000	2012 RMB'000
If the RMB weakens against the US\$	5	(436)	1,815
If the RMB strengthens against the US\$	(5)	436	(1,815)
If the RMB weakens against the Euro	5	(7,004)	(8,819)
If the RMB strengthens against the Euro	(5)	7,004	8,819
If the RMB weakens against the HK\$	5	(29,818)	1,515
If the RMB strengthens against the HK\$	(5)	29,818	(1,515)
If the RMB weakens against the DKK	5	3,950	3,650
If the RMB strengthens against the DKK	(5)	(3,950)	(3,650)

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### *Credit risk*

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise notes and loans receivable, other receivables and deposits, cash and cash equivalents and time deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

##### *Liquidity risk*

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

As at 31 December 2013 and 2012, all the Group's financial liabilities would be due within 12 months.

##### *Capital management*

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a healthy liabilities to assets ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

## BIOSTIME INTERNATIONAL HOLDINGS LIMITED

### NOTES TO FINANCIAL STATEMENTS

31 December 2013

#### 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### *Capital management (continued)*

The Group monitors capital using the liabilities to assets ratio, which is total liabilities divided by total assets. The liabilities to assets ratios as at the end of the reporting periods are as follows:

	2013 RMB'000	2012 RMB'000
Total liabilities	<u>2,104,481</u>	<u>1,210,740</u>
Total assets	<u>4,620,074</u>	<u>3,533,392</u>
Liabilities to assets ratio	<u>46%</u>	<u>34%</u>

#### 45. EVENTS AFTER THE REPORTING PERIOD

On 20 February 2014, the Company issued zero coupon convertible bonds (the "Convertible Bonds") due 2019 with an aggregate principal amount of HK\$3,100,000,000. The Convertible Bonds became listed on the Stock Exchange since 21 February 2014. The Convertible Bonds will be convertible into shares at an initial conversion price of HK\$90.84 per share (subject to adjustment). Holders of the Convertible Bonds have the right to convert their Convertible Bonds into shares at any time during the conversion period (being on or after 4 April 2014 up to the close of business on the date falling seven days prior to 20 February 2019, or if such Convertible Bond has been called for redemption before the 20 February 2019, then up to and including the close of business on a date no later than seven days prior to the date fixed for redemption) at the then prevailing conversion price. Assuming full conversion of the Convertible Bonds at the initial Conversion Price of HK\$90.84, the Convertible Bonds will be convertible into 34,125,935 shares (subject to adjustment), representing approximately 5.67% of the issued share capital of the Company as at 20 February 2014 and approximately 5.36% of the issued share capital of the Company as enlarged by the issue of such 34,125,935 shares.

The net proceeds from the issue of the Convertible Bonds, after deduction of commissions and expenses are all intended to be used by the Company to finance expansion of existing businesses and general corporate purposes.

#### 46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2014.



## **Independent auditor's report to the members of Swisse Wellness Group Pty Ltd**

### ***Report on the financial report***

We have audited the accompanying financial report, being a general purpose financial report, of Swisse Wellness Group Pty Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2015, 2014 and 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the years then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Swisse Wellness Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at each year's end or from time to time during the financial years.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the financial report and have determined that the basis of preparation being Australian Accounting Standards (including the Australian Accounting Interpretations) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) as described in Note 1 to the financial statements, which forms part of the financial report, is appropriate to meet the needs of the members.

The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

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## **Independent auditor's report to the members of Swisse Wellness Group Pty Ltd (continued)**

### ***Auditor's opinion***

In our opinion,

- a) the financial report of Swisse Wellness Group Pty Ltd
  - i) presents fairly, in all material respects, the consolidated entity's financial position as at 30 June 2015, 2014 and 2013 and its financial performance for the years then ended;
  - ii) complies with Australian Accounting Standards .
- b) the financial report and notes also comply with International Financial Reporting Standards as issued by the IASB as disclosed in Note 1.

### ***Basis of accounting***

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial report has been prepared by the directors to meet the information needs of the members of the company. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the members of Swisse Wellness Group Pty Ltd.

PricewaterhouseCoopers

Paul Lewis  
Partner

Melbourne  
26 May 2016

**Swisse Wellness Group Pty Ltd**  
**Consolidated statements of financial position**  
**As at 30 June 2015**

	Notes	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
<b>NON-CURRENT ASSETS</b>				
Receivables	11	297	6,960	3,433
Investment accounted for using the equity method		-	-	325
Property, plant and equipment	12	3,145	5,285	6,542
Deferred tax assets	14, 20	3,416	4,645	3,012
Intangible assets	15	1,361	1,636	2,078
<b>Total non-current assets</b>		<b>8,219</b>	<b>18,526</b>	<b>15,390</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	8	57,219	14,146	797
Trade and other receivables	9	116,464	30,632	50,296
Inventories	10	18,303	13,785	16,875
Current tax receivables		-	273	2,969
<b>Total current assets</b>		<b>191,986</b>	<b>58,836</b>	<b>70,937</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	16	110,077	54,766	65,801
Borrowings	17	553	1,759	28,450
Current tax liabilities	13	24,214	-	-
Provisions	18	781	634	822
<b>Total current liabilities</b>		<b>135,625</b>	<b>57,159</b>	<b>95,073</b>
<b>NET CURRENT (LIABILITIES)/ ASSETS</b>		<b>56,361</b>	<b>1,677</b>	<b>(24,136)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>64,580</b>	<b>20,203</b>	<b>(8,746)</b>
<b>NON-CURRENT LIABILITIES</b>				
Borrowings	19	43,734	66,353	1,646
Provisions	21	251	171	90
<b>Total non-current liabilities</b>		<b>43,985</b>	<b>66,524</b>	<b>1,736</b>
<b>NET (LIABILITIES)/ ASSETS</b>		<b>20,595</b>	<b>(46,321)</b>	<b>(10,482)</b>
<b>EQUITY</b>				
Contributed equity	22	2,512	1	1
Other reserves	24(a)	3,278	4,125	554
Retained profits/(accumulated losses)	24(b)	13,533	(50,989)	(11,037)
Non-controlling interests	27	1,272	542	-
<b>TOTAL (DEFICIT)/ EQUITY</b>		<b>20,595</b>	<b>(46,321)</b>	<b>(10,482)</b>

*The above consolidated statements of financial position should be read in conjunction with the accompanying notes.*



**Swisse Wellness Group Pty Ltd**  
**Consolidated statements of comprehensive income**  
For the year ended 30 June 2015

	Notes	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
<b>Revenue from continuing operations</b>	4	313,065	125,551	149,730
Other income	5	175	5,479	9
Materials, consumables and freight		(118,924)	(61,601)	(65,660)
Employee benefits expense		(26,898)	(19,112)	(16,255)
Depreciation and amortisation expense	6	(3,067)	(3,080)	(2,298)
Advertising and marketing expenses		(26,499)	(29,736)	(45,128)
Selling and other rebates		(5,056)	(4,160)	(10,460)
Occupancy expenses		(2,183)	(1,571)	(1,181)
Administration expenses		(8,338)	(3,826)	(5,253)
Distribution costs		(5,610)	(2,733)	(4,513)
Other expenses		(6,439)	(5,044)	(5,116)
Finance costs	6	(7,693)	(7,680)	(2,745)
Share of profit from associates		-	312	326
<b>Profit/ (loss) before income tax</b>		102,533	(7,201)	(8,544)
Income tax (expense)/benefit	7	(28,783)	1,587	2,786
<b>Profit/ (loss) from continuing operations</b>		73,750	(5,614)	(5,758)
Profit/ (loss) from discontinued operation	30	-	(33,796)	(11,563)
<b>Profit/ (loss) for the year</b>		73,750	(39,410)	(17,321)
<b>Other comprehensive income/(loss)</b>				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	24(a)	(847)	(1,179)	554
<b>Other comprehensive income/(loss) for the year, net of tax</b>		(847)	(1,179)	554
<b>Total comprehensive income/(loss) for the year</b>		72,903	(40,589)	(16,767)
Profit/ (loss) is attributable to:				
Owners of Swisse Wellness Group Pty Ltd		72,351	(39,952)	(17,321)
Non-controlling interests		1,399	542	-
		73,750	(39,410)	(17,321)
<b>Total comprehensive income/ (loss) for the year is attributable to:</b>				
Owners of Swisse Wellness Group Pty Ltd		71,504	(41,131)	(16,767)
Non-controlling interests		1,399	542	-
		72,903	(40,589)	(16,767)

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

**Swisse Wellness Group Pty Ltd**  
**Consolidated statements of changes in equity**  
For the year ended 30 June 2015

	Notes	Contributed equity	Other reserves	Retained profits/ (Accumulated losses) \$	Total	Non-controlling interests	Total equity/ (deficiency in equity)
		AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>Balance at 1 July 2012</b>		1	-	6,384	6,385	-	6,385
Profit/ (loss) for the year		-	-	(17,321)	(17,321)	-	(17,321)
Other comprehensive income/ (loss)		-	554	-	554	-	554
<b>Total comprehensive income/ (loss) for the year</b>		-	554	(17,321)	(16,767)	-	(16,767)
<b>Transactions with owners in their capacity as owners:</b>							
Dividends provided for or paid	23	-	-	(100)	(100)	-	(100)
<b>Balance as 30 June 2013</b>		1	554	(11,037)	(10,482)	-	(10,482)
<b>Balance at 1 July 2013</b>		1	554	(11,037)	(10,482)	-	(10,482)
Profit/ (loss) for the year		-	-	(39,952)	(39,952)	542	(39,410)
Other comprehensive income/ (loss)		-	(1,179)	-	(1,179)	-	(1,179)
<b>Total comprehensive income/ (loss) for the year</b>		-	(1,179)	(39,952)	(41,131)	542	(40,589)
<b>Transactions with owners in their capacity as owners:</b>							
Issue of warrants		-	4,750	-	4,750	-	4,750
<b>Balance as 30 June 2014</b>		1	4,125	(50,989)	(46,863)	542	(46,321)
<b>Balance at 1 July 2014</b>		1	4,125	(50,989)	(46,863)	542	(46,321)
Profit/ (loss) for the year		-	-	72,351	72,351	1,399	73,750
Other comprehensive income/ (loss)		-	(847)	-	(847)	-	(847)
<b>Total comprehensive income/ (loss) for the year</b>		-	(847)	72,351	71,504	1,399	72,903
<b>Transactions with owners in their capacity as owners:</b>							
Contributions of equity, net of transaction costs and tax	22	2,511	-	-	2,511	-	2,511
Dividends paid	23	-	-	(7,829)	(7,829)	(669)	(8,498)
<b>Balance as 30 June 2015</b>		2,512	3,278	13,533	19,323	1,272	20,595

**Swisse Wellness Group Pty Ltd**  
**Consolidated statement of cash flows**  
*For the year ended 30 June 2015*

	Notes	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
<b>Cash flows from operating activities</b>				
(Loss)/ profit for the year		73,750	(39,409)	(17,321)
Depreciation and amortisation		3,067	3,080	2,298
Inventory provision		(1,447)	(59)	(1,511)
Discontinued operations		-	11,663	-
Provision for doubtful debts		300	4,822	10
Unwinding of discount on loan payable		2,123	1,270	-
Other non-cash items		(1,148)	352	643
Change in operating assets and liabilities:				
(Increase) decrease in trade and other receivables		(80,857)	11,614	(6,064)
(Increase) decrease in inventories		(3,070)	3,148	-
Decrease (increase) in deferred tax assets		1,229	(1,617)	(2,497)
Increase (decrease) in trade and other payables		57,296	(22,698)	6,197
Increase in provision for income taxes payable		24,487	2,697	(4,135)
Increase (decrease) in other provisions		228	(108)	325
<b>Net cash (outflow)/ inflow from operating activities</b>		<b>75,958</b>	<b>(25,245)</b>	<b>(22,055)</b>
<b>Cash flows from investing activities</b>				
Payments for property, plant and equipment		(653)	(1,637)	(5,074)
Proceeds from sale of property, plant and equipment		-	250	-
<b>Net cash (outflow) from investing activities</b>		<b>(653)</b>	<b>(1,387)</b>	<b>(5,074)</b>
<b>Cash flows from financing activities</b>				
Issue of shares		2,214	-	-
Issue of warrants		-	4,750	-
Proceeds from borrowings		-	61,922	27,139
Repayment of borrowings		(25,948)	(26,691)	-
Dividends paid	23	(8,498)	-	(100)
<b>Net cash inflow/ (outflow) from financing activities</b>		<b>(32,232)</b>	<b>39,981</b>	<b>27,039</b>
<b>Net increase in cash and cash equivalents</b>		<b>43,073</b>	<b>13,349</b>	<b>(90)</b>
Cash and cash equivalents at the beginning of the financial year		14,146	797	887
<b>Cash and cash equivalents at end of year</b>	8	<b>57,219</b>	<b>14,146</b>	<b>797</b>

# Swisse Wellness Group Pty Ltd

## Notes to the consolidated financial statements

30 June 2015

### 1 General Information

Swisse Wellness Group Pty Ltd ("the Company") is a company limited by shares, incorporated and domiciled in Australia. The Group is principally engaged in the distribution of vitamins and other health, body and skin products.

**Its registered office is:**

Swisse Wellness Group Pty Ltd  
Level 18  
530 Collins Street  
Melbourne VIC 3000

**Its principal place of business is:**

Swisse Wellness Group Pty Ltd  
36-38 Gipps Street  
Collingwood VIC 3066

#### Summary of significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of the financial information.

#### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. Swisse Wellness Group Pty Ltd is a for-profit entity for the purpose of preparing the financial statements.

The consolidated financial statements of Swisse Wellness Group Pty Ltd also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 Australian Dollars ("AUD") and all values are rounded to the nearest thousand except when otherwise indicated.

#### Basis of consolidation

The consolidated financial information include the financial information of the Company and its subsidiaries for the years ended 30 June 2013, 2014 and 2015. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the statement of profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the statement of profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

#### Restructure of the Swisse group

On 30 July 2013, Swisse Wellness Group Pty Ltd, a newly-formed Australian private company, became the parent company of two groups under common control, being:

- Swisse Wellness Pty Ltd and its subsidiaries (Australian and New Zealand operations), and
- SW International Pty Ltd and its subsidiaries (USA operations),

pursuant to a transaction in which all of the holders of ordinary shares in the acquired groups exchanged their holdings for equivalent ordinary shares of Swisse Wellness Group Pty Ltd.

**Swisse Wellness Group Pty Ltd**  
**Notes to the consolidated financial statements**  
**30 June 2015**

**Restructure of the Swisse group (continued)**

The restructure has been treated as a business combination involving entities under common control. Swisse Wellness Group Pty Ltd became the parent company pursuant to the restructure, and for financial reporting purposes Swisse Wellness Pty Ltd was considered the accounting acquirer. The historical consolidated financial statements of the Group apply a common control predecessor accounting policy and the Swisse Wellness Pty Ltd and SW International Pty Ltd results for the year ended 30 June 2013 are presented as though they had always been combined. The capital structure presented is that of Swisse Wellness Group Pty Ltd.

In addition, the financial information reflect both groups' full year results for the 2014 financial year, even though the business combination occurred part way through the 2014 financial year.

**New and amended standards adopted by the Group**

The Group has adopted the following revised standards and a new interpretation for the first time for the current year's financial information:

Amendments to AASB 10, AASB 12 and AASB 127 (Revised)	<i>Investment Entities</i>
Amendments to AASB 132	<i>Offsetting Financial Assets And Financial Liabilities</i>
Amendments to AASB 13 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendments to AASB 1 included in <i>Annual Improvements 2011-2013 Cycle</i>	<i>Meaning of Effective AASBs</i>
Amendments to AASB 119	<i>Defined Benefit Plans: Employee Contributions</i>

The adoption of the revised standards and a new interpretation has had no significant effect on the financial information of the Group.

**New standards and interpretations not yet adopted**

The Group has not applied the following new and revised AASBs that have been issued but are not yet effective, in the financial information:

AASB 9	<i>Financial Instruments</i>	Effective for annual periods beginning on or after 1 January 2018
Amendments to AASB 10 and AASB 128 (Revised)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective for annual periods beginning on or after 1 January 2016
Amendments to AASB 10, AASB 12 and AASB 128 (Revised)	<i>Investment Entities: Applying the Consolidation Exception</i>	Effective for annual periods beginning on or after 1 January 2016
AASB 15	<i>Revenue from Contracts with Customers</i>	Effective for annual periods beginning on or after 1 January 2018
Amendments to AASB 101	<i>Disclosure Initiative</i>	Effective for annual periods beginning on or after 1 January 2016
Amendments to AASB 116 and AASB 138	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	Effective for annual periods beginning on or after 1 January 2016
Amendments to AASB 127 (Revised)	<i>Equity Method in Separate Financial Statements</i>	Effective for annual periods beginning on or after 1 January 2016
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of AASBs</i>	Effective for annual periods beginning on or after 1 January 2016
AASB 16	<i>Leases</i>	Effective for annual periods beginning on or after 1 January 2019.

Further information about those AASBs that are expected to be applicable to the Group is as follows:

# Swisse Wellness Group Pty Ltd

## Notes to the consolidated financial statements

### 30 June 2015

#### **New standards and interpretations not yet adopted (continued)**

In July 2014, the IASB issued the final version of AASB 9, bringing together all phases of the financial instruments project to replace AASB 139 and all previous versions of AASB 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt AASB 9 from 1 January 2018. The Group expects that the adoption of AASB 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to AASB 10 and AASB 128 (Revised) address an inconsistency between the requirements in AASB 10 and in AASB 128 (Revised) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

AASB 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in AASB 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under AASBs. The Group expects to adopt AASB 15 on 1 January 2018 and is currently assessing the impact of AASB 15 upon adoption.

Amendments to AASB 116 and AASB 138 clarify the principle in AASB 116 and AASB 138 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to AASBs 2012-2014 Cycle sets out amendments to a number of AASBs. The Group expects to adopt the amendments from 1 January 2016. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has operating lease commitments of \$10,219,000. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments will be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

#### **Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

# Swisse Wellness Group Pty Ltd

## Notes to the consolidated financial statements

### 30 June 2015

#### Investment in associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and profit or loss and other comprehensive income of associate are included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investment in an associate.

The results of an associate are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in an associate is treated as non-current assets and is stated at cost less any impairment losses.

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 is measured at fair value with changes in fair value either recognised in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate AASB. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the statement of profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposal of and the portion of the cash-generating unit retained.

#### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or

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**Impairment of non-financial assets (continued)**

groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset

**Impairment of non-financial assets**

in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same Group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with AASB 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

- Motor vehicles	18.75 - 24.75%
- Leasehold improvements	7.50 - 37.50%
- Office furniture and equipment	7.50 - 50.00%
- Computer equipment	37.50 - 50.00%
- Plant and equipment	10.00 - 25.00%



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**Property, plant and equipment and depreciation (continued)**

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

**Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

*Computer software*

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

*Licence*

License is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 18 years.

*Research and development costs*

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

*Trademarks*

The Swisse trademarks are assessed for impairment on a regular basis and at least annually at the end of the reporting period. The carrying amounts are supported by the projected future cash flows expected to be generated by the use of the trademarks.

*Website development costs*

Costs incurred in developing a website that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to website development costs. Costs capitalised include external direct costs of materials and services. Amortisation is calculated on a straight line bases over a period of 5 years.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

**Investments and other financial assets**

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, or as held-to-maturity investment, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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**Investments and other financial assets (continued)**

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in AASB 139 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the statement of profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

**De-recognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset and that loss event have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists individually for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, and interest-bearing bank loans.

*Subsequent measurement*

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

**De-recognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the statement of profit or loss is recognised outside the statement of profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Tax consolidation legislation*

Swisse Wellness Group Pty Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Swisse Wellness Group Pty Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

# Swisse Wellness Group Pty Ltd

## Notes to the consolidated financial statements

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#### Income tax (continued)

##### *Tax consolidation legislation (continued)*

In addition to its own current and deferred tax amounts, Swisse Wellness Group Pty Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Swisse Wellness Group Pty Ltd for any current tax payable assumed and are compensated by Swisse Wellness Group Pty Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Swisse Wellness Group Pty Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

#### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

#### Share-based payments

The Group operates a management incentive share plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The Company grants the share options and share awards to its subsidiaries' employees in exchange for their services provided to the subsidiaries. Accordingly, in the Company's statement of financial position, the equity-settled share option and share award expense, which is recognised in the consolidated financial statements, is treated as part of the "investments in subsidiaries".

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**Share-based payments (continued)**

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options and shares held for the share award schemes are reflected as additional share dilution in the computation of earnings per share.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Dividends**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

**Foreign currencies**

The functional and presentation currency of the Group is the Australian Dollar ("AUD"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of the overseas subsidiary is a currency other than the AUD. As at the end of the reporting period, the assets and liabilities of the entity is translated into the presentation currency of the Group at the exchange rate ruling at the end of the reporting period and its profit or loss is translated into AUD at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into AUD at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into AUD at the weighted average exchange rate for the year.

**Employee benefits**

*Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

# Swisse Wellness Group Pty Ltd

## Notes to the consolidated financial statements

### 30 June 2015

#### **Employee benefits (continued)**

##### *Other long-term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period on national government bonds in 2013 and 2014 and corporate bonds in 2015 with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

##### *Other long-term employee benefit obligations (continued)*

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

##### *Profit sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### **Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **Compound financial instruments**

Compound financial instruments issued by the Group comprise warrants attached to the syndicated loan facility that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of the syndicated loan facility is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the syndicated loan facility as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the syndicated loan facility instrument is measured at amortised cost using the effective interest method.

The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

#### **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

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**2 Financial risk management**

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

<b>Risk</b>	<b>Exposure arising from</b>	<b>Measurement</b>	<b>Management</b>
Market risk - foreign exchange	Future commercial transactions  Recognised financial assets and liabilities not denominated in AUD	Cash flow forecasting Sensitivity analysis	Working capital management in same currency, pricing negotiation with overseas suppliers in AUD
Market risk - Interest rate	Long term borrowings at variable rates	Sensitivity analysis	Monitoring cash flows closely to determine timing and maximise quantum of debt repayments, therefore reducing interest rate risk exposure
Credit risk	cash and cash equivalents, trade receivables	Ageing analysis Credit ratings	Credit limits, retention of title over goods sold, letters of credit
Liquidity risk	Trade payables, borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Group's risk management is carried out by the executive management team under policies approved by the board of directors. The executive management team identifies and evaluates financial risks. The board provides the principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, credit risk, use of non-derivative financial instruments and investment of excess liquidity.

**(a) Market risk**

*(i) Foreign exchange risk*

The foreign denominated expenses are expected to be repaid with receipts from foreign denominated sales. The foreign currency exposure of these transactions has therefore not been hedged.

*Exposure*

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian Dollars is as follows:

	<b>30 June 2015 USD \$'000</b>	<b>30 June 2015 NZD \$'000</b>	<b>30 June 2015 GBP £'000</b>	<b>30 June 2014 USD \$'000</b>	<b>30 June 2014 NZD \$'000</b>	<b>30 June 2013 USD \$'000</b>
Trade receivables	-	3,558	-	839	578	-
Receivables from related parties	-	-	-	-	-	15
Other receivables	4,503	43	-	17	5	-
Trade payables	(765)	(597)	(31)	(1,206)	(144)	(856)
Other payables	(225)	(94)	-	(1,746)	(25)	(957)

The Group was not exposed to NZD or GBP In 2013 or the GPB in 2014.



**Swisse Wellness Group Pty Ltd**  
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**(a) Market risk (continued)**

*(ii) Foreign exchange risk (continued)*  
*Exposure (continued)*

During each year, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Amounts recognised in profit or loss</i>			
Net foreign exchange gain/ (loss)	(220)	(62)	9
<i>Net gains/ (losses) recognised in other comprehensive income</i>			
Translation of foreign operations	(846)	(1,179)	554

*Sensitivity*

As shown in the table above, the Group is primarily exposed to changes in USD/ AUD exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US dollar denominated financial instruments.

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
USD/ AUD exchange rate - increase 10%	(319)	190	163
USD/ AUD exchange rate - decrease 10%	390	(233)	(199)
NZD/ AUD exchange rate – increase 10%	(265)	38	-
NZD/ AUD exchange rate – decrease 10%	323	46	-

Profit is more sensitive to movements in the AUD/ USD exchange rates in 2013 and 2014 than 2015 because of the amount of transactions attributable to the USA operations. The Group's exposure to foreign exchange movements in 2015 is not material.

*(iii) Cash flow and fair value interest rate risk*

The Group's main interest rate risk arises from long term borrowings with variable rates, which expose the Group to cash flow interest rate risk. The Group's borrowings at variable rate were mainly denominated in AUD.

*Sensitivity*

Profit or loss is sensitive to higher/ lower interest income and expenses from cash and cash equivalents and borrowings as a result of changes to interest rates.

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Interest rates – strengthen by 100 bps	(573)	(651)	(221)
Interest rates - weaken by 100 bps	573	651	221

**(b) Credit risk**

Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding receivables.

*(i) Risk management*

Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The compliance with credit limits is regularly monitored by management.

There are significant concentrations of credit risk to Australian based wholesale pharmaceutical and grocery retailers, through exposure to individual customers within these specific industry sectors.

**Swisse Wellness Group Pty Ltd**  
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**(b) Credit risk (continued)**

*(ii) Security*

For customers without credit rating, the Group generally retains title over the goods until full payment is received, thus limiting the loss from a possible default to the profit margin made on sale. For some trade receivables the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

*(iii) Guarantees*

Credit risk also arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific board approval.

*(iv) Credit quality*

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external ratings (if available) or to historical information about counterparty default rates.

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Trade receivables</b>			
<i>Counterparties with external credit rating</i>			
A-	15,086	9,656	17,227
	<hr/> 15,086	<hr/> 9,656	<hr/> 17,227
<i>Counterparties without external credit rating *</i>			
Group 1	1,768	299	26
Group 2	88,262	19,056	28,883
Group 3	-	-	-
	<hr/> 90,030	<hr/> 19,355	<hr/> 28,909
<b>Total trade receivables</b>	<hr/> <b>105,116</b>	<hr/> <b>29,011</b>	<hr/> <b>46,136</b>
<b>Other receivables</b>			
Related parties and key management personnel	5,572	6,960	3,899
Receivables from once-off transactions with third parties **	195	238	311
Counterparty with an external credit rating of AA-	4,503	-	-
	<hr/> 10,270	<hr/> 7,198	<hr/> 4,210
<b>Cash at bank</b>			
AA-	20,172	101	303
A+	-	14,044	493
A	37,046	-	-
Unrated (petty cash)	1	1	1
	<hr/> 57,219	<hr/> 14,146	<hr/> 797

\* Group 1 - new customers (less than 6 months)

Group 2 - existing customers (more than 6 months) with no defaults in the past

Group 3 - existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.

\*\* The Group has procedures in place to assess whether to enter into once-off transactions with third parties, including mandatory credit checks.

**Swisse Wellness Group Pty Ltd**  
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**(b) Credit risk (continued)**

*(v) Impaired trade receivables*

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- \* significant financial difficulties of the debtor
- \* probability that the debtor will enter bankruptcy or financial reorganisation, and
- \* default or delinquency in payments

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

Individually impaired trade receivables relate to customers that are experiencing unexpected economic difficulties.

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
At 1 July	(4,832)	(10)	-
Provision for impairment recognised in the year	(300)	(4,822)	(10)
Receivables written off during the year as uncollectible	-	-	-
Unused amount reversed	-	-	-
At 30 June	<u>(5,132)</u>	<u>(4,832)</u>	<u>(10)</u>

As 30 June 2014 and 2015, \$4,822,000 of the provision for impairment related to discontinued operations.

*Amounts recognised in profit or loss*

During the year, the following gains were recognised in profit or loss in relation to impaired receivables.

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Impairment losses			
- individually impaired receivables	-	11	6
- movement in provision for impairment	300	4,832	-

*(vi) Past due not impaired*

As at 30 June, the following trade receivables were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Up to 3 months	7,950	311	5,403
3 to 6 months	110	27	786
	<u>8,060</u>	<u>338</u>	<u>6,189</u>

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables, other than a retention of title over goods sold to customers until cash is received.

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**(c) Liquidity risk**

*(i) Financing arrangements*

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
<b>Floating rate</b>			
- expiring within 1 year	-	-	19,811
- expiring beyond 1 year	24,649	2,025	-
	24,649	2,025	19,811

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. Subject to meeting financial covenants, the syndicated loan facilities may be drawn at any time in AUD and have a maturity date of 31 July 2016.

*(ii) Maturities of financial liabilities*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractu al cash flows	Carrying amount (assets)/ liabilities
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>At June 2013</b>							
<b>Non-derivatives</b>							
Trade payables	47,130	-	-	-	-	47,130	47,130
Borrowings(excluding finance leases)	17,512	10,300	-	-	-	27,812	27,189
Finance lease liabilities	922	922	1,844	604	-	4,292	2,907
<b>Total non-derivatives</b>	65,564	11,222	1,844	604	-	79,234	77,226
<b>At June 2014</b>							
<b>Non-derivatives</b>							
Trade payables	27,658	-	-	-	-	27,658	27,658
Borrowings (excluding finance leases)	2,294	2,329	4,442	72,536	-	81,601	66,009
Finance lease liabilities	922	922	562	42	-	2,448	2,103
<b>Total non-derivatives</b>	30,874	3,251	5,004	72,578	-	111,707	95,770
<b>At June 2015</b>							
<b>Non-derivatives</b>							
Trade payables	62,245	-	-	-	-	62,245	62,245
Borrowings (excluding finance leases)	1,427	1,449	46,969	-	-	49,845	43,694
Finance lease liabilities	549	12	32	10	-	603	592
<b>Total non-derivatives</b>	64,221	1,461	47,001	10	-	112,693	106,531

Of the \$47,001,000 disclosed in the June 2015 time band "between 1 and 2 years", the Group is considering early repayment of \$45,900,000 in the first quarter of the 2016 financial year.

**Swisse Wellness Group Pty Ltd**  
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**3 Significant accounting judgements and estimates**

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Tax provisions*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

*Deferred tax assets*

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

**Estimation uncertainties**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Provision for obsolete inventories*

Management reviews the aged analysis of inventories of the Group at each reporting date, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale or that will be sold below cost. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

*Provision for discounts and rebates*

Management estimates the expected discounts and rebates earned but not claimed by customers of the Group at each reporting date, and makes provision for discounts and rebates identified that are likely to be claimed in subsequent periods. Management estimates the provision for discounts and rebates based primarily on historical trends, discounts and promotions run by customers during the year and discounts and rebate claims settled subsequent to reporting date.

*Impairment of loans and receivables*

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

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<b>4</b>	<b>Revenue</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
		<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>From continuing operations</b>			
	<i>Sales revenue</i>			
	Sale of goods	391,375	183,978	225,099
	Less: trade discounts and rebates	(78,963)	(58,654)	(75,438)
		<u>312,412</u>	<u>125,324</u>	<u>149,661</u>
	<i>Other revenue</i>			
	Interest	653	227	69
		<u>313,065</u>	<u>125,551</u>	<u>149,730</u>
<b>5</b>	<b>Other income</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
		<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	Foreign exchange gains	-	-	9
	Other income	175	5,479	-
		<u>175</u>	<u>5,479</u>	<u>9</u>
<b>6</b>	<b>Expenses</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
		<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>Profit/(loss) before income tax includes the following specific expenses:</b>			
	<i>Depreciation</i>			
	Plant and equipment	1,843	1,618	1,429
	Office furniture and equipment	264	357	74
	Motor vehicles	16	16	18
	Leasehold improvements	528	191	178
	Computer equipment	40	534	274
	Website development amortisation	376	364	325
	Total depreciation and amortisation	<u>3,067</u>	<u>3,080</u>	<u>2,298</u>
	<i>Finance costs</i>			
	Interest and finance charges paid/payable	5,570	6,410	2,745
	Unwinding of discount on syndicated facility (note 20(a))	2,123	1,270	-
		<u>7,693</u>	<u>7,680</u>	<u>2,745</u>

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**7 Income tax expense**  
**(a) Income tax expense**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Current tax</i>			
Current tax	30,862	(2,075)	(289)
Current tax expense / (revenue) relating to under (over) provision in prior year	1,062	(35)	-
	<hr/>	<hr/>	<hr/>
	31,924	(2,110)	(289)
<i>Deferred tax</i>			
Deferred tax expense / (revenue) relating to the origination and reversal of temporary differences	(3,141)	523	(2,497)
Deferred tax expense / (revenue) relating to under (over) provision in prior year	-	-	-
	<hr/>	<hr/>	<hr/>
	(3,141)	523	(2,497)
	<hr/>	<hr/>	<hr/>
Total tax expense / (revenue)	28,783	(1,587)	(2,786)

**(b) Numerical reconciliation of income tax expense to prima facie tax**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Profit from continuing operations before income tax expense	102,531	(7,201)	(8,544)
Tax at the Australian tax rate of 30.0% (2014 - 30.0%)	30,759	(2,160)	(2,563)
Tax Effect of Earnings from Non Assessable Income	-	(94)	-
Tax Effect of Non Deductible Expenses	1,066	327	318
Tax Effect of Dividends from non wholly owned entities	(180)	120	-
Tax Effect of Disposal of Subsidiary	-	(61)	-
Tax Effect of Utilisation of Prior Year Losses not recognised as Deferred Tax Asset	(3,071)	-	-
Tax Effect of R&D deductions	(373)	(379)	(370)
Tax Effect of Cost Base adjustments on entry to Tax Consolidation	-	857	-
Under (over) provision in prior year	409	(35)	-
Sundry items	173	(42)	(74)
Franking credits transferred to tax losses	-	(120)	-
Non-taxable share of profit from associates	-	-	(97)
	<hr/>	<hr/>	<hr/>
	28,783	(1,587)	(2,786)

**Income tax rate**

The tax rate used in the above reconciliation is the tax rate payable on taxable profits under the applicable tax law of the country the Group operates in. The Group did not have any income subject to Hong Kong profits tax.

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**8 Current assets - Cash and cash equivalents**

	<b>2015</b> <b>AUD</b> <b>\$'000</b>	<b>2014</b> <b>AUD</b> <b>\$'000</b>	<b>2013</b> <b>AUD</b> <b>\$'000</b>
Cash at bank and in hand	57,219	14,146	797

**(a) Reconciliation to cash at the end of the year**

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

	<b>2015</b> <b>AUD</b> <b>\$'000</b>	<b>2014</b> <b>AUD</b> <b>\$'000</b>	<b>2013</b> <b>AUD</b> <b>\$'000</b>
Balances as above	57,219	14,146	797
Balances per consolidated statement of cash flows	57,219	14,146	797

**9 Current assets - Trade and other receivables**

	<b>2015</b> <b>AUD</b> <b>\$'000</b>	<b>2014</b> <b>AUD</b> <b>\$'000</b>	<b>2013</b> <b>AUD</b> <b>\$'000</b>
Trade receivables	110,248	33,843	46,146
Provision for impairment of receivables	(5,132)	(4,832)	(10)
	<u>105,116</u>	<u>29,011</u>	<u>46,136</u>
Receivables from related parties	5,275	-	466
Other receivables	4,698	238	311
Prepayments	1,375	1,383	3,383
	<u>116,464</u>	<u>30,632</u>	<u>50,296</u>

Trade receivables are unsecured and non-interest bearing. An aged analysis of trade receivables as at the end of the reporting period, based on the due date of the invoice and net of provisions, is as follows:

	<b>2015</b> <b>AUD</b> <b>\$'000</b>	<b>2014</b> <b>AUD</b> <b>\$'000</b>	<b>2013</b> <b>AUD</b> <b>\$'000</b>
Current	97,056	33,505	39,947
Within 1 month	4,870	142	5,403
1 to 3 months	3,080	169	-
Over 3 months	110	27	786
	<u>105,116</u>	<u>33,843</u>	<u>46,136</u>

*(i) Fair value of trade and other receivables*

Due to the short term nature of the current receivables, their carrying amount is assumed to be the same as the fair value. The fair values are calculated based on the cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

Receivables from related parties bear interest at market related rates, are repayable on demand and are expected to be settled by offsetting amounts due against dividends declared to these shareholders in future periods.

*(ii) Impairment and risk exposure*

Information about the impairment of trade and other receivables, their credit quality and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 3.



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**10 Current assets - Inventories**

	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
Raw materials and stores	4,210	179	-
Finished goods	14,661	15,621	18,949
Provisions for stock obsolescence	(568)	(2,015)	(2,074)
	18,303	13,785	16,875

**11 Non-current assets - Receivables**

	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
Receivables from related parties	297	6,960	3,433

**(a) Impaired receivables and receivables past due**

None of the non-current receivables are impaired or past due but not impaired.

**(b) Fair values**

The fair values and carrying values of non-current receivables are as follows:

	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
	Carrying amount	Carrying amount	Fair value
Receivables from related parties	297	297	6,960
			Fair value
			Carrying amount
			Fair value
			Fair value
			Fair value

**12 Non-current assets - Property, plant and equipment**

	Plant and equipment	Office furniture and equipment	Motor vehicles	Leasehold improvements	Computer equipment	Capital works in progress	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>At 30 June 2013</b>							
Cost	5,727	545	148	1,911	1,449	-	9,780
Accumulated depreciation	(1,961)	(265)	(98)	(413)	(501)	-	(3,238)
Net book amount	3,766	280	50	1,498	948	-	6,542
<b>At 30 June 2014</b>							
Cost	7,479	551	148	1,989	1,103	21	11,291
Accumulated depreciation	(4,254)	(331)	(114)	(604)	(703)	-	(6,006)
Net book amount	3,225	220	34	1,385	400	21	5,285
<b>At 30 June 2015</b>							
Cost	7,739	570	148	2,089	1,191	46	11,783
Accumulated depreciation	(6,095)	(388)	(130)	(1,150)	(875)	-	(8,638)
Net book amount	1,644	182	18	939	316	46	3,145

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**13 Current liabilities - Current tax payable**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Current tax liabilities	24,214	-	-

**14 Non-current assets - Deferred tax assets**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>The balance comprises temporary differences attributable</b>			
Tax losses and offsets	12	3,691	1,516
Employee benefits	309	212	273
Accruals and payables	4,653	810	395
Stock on hand	-	381	701
Borrowing costs	156	387	71
Provision for doubtful debts	90	-	3
Provision for fringe benefits tax	-	-	30
Black hole expenses	12	24	35
Total deferred tax assets	5,232	5,505	3,024
Set-off of deferred tax liabilities pursuant to set-off provisions (note 20)	(1,816)	(860)	(12)
Net deferred tax assets	3,416	4,645	3,012
Deferred tax assets expected to be recovered within 12 months	-	-	-
Deferred tax assets expected to be recovered after more than 12 months	5,232	5,505	3,024
	5,232	5,505	3,024

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	Tax losses and offsets	Employee benefits	Plant and equipment	Accruals and payables	Stock on hand	Borrowing costs	Provision for doubtful debts	Provision for fringe benefits tax	Black hole expenses	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>Movements</b>										
<b>At 1 July 2012</b>	-	176	21	122	169	14	-	33	43	578
(Charged)/credited to profit or loss	1,516	97	(21)	273	532	57	3	(3)	(8)	2,446
<b>At 30 June 2013</b>	1,516	273	-	395	701	71	3	30	35	3,024

	Tax losses and offsets	Employee benefits	Plant and equipment	Accruals and payables	Stock on hand	Borrowing costs	Provision for doubtful debts	Provision for fringe benefits tax	Black hole expenses	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>Movements</b>										
<b>At 1 July 2013</b>	1,516	273	-	395	701	71	3	30	35	3,024
(Charged)/credited to profit or loss	2,117	(61)	-	(169)	101	324	(3)	(35)	(9)	2,264
Under/ overprovision in prior year	58	-	-	584	(421)	(8)	-	-	(2)	212
Reallocation from DTA to DTL	-	-	-	-	-	-	-	5	-	5
<b>At 30 June 2014</b>	3,691	212	-	810	381	387	-	-	24	5,505

	Tax losses and offsets	Employee benefits	Plant and equipment	Accruals and payables	Stock on hand	Borrowing costs	Provision for doubtful debts	Provision for fringe benefits tax	Black hole expenses	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>Movements</b>										
<b>At 1 July 2014</b>	3,691	212	-	810	381	387	-	-	24	5,505
(Charged)/credited to profit or loss	(3,765)	68	-	3,883	(381)	(138)	90	-	(12)	(255)
Under/ overprovision in prior year	86	29	-	(40)	-	(93)	-	-	-	(18)
<b>At 30 June 2015</b>	12	309	-	4,653	-	156	90	-	12	5,232

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**15 Non-current assets - Intangible assets**

	Trademarks	Website development costs	Other	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>At 30 June 2013</b>				
Cost	419	1,984	-	2,403
Accumulation amortisation	-	(325)	-	(325)
Net book amount	<u>419</u>	<u>1,659</u>	<u>-</u>	<u>2,078</u>
<b>At 30 June 2014</b>				
Cost	581	1,734	13	2,328
Accumulation amortisation	-	(687)	(5)	(692)
Net book amount	<u>581</u>	<u>1,047</u>	<u>8</u>	<u>1,636</u>
<b>At 30 June 2015</b>				
Cost	676	1,734	-	2,410
Accumulated amortisation	-	(1,049)	-	(1,049)
Net book amount	<u>676</u>	<u>685</u>	<u>-</u>	<u>1,361</u>

**16 Current liabilities - Trade and other payables**

	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
Trade payables	62,245	27,658	47,130
Payable to related parties	-	-	1,875
Accrued expenses	21,804	5,226	4,745
Accrual for US closure costs	6,732	11,663	-
Provision for discounts and sales returns	19,296	10,219	12,051
	<u>110,077</u>	<u>54,766</u>	<u>65,801</u>

The aged analysis of the Group's trade payables as at the end of the reporting period, based on the invoice due date is as follows:

	2015	2014	2013
Current	41,504	18,614	33,831
Within 1 month	10,220	4,015	12,444
1 to 3 months	9,578	3,844	855
Over 3 months	943	1,185	-
	<u>62,245</u>	<u>27,658</u>	<u>47,130</u>

**17 Current liabilities - Borrowings**

	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
<b>Secured</b>			
Lease liabilities (note 29)	553	1,759	1,261
Other loans	-	-	27,189
Total secured current borrowings	<u>553</u>	<u>1,759</u>	<u>28,450</u>

Other loans comprise corporate debtor finance and a multiple advance facility with limits of AUD\$22,000,000 and AUD\$20,000,000 respectively. These facilities had a maturity date of 31 January 2014.

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**18 Current liabilities - Provisions**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Employee benefits (a)	781	634	822

**Amounts not expected to be settled within 12 months**

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group expects all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
Current leave obligations expected to be settled after 12 months	-	-	-

**19 Non-current liabilities - Borrowings**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Secured</b>			
Syndicated facility (a)	43,694	66,009	-
Lease liabilities	40	344	1,646
Total secured non-current borrowings	43,734	66,353	1,646

All banking facilities are held by Swisse Wellness Group Pty Ltd which in turn provides working capital to group entities by way of at call loans. All wholly owned Australian subsidiaries are guarantors to the AUD \$70,000,000 3 year term loan facilities provided to the Swisse Wellness Group Pty Ltd.

**(a)**

The fair value of the liability portion of the syndicated facility was determined using a market interest rate for an equivalent facility without an issue of warrants. The amount is recorded as a liability on an amortised cost basis until extinguished on maturity. The remainder of the proceeds is allocated to the warrants. This is recognised and included in shareholders' equity (note 24(a)).

Swisse Wellness Pty Ltd provided a guarantee and indemnity limited to 2013: AUD\$9,800,000, 2014: AUD\$8,450,000 and 2015 AUD\$8,450,000 in favour of the HSBC Bank Australia Limited in relation to a loan provided to an entity controlled by a member of key management personnel. As one of the guarantors, Swisse Wellness Pty Ltd accepts responsibility to pay the debt owing to HSBC Bank Australia Limited.

*(i) Fair value*

For the majority of the borrowings, the fair values are not materially different to their carrying amounts since the interest payable on these borrowings is either close to current market rates or the borrowings are of a short term nature. The fair value of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk.

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**19 Non-current liabilities – Borrowings (continued)**

*(ii) Loan covenants*

For the year ended 30 June 2013, the Group was required to comply with the following financial covenants:

- interest cover ratio must not be less than 1.0 times
- leverage ratio must not exceed 2.75 times
- the borrowing base ratio was to be maintained at a minimum of 1.0 times
- no more than 60% of net profit after tax could be paid as dividends

These facilities were terminated on 30 July 2013.

Under the terms of the new syndicated facilities entered into on 30 July 2013, the Group is required to comply with the following financial covenants for the years ended 2014 and 2015:

- leverage ratio must not exceed 3.0 times (2014: 3.8 times)
- advertising and proportional adjusted leverage ratio must not exceed 1.0 times (2014: 1.4 times)
- interest cover ratio must not be less than 2.0 times (2014: 2.0 times)

**20 Non-current liabilities - Deferred tax liabilities**

<b>The balance comprises temporary differences attributable to</b>	<b>2015 AUD \$'000</b>	<b>2014 AUD \$'000</b>	<b>2013 AUD \$'000</b>
Intangible assets	29	29	10
Plant and equipment	789	826	2
Prepayments	3	-	-
Provision for fringe benefits tax	(12)	5	-
Accrued income	600	-	-
Other	407	-	-
Total deferred tax liabilities	<u>1,816</u>	<u>860</u>	<u>12</u>
Set-off of deferred tax assets pursuant to set-off provisions (note 14)	<u>(1,816)</u>	<u>(860)</u>	<u>(12)</u>
Net deferred tax liabilities	-	-	-
Deferred tax liabilities expected to be recovered within 12 months	-	-	-
Deferred tax liabilities expected to be recovered after more than 12 months	1,816	860	12
	<u>1,816</u>	<u>860</u>	<u>12</u>

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	Intangible assets	Plant and equipment	Prepayments	Interest payable	Provision for fringe benefits tax	Accrued income	Other	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>Movements</b>								
<b>At 1 July 2012</b>	17	-	-	44	-	-	-	61
Charged/(credited) to profit or loss	(7)	2	-	(44)	-	-	-	(49)
<b>At 30 June 2013</b>	10	2	-	-	-	-	-	12

	Intangible assets	Plant and equipment	Prepayments	Interest payable	Provision for fringe benefits tax	Accrued income	Other	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>Movements</b>								
<b>At 1 July 2013</b>	10	2	-	-	-	-	-	12
Charged/ (credited) to profit or loss	3	(22)	-	-	-	-	-	(19)
Under/ overprovision in prior year (Credit)/ charge due to step down of tax cost setting amount due to becoming member of tax consolidated group	16	(11)	-	-	-	-	-	5
Reallocation from DTA to DTL	-	857	-	-	-	-	-	857
<b>At 30 June 2014</b>	29	826	-	-	5	-	-	860

	Intangible assets	Plant and equipment	Prepayments	Interest payable	Provision for fringe benefits tax	Accrued income	Other	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
<b>Movements</b>								
<b>At 1 July 2014</b>	29	825	-	-	5	-	-	860
Charged/ (credited) to profit or loss	-	(215)	3	-	(17)	600	-	369
Under/ overprovision in prior year	-	179	-	-	-	-	407	586
<b>At 30 June 2015</b>	29	789	3	-	(12)	600	407	1,816

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**21 Non-current liabilities - Provisions**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Employee benefits - long service leave	251	171	90

**22 Contributed equity**

**Share capital**

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>Shares</b>	<b>Shares</b>	<b>Shares</b>	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary share capital - fully paid	10,410,969	9,600,000	100	2,215	1	1
Convertible share capital	675,687	-	-	297	-	-
	11,086,656	9,600,000	100	2,512	1	1

**Movements in ordinary share capital**

**Details**

	<b>Number of shares</b>	<b>AUD \$'000</b>
Opening balance 1 July 2012	100	1
Shares issued	-	-
Balance 30 June 2013	100	1
Shares issued	9,599,900	-
Balance 30 June 2014	9,600,000	1
Shares issued	810,969	2,214
Balance 30 June 2015	10,410,969	2,215

**Movements in convertible share capital**

**Details**

	<b>Number of shares</b>	<b>AUD \$'000</b>
Opening balance 1 July 2012	-	-
Shares issued	-	-
Balance 30 June 2013	-	-
Shares issued	-	-
Balance 30 June 2014	-	-
Shares issued	675,687	297
Balance 30 June 2015	675,687	297

**(a) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Group does not have a limited amount of authorised capital.

**(b) Convertible share capital**

The Board approved a management incentive plan to enable eligible employees to acquire convertible shares in the Group. During 2015 the Group issued 675,687 convertible shares to eligible employees. Each convertible share could convert into an ordinary share on the sale of the business after 6 June 2016 if certain financial thresholds conditions were met, in which case it would rank equally with all other ordinary shares on conversion. The convertible shares do not confer on the holders any voting rights or dividends declared by the board of directors of the Group. If the sale of the business occurred prior to 6 June 2016 (including the satisfaction of certain conditions as part of the sale), the convertible shares would automatically be forfeited and/or cancelled.



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**22 Contributed equity (continued)**

**(c) Risk management**

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

**23 Dividends**

**Ordinary shares**

	<b>2015</b> <b>AUD</b> <b>\$'000</b>	<b>2014</b> <b>AUD</b> <b>\$'000</b>	<b>2013</b> <b>AUD</b> <b>\$'000</b>
Fully franked based on tax paid @ 30%	8,498	-	100

The Group declared and paid dividends of AUD\$54 million to shareholders subsequent to 30 June 2015

**24 Other reserves/retained profits/ (accumulated losses)**

**(a) Other reserves**

	<b>2015</b> <b>AUD</b> <b>\$'000</b>	<b>2014</b> <b>AUD</b> <b>\$'000</b>	<b>2013</b> <b>AUD</b> <b>\$'000</b>
Foreign currency translation	(1,472)	(625)	554
Share capital reserve	4,750	4,750	-
	<u>3,278</u>	<u>4,125</u>	<u>554</u>

Notes	<b>2015</b> <b>AUD</b> <b>\$'000</b>	<b>2014</b> <b>AUD</b> <b>\$'000</b>	<b>2013</b> <b>AUD</b> <b>\$'000</b>
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**Movements:**

*Share capital reserve*

Opening balance	4,750	-	-
Issue of warrants	-	4,750	-
Balance 30 June	<u>4,750</u>	<u>4,750</u>	<u>-</u>

*Foreign currency translation*

Opening balance	(625)	554	-
Currency translation differences arising during the year	(847)	(1,179)	554
Balance 30 June	<u>(1,472)</u>	<u>(625)</u>	<u>554</u>

*(i) Nature and purpose of other reserves*

*Share capital reserve*

On 31 July 2013 the Group issued 400,000 warrants to MTGRP LLC, an investment holding company and a wholly owned subsidiary of Goldman Sachs Group Inc. as part of the refinancing of its banking facilities. The warrants are convertible to ordinary shares up to 5 years from the date after the first drawdown under the syndicated loan facility.

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**24 Other reserves/retained profits/ (accumulated losses) (continued)**

*Share capital reserve (continued)*

The fair value of the syndicated facility was determined using a market interest rate for an equivalent facility without an issue of warrants. The fair value was determined was used to record the liability with the remainder of the proceeds allocated to the share capital reserve.

*Foreign currency translation*

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

**(b) Retained profits/ (accumulated losses)**

Movements in retained profits/(accumulated losses) were as follows:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance 1 July	(50,989)	(11,037)	6,384
Net profit/(loss) for the year	72,351	(39,952)	(17,321)
Dividends	(7,829)	-	(100)
Balance 30 June	<u>13,533</u>	<u>(50,989)</u>	<u>(11,037)</u>

**25 Contingencies**

The Group had no contingent liabilities at 30 June 2013, 2014 and 2015.

**26 Commitments**

**(a) Capital commitments**

The Group had no capital commitments at 30 June 2013, 2014 and 2015.

**(b) Lease commitments: Group as lessee**

*Non-cancellable operating leases*

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:			
Within one year	808	1,018	903
Later than one year but not later than five years	4,309	1,432	-
Later than five years	5,102	-	1,656
	<u>10,219</u>	<u>2,450</u>	<u>2,559</u>

*Finance leases*

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:			
Within one year	562	1,838	1,384
Later than one year but not later than five years	42	349	1,695
Later than five years	-	-	-
	<u>604</u>	<u>2,187</u>	<u>3,079</u>

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**27 Interests in other entities**

**Significant investments in subsidiaries**

The financial information incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Principal activity	Country of incorporation	Class of shares	Financial year end	Issued capital 2015 AUD \$'000	Equity holding *		
						2015 %	2014 %	2013 %
SW International Pty Ltd	Intermediate holding company for the Group's international operations	Australia	Ordinary	30 June	**	100.00	100.00	100.00
SWG Holdco Pty Ltd	Intermediate holding company for the Group	Australia	Ordinary	30 June	**	100.00	100.00	100.00
Swisse Wellness Pty Ltd	Research, marketing and distribution of vitamins and health supplements in Australia	Australia	Ordinary	30 June	**	100.00	100.00	100.00
Swisse Wellness Pty Limited	Marketing and distribution of vitamins and health supplements in New Zealand	New Zealand	Ordinary	30 June		100.00	100.00	100.00
RSS 4P's Pty Ltd***	Director controlled entity established to pay salaries and director fees	Australia	Ordinary	30 June	**	-	-	-
Noisy Beast Pty Ltd	Advertising agency operating in Australia	Australia	Ordinary	30 June	5	47.33	47.33	40.00
Noisy Beast Limited	Advertising agency operating in UK	England and Wales	Ordinary	30 June	**	47.33	47.33	40.00
SW (US) Inc.	Intermediate holding company of the USA operations	USA	Ordinary	30 June	**	100.00	100.00	100.00
Swisse Wellness Inc.	Marketing and distribution of vitamins and health supplements in USA	USA	Ordinary	30 June	**	100.00	100.00	100.00
Swisse Wellness Limited	Marketing and distribution of vitamins and health supplements in England and Wales	England and Wales	Ordinary	30 June	**	100.00	100.00	100.00

**Swisse Wellness Group Pty Ltd**  
**Notes to the consolidated financial statements**  
**30 June 2015**

**27 Interests in other entities (continued)**

**Significant investments in subsidiaries (continued)**

Name of entity	Principal activity	Country of incorporation	Class of shares	Financial year end	Issued capital 2015 AUD \$'000	Equity holding *		
						2015 %	2014 %	2013 %
Swisse Wellness GmbH	Marketing and distribution of vitamins and health supplements in Switzerland	Switzerland	Ordinary	30 June	**	100.00	100.00	100.00

\* The proportion of ownership interest is equal to the proportion of voting power held.

\*\* less than AUD \$1,000

\*\*\* Common shareholding and economically dependant

**Non-controlling interests (NCI)**

	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
Interest in:			
Share capital of Noisy Beast Pty Ltd	1,272	542	-

**28 Related party transactions**

**Parent entities**

The parent entity of the Group was CLED Pty Ltd, a company incorporated and domiciled in Australia.

**Subsidiaries**

Interests in subsidiaries are set out in note 27.

**Key management personnel compensation**

	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
Short-term employee benefits	4,659	2,698	2,506
Long-term benefits	25	24	23
Share-based payments	202	-	-
	4,886	2,722	2,529

**Five highest paid employees**

The five highest paid employees during the year included 2013: two, 2014: three and 2015: three key management personnel whose remuneration is included in the note above. Details of the remuneration of the year of the remaining 2013: three, 2014: two, 2015: two highest paid employees who are neither a director nor a chief executive of the Group are as follows:

	2015 AUD \$'000	2014 AUD \$'000	2013 AUD \$'000
Short-term employee benefits	923	642	933
Long-term benefits	40	28	40
Termination benefits	46	-	-
Share-based payments	-	-	46
	1,009	670	1,019

**Swisse Wellness Group Pty Ltd**  
**Notes to the consolidated financial statements**  
**30 June 2015**

**28 Related party transactions (continued)**

**Transactions with key management personnel**

The following amounts were recognised during the reporting period from other transactions with key management personnel:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Loans to key management personnel</i>			
Beginning of the year	5,176	1,596	92
Loans advanced	2,033	3,410	5,590
Loan repayments received	(2,683)	-	(4,000)
Interest charged	-	-	(114)
Interest received	703	170	28
End of year	<u>5,299</u>	<u>5,176</u>	<u>1,596</u>

**Transactions with other related parties**

The following transactions occurred with related parties:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Operating expenses</i>			
Rental expense payable to entities controlled by key management personnel	324	374	427
Purchase of advertising services from related parties *	-	578	4,645

\* Advertising services purchased from Noisy Beast Pty Ltd. From November 2013, Noisy Beast Pty Ltd has been consolidated into the Group and intercompany transactions eliminated.

**Outstanding balances arising from sales/purchases of goods and services**

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current receivables</b>			
Loan receivable from Noisy Beast Pty Ltd	-	-	80
Sundry debtors	-	-	386
<b>Current payables</b>			
Entities controlled by key management personnel	-	-	(114)
Other related parties	-	-	(1,761)

**Swisse Wellness Group Pty Ltd**  
**Notes to the consolidated financial statements**  
**30 June 2015**

**28 Related party transactions (continued)**

**Loans to/ from related parties**

The following balances are outstanding at the end of the reporting period in relation to loans to and from related parties:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
M Saba	1,032	1,061	656
S Ring	(597)	1,032	2
R Sali	1,162	3,082	4,570
The Good Vitamins Company	1,837	1,751	46
Byfield	-	16	-
Hikton	-	17	-
T O'Hoy	47	-	-
R Sali	71	-	-
M Da Gama Pinto	47	-	-
A Karafilli	36	-	-
M Howard	24	-	-
C Crowley	24	-	-
G Livery	24	-	-
U Irgens	24	-	-

**29 Financial information of the Company**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total assets	77,478	34,325	200
Total liabilities	(68,925)	(66,009)	-
<b>Net assets</b>	<b>8,553</b>	<b>(31,684)</b>	<b>200</b>
Representing:			
Share capital	2,512	200	200
Reserves	6,041	(31,884)	-
<b>Total equity</b>	<b>8,553</b>	<b>(31,684)</b>	<b>200</b>

**30 Discontinued operation**

During the 2014 financial year the Group made the decision to close its USA operations and initiated an active program to exit the USA market. The USA operations had ceased trading prior to 30 June 2014 and were reported in the 2013 financial statements of the Group as a discontinued operation.

Financial information relating to the discontinued operation for the year ended 30 June 2014 is set out below:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue	-	2,519	11,734
Expenses	-	(36,315)	(23,297)
(loss) before income tax	-	(33,796)	(11,563)
Income tax expense	-	-	-
(loss) after income tax of discontinued operation	-	(33,796)	(11,563)

**Swisse Wellness Group Pty Ltd**  
**Notes to the consolidated financial statements**  
**30 June 2015**

**30 Discontinued operation (continued)**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
<i>Cash flows</i>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Operating cash flows	3,262	(13,810)	(14,001)
Investing cash flows	-	17	(16)
Financing cash flows	(1,623)	13,942	14,497
Total cash flows	<u>1,639</u>	<u>149</u>	<u>480</u>

The carrying amounts of assets and liabilities as at 30 June 2014 were:

	<b>2014</b>
	<b>AUD</b>
	<b>\$'000</b>
Cash and cash equivalents	230
Trade and other receivables	856
Inventories	<u>2,920</u>
Total Assets	<u>4,006</u>
Trade and other payables	<u>(20,597)</u>
Total liabilities	<u>(20,597)</u>
Net liabilities	<u>(16,591)</u>

The 2014 financial statements included accruals for closure costs of AUD\$16,495,000 relating to expected costs to be incurred on stock returns, onerous contracts, handling/ repacking costs, freight and other costs to be incurred in the closure of the USA operations.

**31 Subsequent events**

The Group and Biostime International Holdings Limited ("Biostime") announced on 17 September 2015 that they have entered into a agreement for Biostime to acquire a 83% interest in the Group for total consideration of AUD\$1.38 billion (the "Acquisition"). Biostime has obtained written Shareholders' approval for the Acquisition pursuant to Rule 14.44 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited from Biostime Pharmaceuticals (China) Limited, the controlling shareholder of Biostime. Completion date for the transaction was 30 September 2015.

In accordance with the terms of the Management Incentive Share Plan, the convertible shares (note 22(b)) were forfeited and/ or cancelled immediately prior to completion of the Acquisition. The eligible employees were paid a cash bonus of approximately AUD\$95 million on completion of the Acquisition. The cash bonus is equivalent to the proceeds the eligible employees would have received had the convertible shares been converted to ordinary shares.

The Group declared and paid dividends of approximately AUD\$53.914 million to shareholders subsequent to 30 June 2015.

Subsequent to 30 June 2015, the Group repaid all of its principal and interest owing on the syndicated facility with MTGRP LLC, an investment holding company and a wholly owned subsidiary of Goldman Sachs Group Inc. (note 19). The syndicated facility was terminated on 25 September 2015 and all encumbrances under the facility agreement were released by the financier.

Subsequent to 30 June 2015, the Group was discharged from a guarantee and indemnity limited to AUD\$8,450,000 provided in favour of the HSBC Bank Australia Limited in relation to a loan provided to an entity controlled by a member of key management personnel.

Subsequent to 30 June 2015, the security under the guarantee facility between Swisse Wellness Pty Limited and HSBC Bank Australia Limited under a letter of offer dated 30 July 2013 comprising of a AUD1,850,000 guarantee facility, an uncommitted and unadvised foreign exchange facility and a corporate platinum credit card with a AUD150,000 limit was discharged.

Other than the above, no matter or circumstance has occurred subsequent to 30 June 2015 that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

**Swisse Wellness Group Pty Ltd**  
**Notes to the consolidated financial statements**  
**30 June 2015**

**32 Operating segment information**

For management purposes, the Group is organised into business units based on their products and services. The Group has two reportable segments as follows:

- (a) Vitamins and supplements
- (b) Other (superfoods, active, skincare)

The Group is domiciled in Australia. The Group's revenue from external customers is predominately derived from Australia and New Zealand and its non-current assets are located in Australia. During the 2014 financial year the Group made the decision to close its USA operations and ceased trading prior to 30 June. Refer to note 30 for further information on the discontinued operation.

Management monitors the results of the Group's segments separately for the purposes of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on segment results which is measured as sales of goods (consistent with reportable sales of goods – note 4) less cost of sales except that trade discounts, interest income, other income, corporate and unallocated expenses, finance costs, tax expense are excluded from the results.

During the years ended 30 June 2013, 2014 and 2015, revenue from transactions with 2, 4 and 4 external customers respectively amounted to 10% or more of the Group's total revenue.

**Operating segment information for the year ended 30 June 2013:**

<b>Segment revenue:</b>	<b>Vitamins</b>	<b>Other</b>	<b>Unallocated</b>	<b>Group</b>
Sales to external customers	202,687	22,412	-	225,099
<b>Segment result</b>	139,144	15,782	-	154,926
<i>Reconciliations:</i>				
Trade discounts				(75,438)
Interest income				69
Other income and unallocated gains				9
Corporate and other unallocated expenses				(85,365)
Finance costs				(2,745)
Tax expense				2,786
Profit/(loss) from discontinued operations				(11,563)
Profit after tax				<u>(17,321)</u>

**Other segment information:**

Depreciation and amortisation	(2,298)
Write-down/(back) of inventories to net realisable value	(2,021)
Capital expenditure	(5,074)



**Swisse Wellness Group Pty Ltd**  
**Notes to the consolidated financial statements**  
**30 June 2015**

**32 Operating segment information (continued)**

**Operating segment information for the year ended 30 June 2014:**

<b>Segment revenue:</b>	<b>Vitamins</b>	<b>Superfoods</b>	<b>Unallocated</b>	<b>Group</b>
Sales to external customers	159,463	24,515	-	183,978
<b>Segment result</b>	104,815	17,560	-	122,375
<i>Reconciliations:</i>				
Trade discounts				(58,654)
Interest income				227
Other income and unallocated gains				5,479
Corporate and other unallocated expenses				(68,948)
Finance costs				(7,680)
Tax expense				1,587
Profit/(loss) from discontinued operations				(33,796)
Profit/ (loss) after tax				(39,410)
<b>Other segment information:</b>				
Depreciation and amortisation				(3,080)
Write-down/(back) of inventories to net realisable value				(2,251)
Capital expenditure				(1,637)

**Operating segment information for the year ended 30 June 2015:**

<b>Segment revenue:</b>	<b>Vitamins</b>	<b>Superfoods</b>	<b>Unallocated</b>	<b>Group</b>
Sales to external customers	347,357	44,018	-	391,375
<b>Segment result</b>	237,342	35,111	-	272,453
<i>Reconciliations:</i>				
Trade discounts				(78,963)
Interest income				653
Other income and unallocated gains				175
Corporate and other unallocated expenses				(84,092)
Finance costs				(7,693)
Tax expense				(28,783)
Profit/(loss) from discontinued operations				-
Profit after tax				73,750
<b>Other segment information:</b>				
Depreciation and amortisation				(3,067)
Write-down/(back) of inventories to net realisable value				(872)
Capital expenditure				(653)

**Swisse Wellness Group Pty Ltd**  
**Directors' declaration**  
**30 June 2015**

In the directors' opinion:

- (a) the financial statements and notes set out on pages 2 to 43:
  - (i) comply with Australian Accounting Standards and other mandatory professional reporting requirements, and
  - (ii) give a true and fair view of the Group's financial position as at 30 June 2013, 2014 and 2015 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Director

Melbourne

24/5 2016

## PRINCIPAL AND REGISTERED OFFICES OF THE COMPANY

**Registered Office**  
Cricket Square Hutchins Drive, P.O. Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

**Principal Place of Business in the PRC**  
29th Floor, Guangzhou International  
5 Zhujiang West Road, Zhujiang New Town  
Tianhe District  
Guangdong Province 510623  
PRC

**Principal Place of Business in Hong Kong**  
No. 3508, 35/F, West Tower  
Shun Tak Centre  
200 Connaught Road Central  
Hong Kong

**Principal Place of Business in Australia**  
111 Cambridge Street  
Collingwood VIC 3066  
Australia

## LEGAL ADVISORS TO THE COMPANY

*as to matters of US, English, Hong Kong and Australian law*

**Clifford Chance**  
27th Floor, Jardine House  
One Connaught Place  
Hong Kong

*as to matters of PRC law*

**Zhong Lun Law Firm**  
Level 10&11, Two IFC  
No. 8 Century Avenue, Pudong New Area  
Shanghai 200120  
PRC

*as to matters of Cayman Islands and  
British Virgin Islands law*

**Ogier**  
11/F, Central Tower  
28 Queen's Road Central  
Hong Kong

## LEGAL ADVISORS TO THE INITIAL PURCHASER

*as to matters of US and English law*

**Linklaters**  
10th Floor, Alexandra House  
18 Chater Road  
Hong Kong

*as to matters of PRC law*

**Fangda Partners**  
32/F, Plaza 66 Tower 1  
1266 Nan Jing West Road  
Shanghai 200040  
China

*as to matters of Australian law*

**Allens**  
Deutsche Bank Place  
Corner of Hunter & Phillip Streets  
Sydney NSW 2000  
Australia

*as to matters of Cayman  
Islands and  
British Virgin Islands law*

**Walkers**  
Suite 1501-1507  
Alexandra House  
18 Chater Road  
Hong Kong

## INDEPENDENT AUDITORS

**Ernst & Young**  
Certified Public Accountants  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

## TRUSTEE, PAYING AGENT, TRANSFER AGENT AND REGISTRAR

**HSBC Bank USA, National Association**  
452 Fifth Avenue - 8E6  
New York, NY 10018  
United States of America  
Attention: Corporate Trust and Loan Agency

## LEGAL ADVISOR TO THE TRUSTEE

*as to matters of New York law*  
**Mayer Brown JSM**  
16<sup>th</sup> - 19<sup>th</sup> Floors, Prince's Building  
10 Chater Road  
Central  
Hong Kong