THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Biostime International Holdings Limited, you should at once hand this circular to the purchaser or transferee or to a licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an offer to sell or an invitation or offer to acquire purchase or subscribe for any securities in the Company.

BIOSTIME

Biostime International Holdings Limited

合生元國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1112)

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE REMAINING APPROXIMATELY 17% EQUITY INTEREST IN BIOSTIME AUSTRALIA HOLDINGS AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

All capitalised terms used in this circular have the meaning set out in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 4 to 16 of this circular.

A notice convening the EGM to be held at 29/F, Guangzhou International Finance Center, 5 Zhujiang West Road, Zhujiang New Town, Tianhe District, Guangzhou, Guangdong Province, PRC on Tuesday, 17 January 2017 at 9:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meetings thereof should you so desire and in such event, the relevant form(s) of proxy shall be deemed to be revoked.

30 December 2016

CONTENTS

Page

Unless the context otherwise requires, the following expressions have the following meanings in this circular:

"17% Acquisition"	the proposed acquisition by the Company (by itself or through its subsidiary) of a total of approximate 17% equity interest in Biostime Australia Holdings from the Target Minority Shareholders, pursuant to the terms and conditions of the Share Sale Agreement
"83% Acquisition"	the acquisition by Biostime Australia Investment of an approximate 83% equity interest in Swisse Wellness from, among others, the Target Minority Shareholders, pursuant to the terms and conditions of the Previous Share Sale Agreement, which was completed on 30 September 2015
"Announcement"	the Company's announcement dated 15 December 2016 in relation to the 17% Acquisition
"associate"	has the meaning ascribed to it under the Listing Rules
"AUD"	Australian dollars, the lawful currency of Australia
"BAH Group"	Biostime Australia Holdings and its subsidiaries, including the Swisse Group
"Biostime Australia"	Biostime Healthy Australia Pty Limited, a company incorporated in Victoria, Australia, an indirect subsidiary of the Company and a direct shareholder of Biostime Australia Holdings
"Biostime Australia Holdings"	Biostime Healthy Australia Holdings Pty Limited, a company incorporated in Victoria, Australia, an indirect subsidiary of the Company and the direct sole shareholder of Biostime Australia Investment
"Biostime Australia Investment"	Biostime Healthy Australia Investment Pty Limited, a company incorporated in Victoria, Australia, an indirect subsidiary of the Company and the direct sole shareholder of Swisse Wellness
"Board"	the board of Directors
"Company"	Biostime International Holdings Limited (合生元國際控股有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1112)
"Completion"	completion of the 17% Acquisition

"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder"	Biostime Pharmaceuticals (China) Limited, a company incorporated in the British Virgin Islands with limited liability, as the controlling shareholder of the Company holding approximately 71.377% of the total issued share capital of the Company as at the Latest Practicable Date
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company proposed to be convened for the Shareholders to consider and, if thought fit, approve relevant matters in relation to the 17% Acquisition
"Enlarged Group"	the Group including the BAH Group as a group of companies wholly owned by the Company, assuming and following the Completion
"FATA"	the Foreign Acquisitions and Takeovers Act 1975 (Cth)
"Group"	the Company and its subsidiaries, including the BAH Group
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	21 December 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in the circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, and for the purpose of this circular excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"Previous Share Sale Agreement"	the share sale agreement dated 17 September 2015 entered into between, among others, Biostime Australia Investment, the Target Minority Shareholders and the Company in relation to the 83% Acquisition
"RMB"	Renminbi, the lawful currency of the PRC

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Sale Agreement"	the share sale agreement dated 15 December 2016 entered into between the Company and the Target Minority Shareholders in relation to the 17% Acquisition
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	ordinary shares of HKD0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it under the Listing Rules
"Swisse Group" or "Swisse"	Swisse Wellness and its subsidiaries, being the operating companies of the BAH Group
"Swisse Wellness"	Swisse Wellness Group Pty Ltd
"Target Minority Shareholders"	(1) Kednel Pty Ltd as trustee for the Sali Investment Trust; (2) Super Radek Pty Ltd as trustee for the Super Radek Superannuation Fund; (3) O'Hoy Super Pty Ltd as trustee for the Jennifer O'Hoy Superannuation Fund; (4) Ankara Holdings Pty Ltd as trustee for the Ankara Family Trust; (5) Michael Rosario John Da Gama Pinto as trustee for the DGP Trust; (6) Ulrich Algreen Irgens; (7) GFBR Nominees Pty Limited as trustee for the George St Group Superannuation Fund; (8) Copper Blonde Pty Limited as trustee for the MJ & MD Howard Family Trust; (9) Catherine Crowley; (10) George Livery and Lynne Maree Livery; (11) Michael Rosario John Da Gama Pinto and Amanda Da Gama Pinto as trustees for the DGP Superannuation Fund; (12) Fiske Pty Ltd as trustee for the Ring Family Trust; and (13) Michael Saba
"USD"	US dollars, the lawful currency of the United States of America
"%"	per cent.

For the purposes of this circular, unless otherwise indicated, conversion of AUD into HKD is calculated at the exchange rate of AUD1 to HKD5.65. This exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, or may be exchanged at this or any other rate or at all.

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

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

Executive Directors:
Mr. Luo Fei *(Chairman and Chief Executive Officer)*
Mr. Radek Sali

Non-executive Directors:
Dr. Zhang Wenhui
Mr. Wu Xiong
Mr. Luo Yun
Mr. Chen Fufang

Independent Non-executive Directors:
Dr. Ngai Wai Fung
Mr. Tan Wee Seng
Professor Xiao Baichun

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Headquarters in the PRC:
29th Floor, Guangzhou
International Finance Center
5 Zhujiang West Road
Zhujiang New Town
Tianhe District, Guangzhou
Guangdong Province 510623
PRC

Principal Place of Business in Hong Kong:
Unit No. 3508, 35th Floor,
West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

30 December 2016

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE REMAINING APPROXIMATELY 17% EQUITY INTEREST IN BIOSTIME AUSTRALIA HOLDINGS AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

References are made to the announcement of the Company dated 17 September 2015 and the circular of the Company dated 9 November 2015 (the "**Previous Circular**"), in relation to, among other things, the acquisition by the Company of approximately 83% equity interest in Swisse Wellness pursuant to the terms and conditions of the Previous Share Sale Agreement.

The 83% Acquisition completed on 30 September 2015 and, since then, the Company holds an approximate 83% effective equity interest in the Swisse Group and the financial results of the Swisse Group have been consolidated into the accounts of the Group.

References are also made to the announcement of the Company dated 19 July 2016 and the circular of the Company dated 29 August 2016 (the "**Roll-Up Circular**"), in relation to, among other things, the exercise of the roll-up call option (as defined and described in the Roll-Up Circular) by Biostime Australia Investment, to require the Target Minority Shareholders to sell all of the shares they continued to hold in Swisse Wellness after completion of the 83% Acquisition to Biostime Australia Investment, in exchange for an issue of shares representing an equivalent stake in Biostime Australia Holdings.

The exercise of the roll-up call option completed on 14 September 2016. On the same date, Biostime Australia, Biostime Australia Holdings and the Target Minority Shareholders entered into the roll-up shareholders' agreement (as defined and described in the Roll-Up Circular). As a result, Biostime Australia Investment directly holds the entire issued share capital of Swisse Wellness. Biostime Australia holds approximately 83% equity interest in Biostime Australia Holdings and the Target Minority Shareholders in aggregate holds approximately 17% equity interest in Biostime Australia Holdings.

2. THE SHARE SALE AGREEMENT

Date: 15 December 2016

Parties: (i) the Company, as purchaser; and

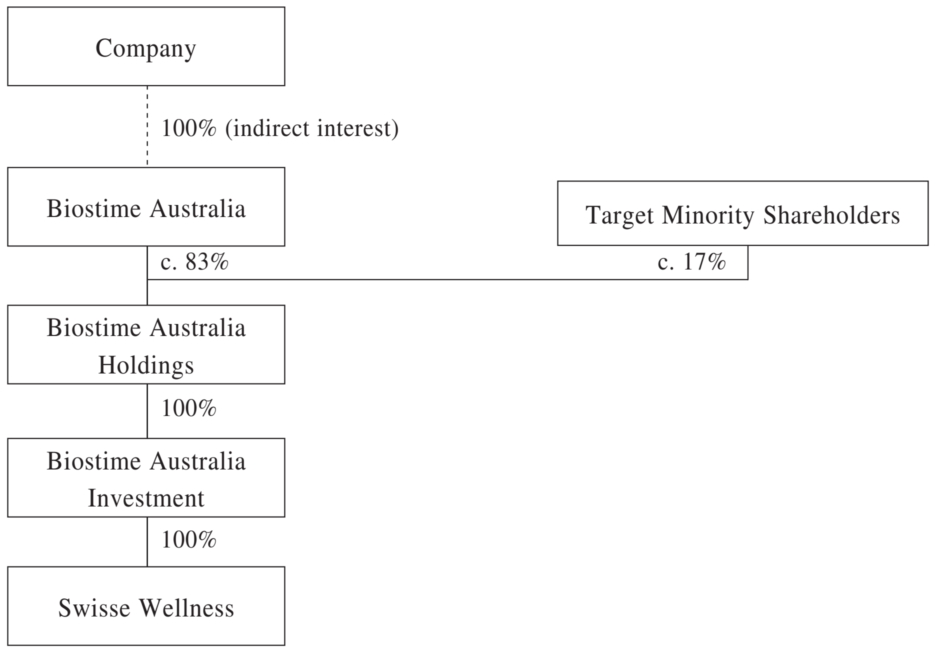
(ii) the Target Minority Shareholders, as sellers.

The 17% Acquisition

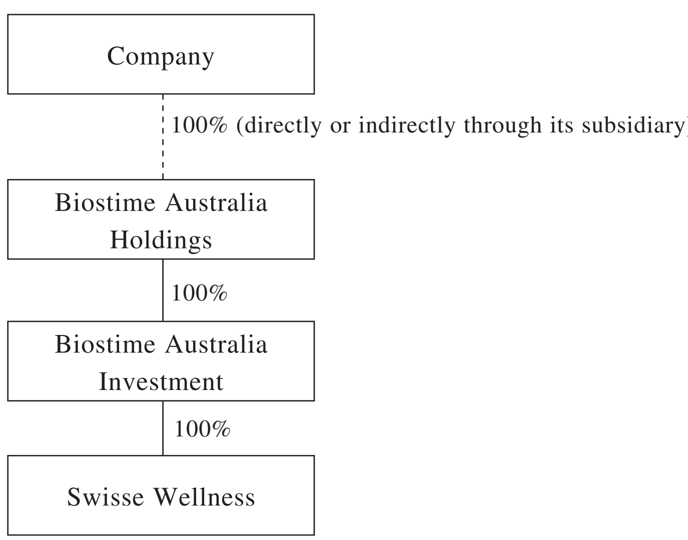
Each of the Target Minority Shareholders has conditionally agreed to sell, and the Company has conditionally agreed to acquire, by itself or through its subsidiary, a total of approximately 17% equity interest in Biostime Australia Holdings. The sale by each of the Target Minority Shareholders will be conducted on an individual and separate basis, and not inter-conditional with the sale by any or all of the other Target Minority Shareholders.

Set out below is a simplified shareholding structure of Biostime Australia Holdings, Biostime Australia Investment and Swisse Wellness (i) as at the Latest Practicable Date; and (ii) immediately upon Completion.

(i) As at the Latest Practicable Date



(ii) Immediately upon Completion



Consideration and Payment Terms

Pursuant to the Share Sale Agreement, the total consideration payable by the Company to the Target Minority Shareholders for the 17% Acquisition is AUD311.3 million (equivalent to approximately HKD1,758.8 million). The consideration for the 17% Acquisition is payable in cash as follows: (i) AUD50 million (equivalent to approximately HKD282.5 million) was paid by the Company into an escrow account as first half of the deposit on 15 December 2016 upon execution of the Share Sale Agreement; (ii) AUD50 million (equivalent to approximately HKD282.5 million) was paid by the Company into the escrow account as the other half of the deposit on 19 December 2016; and (iii) the remaining AUD211.3 million (equivalent to approximately HKD1,193.8 million) will be paid by the Company into a nominated account of the Target Minority Shareholders on Completion. The deposit of AUD100 million will serve as partial payment of the consideration for the 17% Acquisition if Completion occurs, otherwise the deposit will be returned to the Company in full. If the conditions precedent (as described below) have been fulfilled but Completion does not occur due to a breach of the Share Sale Agreement by the Company, the Target Minority Shareholders may elect to terminate the Share Sale Agreement and will be entitled to a total break fee of AUD15.0 million (equivalent to approximately HKD84.8 million) payable by the Company.

The consideration for the 17% Acquisition was determined after arm's length negotiations between the parties to the Share Sale Agreement with reference to the consideration for the 83% Acquisition, the business prospects, financial position and performance of the Swisse Group, and the reasons and benefits to be derived from undertaking the 17% Acquisition as described below. Following the 83% Acquisition, revenue and earnings before interest, taxes, depreciation and amortization ("**EBITDA**") of the Swisse Group for the twelve months ended 30 June 2016 amounted to AUD608.5 million and AUD123.6 million respectively, increased by 94.8% and 9.7% respectively, as compared with the figures for the financial year ended 30 June 2015. The consideration for the 17% Acquisition represents approximately 10% premium compared with that for the 83% Acquisition on a proportional basis. The Directors consider that the aggregate consideration for the 17% Acquisition, taking into account the premium given for the Target Minority Shareholders' continuing effort in making the business improvements in the Swisse Group after the 83% Acquisition, is fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

It is estimated that approximately 40% of the consideration will be funded by the Company's own cash in hand and the remaining will be funded by debt and/or equity financing. The Company is exploring appropriate financing methods, including but not limited to available banking facilities, the issue of bonds and/or equity financing.

Conditions Precedent

Completion is conditional on the following conditions having been fulfilled:

(i) the first of any of the following to occur:

(a) the Company has received a written notice under the FATA, by or on behalf of the Treasurer of the Commonwealth of Australia stating that the Commonwealth Government does not object to the transactions contemplated by the Share Sale Agreement, either unconditionally or on terms that do not impose unduly onerous obligations on the Company;

(b) the Treasurer of the Commonwealth of Australia becomes precluded from making an order in relation to the subject matter of the Share Sale Agreement and the transactions contemplated by it under the FATA; or

(c) if an interim order is made under the FATA in respect of the transaction contemplated by the Share Sale Agreement, the subsequent period for making a final order prohibiting the transaction the contemplated by the Share Sale Agreement elapses without a final order being made;

(ii) the Company has received the requisite consents under an existing facility instrument for the purposes of financing the consideration for the 17% Acquisition in full or in part;

(iii) the Company has received satisfactory confirmation issued by the requisite PRC authority in respect of any financing and/or refinancing (in full or in part) of any existing financial indebtedness of the Group to fund the consideration for the 17% Acquisition in full or in part; and

(iv) the approval of the 17% Acquisition by the Shareholders in accordance with the requirements of Chapter 14 of the Listing Rules.

All the conditions above, except the condition set out in paragraph (i), may be waived by the Company in writing. As at the Latest Practicable Date, all the conditions above are yet to be fulfilled.

Completion

Completion is expected to take place before late April 2017, failing which may lead to the termination of the Share Sale Agreement, unless otherwise agreed by the Company and the Target Minority Shareholders.

Upon Completion, the Company's equity interest in Biostime Australia Holdings will increase from approximately 83% to 100%, and the financial information of the BAH Group will continue to be consolidated into the accounts of the Group.

Completion is subject to the fulfilment of certain conditions and, accordingly, may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares and other securities of the Company.

3. INFORMATION ON THE GROUP

The Group is principally engaged in providing premium paediatric nutritional and baby care products in the PRC, including premium probiotic supplements for children, infant formulas, dried baby food products and baby care products for infants and children. Through the 83% Acquisition and the 17% Acquisition, the Group has repositioned itself as an all-round nutrition and care provider for the entire family, providing high-end pediatric and adult nutrition and care products through its established brands predominantly in China, Australia and New Zealand, and other countries around the world.

4. INFORMATION ON THE TARGET MINORITY SHAREHOLDERS, THE BAH GROUP AND THE SWISSE GROUP

Each of the Target Minority Shareholders is either an individual that is a current or former member of the management of Swisse Wellness or a trustee company of a trust to which a current or former member of management of Swisse Wellness is a beneficiary. The consideration payable to each of the Target Minority Shareholders is proportionate to the proportion of the equity interest held by each of the Target Minority Shareholders within the total of approximately 17% equity interest in Biostime Australia Holdings, which is set out below:

Target Minority Shareholders	***Relevant proportion of equity interest and consideration***	***Target Minority Shareholders***	***Relevant proportion of equity interest and consideration***
Kednel Pty Ltd as trustee for the Sali Investment Trust	27.0135%	Copper Blonde Pty Limited as trustee for the MJ & MD Howard Family Trust	2.4280%
Super Radek Pty Ltd as trustee for the Super Radek Superannuation Fund	5.4489%	Catherine Crowley	1.9799%
O'Hoy Super Pty Ltd as trustee for the Jennifer O'Hoy Superannuation Fund	5.3085%	George Livery and Lynne Maree Livery	1.4969%
Ankara Holdings Pty Ltd as trustee for the Ankara Family Trust	5.3613%	Michael Rosario John Da Gama Pinto and Amanda Da Gama Pinto as trustees for the DGP Superannuation Fund	1.3971%
Michael Rosario John Da Gama Pinto as trustee for the DGP Trust	3.5987%	Fiske Pty Ltd as trustee for the Ring Family Trust	36.6167%
Ulrich Algreen Irgens	2.6865%	Michael Saba	5.8505%
GFBR Nominees Pty Limited as trustee for the George St Group Superannuation Fund	0.8134%		

Amongst the Target Minority Shareholders, Kednel Pty Ltd (as trustee for the Sali Investment Trust), Super Radek Pty Ltd (as trustee for the Super Radek Superannuation Fund), Fiske Pty Ltd (as trustee for the Ring Family Trust), Ankara Holdings Pty Ltd (as trustee for the Ankara Family Trust) and Ulrich Algreen Irgens are connected persons of the Company (or their associates). Please refer to the section headed "7. LISTING RULES IMPLICATIONS" below for further details.

The BAH Group comprises Biostime Australia Holdings, Biostime Australia Investment and the Swisse Group.

Each of Biostime Australia Holdings and Biostime Australia Investment is an investment holding company and an indirect subsidiary of the Company, incorporated in September 2015 solely for the purposes of holding the equity interest in Swisse.

The Swisse Group constituted the operating companies of the BAH Group and is principally engaged in the research, marketing and distribution of vitamins, health supplements, skincare and sports nutrition products in Australia, New Zealand and China under the "Swisse" brand. Since the completion of the 83% Acquisition on 30 September 2015, the Company holds an approximate 83% effective equity interest in the Swisse Group and the financial information of the Swisse Group has been consolidated into the accounts of the Group.

As each of Biostime Australia Holdings and Biostime Australia Investment is an investment holding company with no operation, meaningful asset, revenue or profit other than its effective interest in the Swisse Group, the 17% Acquisition is essentially the acquisition of a total of approximate 17% equity interest in the Swisse Group, following the 83% Acquisition. As such, in lieu of the accountants' report on the BAH Group as a whole, this circular sets out (i) the accountants' report on the Swisse Group for each of the three financial years ended 30 June 2013, 2014 and 2015 and the twelve months ended 30 June 2016 in Appendix II; and (ii) the accountants' report on each of Biostime Australia Holdings and Biostime Australia Investment for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016 in Appendices IIIA and IIIB respectively. The Company believes that (x) by providing the financial statements consistently prepared as those provided in the Previous Circular, it will facilitate the Shareholders' understanding of the development trends of the financial performance and financial conditions of the Swisse Group; and (y) the preparation of separate financial statements for Biostime Australia Holdings and Biostime Australia Investment at the company level will allow the Shareholders to obtain a clearer understanding as to the financial impacts of Biostime Australia Holdings and Biostime Australia Investment on the BAH Group as investment holding companies since their incorporation in September 2015.

Financial Information on the Swisse Group

Since the completion of the 83% Acquisition in September 2015, the financial year end of the Swisse Group has been changed from 30 June to 31 December to be consistent with the remainder of the Group, which came into effect on 1 October 2015. Accordingly, the accounting period of the Swisse Group for the first financial year upon such change will be the period from 1 July 2015 to 31 December 2016.

Set out below is the audited financial information of the Swisse Group for the financial years ended 30 June 2014 and 30 June 2015 and the twelve months ended 30 June 2016, extracted from the consolidated audited financial statements of the Swisse Group, which are included in Appendix II to this circular. The Swisse Group's consolidated audited financial statements are prepared in accordance with the International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**").

	For the financial year ended 30 June 2014 (audited) *(Note 1)*	**For the financial year ended 30 June 2015** (audited)	**For the twelve months ended 30 June 2016** (audited)
Revenue from continuing operations	AUD125,324,000 (equivalent to approximately HKD708,080,600)	AUD312,412,000 (equivalent to approximately HKD1,765,127,800)	AUD608,546,000 (equivalent to approximately HKD3,438,284,900)
Earnings before interest, taxes, depreciation and amortization	AUD3,332,000 (equivalent to approximately HKD18,825,800)	AUD112,638,000 (equivalent to approximately HKD636,404,700)	AUD123,565,000 (equivalent to approximately HKD698,142,250)
Profit/(loss) before taxation from continuing operations	AUD(7,201,000) (equivalent to approximately HKD(40,685,650))	AUD102,531,000 (equivalent to approximately HKD579,300,150)	AUD116,320,000 (equivalent to approximately HKD657,208,000)
Profit/(loss) after taxation from continuing operations	AUD(5,614,000) (equivalent to approximately HKD(31,719,100))	AUD73,750,000 (equivalent to approximately HKD416,687,500)	AUD69,310,000 (equivalent to approximately HKD391,601,500)
Total comprehensive income/(loss) from continuing operations	AUD(6,793,000) (equivalent to approximately HKD(38,380,450))	AUD72,903,000 (equivalent to approximately HKD411,901,950)	AUD68,000,000 (equivalent to approximately HKD384,200,000)

	As at 30 June 2015 (audited)	**As at 30 June 2016** (audited)
Net assets	AUD20,595,000 (equivalent to approximately HKD116,361,750)	AUD31,691,000 (equivalent to approximately HKD179,054,150)

Note 1: The Swisse Group incurred AUD33,796,000 of losses from discontinued operations in the financial year ended 30 June 2014, which have been excluded from the table above.

Financial Information on Biostime Australia Holdings and Biostime Australia Investment

Set out below is the audited financial information of each of Biostime Australia Holdings and Biostime Australia Investment for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016, extracted from the respective audited financial statements of Biostime Australia Holdings and Biostime Australia Investment, which are included in Appendices IIIA and IIIB to this circular. The audited financial statements of each of Biostime Australia Holdings and Biostime Australia Investment are prepared in accordance with IFRSs issued by the IASB.

	Biostime Australia Holdings		*Biostime Australia Investment*	
	Period from 4 September 2015 (date of incorporation) to 31 December 2015 (audited)	**Period from 1 January 2016 to 30 June 2016** (audited)	**Period from 4 September 2015 (date of incorporation) to 31 December 2015** (audited)	**Period from 1 January 2016 to 30 June 2016** (audited)
Profit/(Loss) for the period and total comprehensive income/(loss) for the period	AUD(176) (equivalent to approximately HKD(994))	AUD(8,465) (equivalent to approximately HKD(47,827))	AUD279,000 (equivalent to approximately HKD1,576,350)	AUD(27,891,000) (equivalent to approximately HKD(157,584,150))
		As at 30 June 2016 (audited)		**As at 30 June 2016** (audited)
Net (liabilities)		AUD(8,640) (equivalent to approximately HKD(48,816))		AUD(27,612,000) (equivalent to approximately HKD(156,007,800))

5. FINANCIAL EFFECTS OF THE 17% ACQUISITION

The 83% Acquisition completed on 30 September 2015 and, accordingly, the Company holds an approximate 83% effective equity interest in the Swisse Group and the financial information of the Swisse Group were consolidated into the accounts of the Group from 1 October 2015 onwards. Upon Completion, the Company's equity interest in Biostime Australia Holdings will increase from approximately 83% to 100%, and the financial information of the BAH Group will continue to be consolidated into the accounts of the Group.

Appendix IV to this circular sets out the unaudited pro forma financial information of the Group as at 30 June 2016, which includes the unaudited pro forma consolidated financial statement of financial position, the unaudited pro forma consolidated financial statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated financial statement of cash flows of the Group, showing the information required under Rule 14.69(4)(a)(ii) of the Listing Rules.

The 17% non-controlling interests will be derecognised and the Company will no longer share any profit or loss of the Swisse Group to the non-controlling shareholders upon Completion. There will also be cash outflow from the Company upon payment of the consideration for the 17% Acquisition. Except for the aforementioned 17% non-controlling interests and cash outflow, there will be no other impact on the earnings and assets and liabilities of the Group.

6. REASONS FOR AND BENEFITS OF THE 17% ACQUISITION

Upon the completion of the 83% Acquisition on 30 September 2015, the financial results of Swisse were consolidated into that of the Group from 1 October 2015 onwards. This milestone event enabled the Group to expand its product portfolio into the adult nutrition and care segment with vitamins and health supplements products under the "Swisse" brand. Accordingly, the Group has repositioned itself as an all-round nutrition and care provider for the entire family. In the baby nutrition and care market in China, the Group is in leading positions across all major channels. Meanwhile, Swisse is the market leader with strong brand recognition in the Australian market for the vitamin, herbal and mineral supplements segment.

In late 2015, the Group initiated direct sales of "Swisse" branded products on the Mama100 APP which was highly popular among Chinese customers. In March 2016, the Group officially introduced "Swisse" branded vitamin and health supplement products to the Chinese market by opening a flagship store at Tmall.hk. In addition, Swisse also established strategic partnerships with other major cross-border e-commerce platforms, such as VIP shop, Netease Kaola and JD.com. Swisse has demonstrated strong sales momentum in the Chinese market since its official launch in China in March 2016.

For the six months ended 30 June 2016, revenue of the Group increased by 53.3% to RMB3,008.3 million as compared with the prior corresponding period. The increase in revenue was mainly attributable to the Group enriching its product portfolio into the adult nutrition and care products segment under the "Swisse" brand. During the first half of 2016, revenue from the sales of the adult nutrition and care products amounted to RMB1,284.0 million, representing 42.7% of the total sales of the Group for the six months ended 30 June 2016. For the financial year ended 31 December 2015, revenue of the Group increased by 1.8% as compared with that in 2014, mainly resulting from the revenue from the sales of adult nutrition and care products. During the fourth quarter of 2015, revenue from the sales of the adult nutrition and care products amounted to RMB849.9 million, representing 17.6% of the total sales of the Group for the financial year ended 31 December 2015.

The 17% Acquisition will enable the Group to obtain full ownership of and full control over Swisse, which will optimise integration with the Group and Swisse's contribution to the Group's growth potential.

Having considered the above factors, the Directors (including the independent non-executive Directors) consider that the terms of the 17% Acquisition are fair and reasonable, the 17% Acquisition is conducted on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

7. LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as calculated under Rule 14.07 of the Listing Rules) in respect of the 17% Acquisition, when aggregated with the 83% Acquisition pursuant to Rule 14.22 of the Listing Rules, exceeds 100%, the 17% Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Radek Sali is a Director and therefore a connected person of the Company. Accordingly, the acquisitions of approximately 5.51% equity interests in Biostime Australia Holdings, as part of the 17% Acquisition, from the associates of Radek Sali which are amongst the Target Minority Shareholders (namely, Kednel Pty Ltd (as trustee for the Sali Investment Trust) and Super Radek Pty Ltd (as trustee for the Super Radek Superannuation Fund)) (the "**Acquisitions from Radek Sali**") constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the 17% Acquisition is conducted on normal commercial terms and each of the applicable percentage ratios (as calculated under Rule 14.07 of the Listing Rules) in respect of the Acquisitions from Radek Sali is more than 0.1% but less than 5%, pursuant to Rule 14A.76(2) of the Listing Rules, the Acquisitions from Radek Sali are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Furthermore, as at the Latest Practicable Date, each of Stephen Ring (with Adem Karafili being his alternate director) and Ulrich Algreen Irgens is a director of certain subsidiaries of the Company and therefore a connected person of the Company at the subsidiary level. Accordingly, the acquisitions of approximately 6.21%, 0.91% and 0.46% equity interests in Biostime Australia Holdings, as part of the 17% Acquisition, from Fiske Pty Ltd (as trustee for the Ring Family Trust, and thus an associate of Stephen Ring), Ankara Holdings Pty Ltd (as trustee for the Ankara Family Trust, and thus an associate of Adem Karafili) and Ulrich Algreen Irgens, respectively, (together the "**Acquisitions from Directors at Subsidiary Level**") constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that each of Stephen Ring, Adem Karafili and Ulrich Algreen Irgens is a connected person at the subsidiary level only, pursuant to Rule 14A.101 of the Listing Rules, the Acquisitions from Directors at Subsidiary Level are exempt from the circular, independent financial advice and shareholders' approval requirements, as (i) the Board has approved the 17% Acquisition; and (ii) the independent non-executive Directors have confirmed that the terms of the 17% Acquisition are fair and reasonable, and the 17% Acquisition is conducted on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

The Directors consider that, despite certain Target Minority Shareholders are connected persons of the Company (or their associates), the 17% Acquisition in the aggregate should not be regarded as one whole connected transaction, primarily for the reasons that: (i) the sale by each of the Target Minority Shareholders will be conducted on an individual and separate basis, and not inter-conditional with the sale by any or all of the other Target Minority Shareholders; and (ii) as each of the Target Minority Shareholders is either a current or former member of the management of Swisse Wellness (or a trustee company of a trust to which such management member is a beneficiary), they are individually familiar with the business and operations of the Swisse Group and the business environment in which it operates, and as such the Directors consider that each of them is capable of evaluating and deciding on the terms of the 17% Acquisition and, to the Company's knowledge, they are not under any undue influence of those Target Minority Shareholders who are connected persons (or their associates) of the Company in this regard. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than Kednel Pty Ltd (as trustee for the Sali Investment Trust), Super Radek Pty Ltd (as trustee for the Super Radek Superannuation Fund), Fiske Pty Ltd (as trustee for the Ring Family Trust), Ankara Holdings Pty Ltd (as trustee for the Ankara Family Trust) and Ulrich Algreen Irgens, each of the Target Minority Shareholders and their respective ultimate beneficial owners is a third party independent of the Company and its connected persons.

8. WAIVER FROM STRICT COMPLIANCE WITH LISTING RULE 4.03

The Company has engaged Ernst & Young in Australia ("**EY Australia**") to issue the accountants' report on the Swisse Group for each of the three financial years ended 30 June 2013, 2014 and 2015 and the twelve months ended 30 June 2016. The Company has applied for and the Stock Exchange has granted, a waiver from strict compliance with Rule 4.03 of the Listing Rules and permitted such statements to be reported by EY Australia on the basis that EY Australia complies with the relevant independence requirements and auditing standards required of reporting accountants under the Listing Rules.

9. GENERAL

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder apart from all the Target Minority Shareholders and their respective associates if they hold any Shares should abstain from voting on the resolutions approving the 17% Acquisition.

The Controlling Shareholder, holding approximately 71.377% of the total issued share capital of the Company as at the Latest Practicable Date, has irrevocably undertaken to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the 17% Acquisition.

10. RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the 17% Acquisition are fair and reasonable, the 17% Acquisition is conducted on normal commercial terms and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the 17% Acquisition.

11. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Biostime International Holdings Limited
Luo Fei
Chairman

1. FINANCIAL INFORMATION

Financial information of the Group:

(a) for the financial year ended 31 December 2013 is disclosed on pages 67 to 138 of the annual report of the Company for the financial year ended 31 December 2013;

(b) for the financial year ended 31 December 2014 is disclosed on pages 87 to 174 of the annual report of the Company for the financial year ended 31 December 2014;

(c) for the financial year ended 31 December 2015 is disclosed on pages 80 to 182 of the annual report of the Company for the financial year ended 31 December 2015; and

(d) for the six months ended 30 June 2016 is disclosed on pages 29 to 76 of the interim report of the Company for the six months ended 30 June 2016.

All these reports have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.biostime.com.cn).

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the results of the Group for each of the financial years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

The information is extracted from the annual reports and interim report of the Company for the relevant financial years/period which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.biostime.com.cn).

(a) Management discussion and analysis for the six months ended 30 June 2016

(i) Results of operation

Upon the completion of the 83% Acquisition on 30 September 2015, the financial results of Swisse were consolidated into those of the Group from 1 October 2015 onwards.

(A) Revenue

For the six months ended 30 June 2016, revenue increased by 53.3% to RMB3,008.3 million as compared with the prior corresponding period. The increase in revenue was mainly attributable to the enlarged product segment of adult nutrition and care under the "Swisse" brand.

	Six months ended 30 June			
	2016	**% of**	**2015**	**% of**
	RMB'000	**Revenue**	*RMB'000*	**Revenue**
Baby nutrition and care products	1,724,294	57.3%	1,962,902	100.0%
– Infant formulas	1,460,490	48.5%	1,697,843	86.5%
– Other pediatric products	263,804	8.8%	265,059	13.5%
Adult nutrition and care products	1,284,010	42.7%	–	–
Total	**3,008,304**	**100.0%**	**1,962,902**	**100.0%**

Infant formulas

Revenue from the infant formulas segment decreased by 14.0% to RMB1,460.5 million in the six months ended 30 June 2016 compared with the prior corresponding period. This decrease was primarily attributable to the decline in revenue of the ADiMIL™ branded products by 65.7% as a result of increased competition in the mid-tier segment. Revenue of the Biostime™ branded products also experienced a slight decline by 5.4% as a result of distributors reducing their inventory holding levels in anticipation of uncertainty of regulatory changes which are expected to reduce the number of products on the market.

Adult nutrition and care products

Since the consolidation of Swisse's financial results within the Group which commenced from 1 October 2015, it should be noted that the Group's revenue for the six months ended 30 June 2015 did not include Swisse's revenue.

Revenue from the adult nutrition and care products segment increased by 34.9% to AUD267.6 million (approximately RMB1,284.0 million) for the six months ended 30 June 2016 compared with Swisse revenue of AUD198.3 million for the six months ended 30 June 2015. The growth was primarily driven by the increased sales linked to the continued growth in underlying demand for Swisse's products in China, through both passive sales in Australia and direct sales into the Chinese market through Mama100 APP, global flagship store at Tmall.hk, and other popular cross-border e-commerce platforms.

Other pediatric products

Other pediatric products mainly consist of probiotic supplements, dried baby food and nutrition supplements and baby care products. Revenue from other pediatric products decreased by 0.5% for the six months ended 30 June 2016 compared with the corresponding period in 2015. The decrease was primarily attributable to the decrease in revenue of baby care products due to the intense competition from lower-cost imported diapers through e-commerce channels. The decrease was partially offset by the increase in revenue of probiotic supplements by 12.8% as a result of the efficient cross-selling activities.

(B) Gross profit and gross profit margin

During the first half of 2016, the Group recorded gross profit at an amount of RMB1,928.1 million, which increased by 68.7% compared with the same period last year. Gross profit margin increased from 58.2% for the six months ended 30 June 2015 to 64.1% for the same period of 2016. Excluding the gross profit of adult nutrition and care segment of RMB801.2 million, for the six months ended 30 June 2016, the gross profit of baby nutrition and care segment decreased slightly by 1.4% to RMB1,126.9 million compared with the corresponding period of last year, while the gross profit margin increased to 65.4%. The increase in gross profit margin mainly resulted from: (i) the improved product mix towards higher proportion of sales from the higher-margin Biostime™ branded infant formulas and probiotic supplements; (ii) reduced price discounting activities, replaced by other value-added consumer rewarding programs, which had less impact on the gross profit; and (iii) lower purchase costs from the Group's suppliers who benefit from the lower prices of dairy ingredients.

(C) Other income and gains

Other income and gains amounted to RMB137.5 million for the six months ended 30 June 2016, representing an increase of 99.7% compared with the prior corresponding year. Other income and gains primarily consisted of net exchange gain of RMB91.3 million, interest income of RMB29.3 million, fair value gains on derivative financial instruments of RMB9.6 million and others. The increase in other income and gain was mainly due to the net exchange gain recorded in the first half of 2016, compared with a net exchange loss recorded in the same period of last year. The increase was partially offset by the decrease in interest income by RMB33.3 million.

(D) Selling and distribution costs

Selling and distribution costs increased by 27.9% from RMB746.2 million for the six months ended 30 June 2015 to RMB954.7 million for the same period this year. Excluding the selling and distribution costs of Swisse of RMB292.1 million and the amortization expenses in relation to the intangible assets identified in the acquisition of Swisse of RMB35.9 million, the selling and distribution costs decreased by 16.0% for the six months ended 30 June 2016 compared with the prior corresponding period. This decrease was primarily attributable to a decrease in advertising and promotion costs in the baby nutrition and care segment due to a different timing allocation of marketing efforts and also a reduction in the headcounts as a result of the Group's reorganization in the last quarter of 2015 following the acquisition of Swisse. The selling and distribution costs as a percentage to revenue decreased from 38.0% for the six months ended 30 June 2015 to 31.7% in the corresponding period of 2016.

(E) Administrative expenses

Administrative expenses increased by 106.2% from RMB80.2 million for the six months ended 30 June 2015 to RMB165.4 million for the same period this year, primarily as a result of the acquisition of Swisse. Excluding the administrative expenses of Swisse of RMB68.8 million and amortization expenses in relation to the intangible assets identified in the acquisition of Swisse of RMB1.8 million, the administrative expenses increased by 18.2% for the six months ended 30 June 2016 compared with the prior corresponding period. This increase was primarily due to the increased amortization expenses resulting from share options granted to employees on 29 December 2015. The percentage of administrative expenses to revenue was 5.5% in the first half of 2016, compared with 4.1% in the first half of last year.

(F) Other expenses

Other expenses for the six months ended 30 June 2016 amounted to RMB52.5 million, primarily consisting of R&D expenses of RMB42.4 million and others. The other expenses for the six months ended 30 June 2016 decreased by 8.2% compared with the prior corresponding period, which was primarily due to the net exchange loss recorded in the first half of 2015, while a net exchange gain was recorded in the first half of 2016.

(G) EBITDA and EBITDA margin

EBITDA for the six months ended 30 June 2016 increased to RMB949.9 million from RMB295.2 million for the six months ended 30 June 2015. This increase was mainly due to the contribution from Swisse's operations. The EBITDA margin for the six months ended 30 June 2016 was 31.6%, representing an increase from 15.0% in the corresponding period of last year.

(H) Finance costs

During the six months ended 30 June 2016, the Group incurred finance costs of RMB228.4 million, including bank loan interests of RMB104.7 million, bank charges of RMB51.5 million, interest expenses of the convertible bonds and senior notes of RMB54.5 million, and loss from the repurchase of part of the convertible bonds of RMB17.7 million.

(I) Income tax expenses

Income tax expenses increased from RMB75.2 million for the first half of 2015 to RMB256.9 million in the corresponding period of 2016. This increase was primarily attributable to the increase in the Group's profits before tax as a result of the acquisition of Swisse. The effective tax rate increased from 26.8% for the six months ended 30 June 2015 to 38.8% in the corresponding period of this year. The increase in the effective tax rate was mainly due to the higher corporation income tax rate for Australian companies at 30.0% and the non-deductible losses raised from the repurchase of part of the convertible bonds, interest and transaction costs for the bank loans occurred in certain of the Group's entities.

(ii) Liquidity and capital resources

(A) Operating activities

For the six months ended 30 June 2016, the Group had net cash generated from operating activities of RMB551.4 million, consisting of cash generated from operations of RMB806.2 million, partially offset by income tax paid of RMB254.8 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB1,051.4 million before working capital adjustments and net negative changes in working capital of RMB245.2 million.

(B) Investing activities

For the six months ended 30 June 2016, net cash flows used in investing activities amounted to RMB219.8 million. The Group's net cash outflows for investing activities mainly consisted of (i) payment of RMB132.0 million made to the sellers related to the working capital purchase price adjustment in relation to the acquisition of Swisse; and (ii) cash outflows for the construction in progress and purchases of intangible assets, property, plant and equipment of RMB61.2 million.

(C) Financing activities

For the six months ended 30 June 2016, net cash flows used in financing activities amounted to RMB136.1 million. It primarily reflected the repurchase of convertible bonds of RMB1,649.5 million and repayment of bank loans of RMB4,570.5 million, partially offset by the net proceeds from bank loans of RMB2,860.2 million and issuance of senior notes of RMB2,591.8 million to refinance the bridge loan in relation to the acquisition of Swisse and convertible bonds, and the net decrease in pledge deposits for bank loans and senior notes of RMB794.5 million.

(D) Cash and bank balances

As of 30 June 2016, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,559.9 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB122.5 million and pledged deposits to secure the outstanding bank loans and outstanding proceeds from the issuance of senior notes of RMB1,132.5 million, the Group's cash and bank balances amounted to RMB2,814.9 million as of 30 June 2016.

(E) Interest-bearing bank loans, senior notes and convertible bonds

In April 2016, the Group secured long term funding as part of a refinance of the bridge loan taken out to partly fund the acquisition of Swisse. The new term loan provides long-term funding, strengthening the group's capital structure.

As of 30 June 2016, the carrying amount of the convertible bonds amounted to RMB1,147.1 million. The Company repurchased HK$1,814.0 million convertible bonds with a purchase price of HK$1,941.0 million on 22 June 2016. The Group's outstanding interest-bearing bank loans amounted to RMB3,030.2 million as of 30 June 2016, including RMB654.0 million payable within one year and RMB2,376.2 million payable after one year. On 21 June 2016, the Company issued US$400.0 million 7.25% senior notes due 2021. As of 30 June 2016, the carrying amount of the senior notes amounted to RMB2,619.2 million. Taking the convertible bonds, senior notes and interest-bearing bank loans into consideration, the gearing ratio was 50.1%. The gearing ratio is calculated by dividing the sum of the carrying amount of the convertible bonds, senior notes and interest bearing bank loans by total assets.

(F) Working capital

Advance payment is normally required for sale of the baby nutrition and care products except for limited circumstances, while the Group usually allows credit sales for the adult nutrition and care products with credit term ranging from 30 to 60 days. As such, the average turnover days for trade and bills receivables increased from 2 day for the six months ended 30 June 2015 to 31 days for the six months ended 30 June 2016.

The inventory turnover days decreased slightly by 2 day to 154 days for the six months ended 30 June 2016 from 156 days in the corresponding period of last year. The Group endeavoured to maintain its inventory at a healthy level to avoid excess inventory and deep discounting.

The average turnover days of the trade payables increased from 54 days in first half of 2015 to 100 days for the corresponding period this year, which was mainly due to longer credit periods for Swisse operations.

(iii) Prospects

In the short term, the Group believes that the infant milk formula ("**IMF**") market will continue to be overshadowed by the regulatory environment due to the newly released IMF recipes registration rules, but the mid-long term positive impact of the new regulations will also represent an opportunity for the Group to strengthen its market position in light of expected industry consolidation. Furthermore, the full implementation of two-child policy is likely to provide a much needed boost to the demand of IMF products starting from 2017. To drive future business growth and product differentiation, the Group plans to launch an organic IMF range under the Healthy TimesTM brand at the end of this year to increase exposure to the fast growing organic segment.

Following the Administrative Measure of Registration and Filing of Health Food (《保健食品註冊與備案管理辦法》) coming into effect on 1 July 2016, the Group has developed Swisse's offline strategies, including the preparation of both filing and registration procedures, as well as the development of a compelling range of products which can be imported and sold as conventional food products offline. This offline product portfolio will be complemented by other product categories, such as sports nutrition protein powders and selected Ultiboost products, which do not require registration. Going forward, the Group will initiate proactive marketing campaigns to improve active sales of Swisse products in the Chinese market, aiming to counter any potential decrease in passive sales.

The Group's focus remains on achieving its long-term vision of being a leading provider of nutrition and care products for the entire family, and it will continue to focus on product innovation across its diverse range of premium infant and adult nutrition and care products. The Group is also investing across the business, including in brand marketing, personnel and operational capability, to maintain competitive advantage and achieve sustainable growth in the long run.

(b) Management discussion and analysis for the financial year ended 31 December 2015

(i) Results of operation

(A) Revenue

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

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

Infant formulas

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

Probiotic supplements

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

Dried baby food and nutrition supplements

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

Baby care products

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

Adult nutrition and care products

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

(B) Gross profit and gross profit margin

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

(C) Other income and gains

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

(D) Selling and distribution costs

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

(E) Administrative expenses

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

(F) Other expenses

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

(G) Finance costs

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

(H) Income tax expenses

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

(ii) Liquidity and capital resources

(A) Operating activities

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

(B) Investing activities

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

(C) Financing activities

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

(D) Cash and bank balances

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

(E) Interest-bearing bank loans and convertible bonds

As of 31 December 2015, the outstanding balance of the interest-bearing bank loans and convertible bonds amounted to RMB4,740.5 million and RMB2,659.1 million respectively. The gearing ratio was 53.5% calculated by dividing the interest-bearing bank loans and convertible bonds by the total assets. As at 31 December 2015, the Group recorded net current liabilities of RMB2,041.3 million, which was mainly resulted from the bridge loan of US$443.2 million (being the principal of US$450.0 million, netting off an upfront fee of US$6.8 million, and equivalent to approximately RMB2,900.9 million) obtained for the acquisition of 83% equity interest in Swisse.

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

(F) Working capital cycle

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

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

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

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

(c) Management discussion and analysis for the financial year ended 31 December 2014

(i) Results of operation

(A) Revenue

For the financial year ended 31 December 2014, revenue of the Group increased by 3.7% to RMB4,731.6 million as compared with 2013. The increase in revenue was mainly attributable to the growth of Adimil, the Group's new brand of infant formulas launched in late 2013. The following table sets forth the Group's revenue by product segment for the years indicated:

	Year ended 31 December			
	2014	**% of**	**2013**	**% of**
	RMB'000	**Revenue**	*RMB'000*	**Revenue**
Infant formulas	3,981,575	84.1%	3,752,116	82.3%
Probiotic supplements	425,094	9.0%	458,164	10.0%
Dried baby food and nutrition supplements	151,420	3.2%	198,778	4.4%
Baby care products	173,474	3.7%	152,241	3.3%
Total	4,731,563	100.0%	4,561,299	100.0%

Infant formulas

During the year 2014, the Group has consistently invested in its core competencies and thus recorded a growth in revenue of infant formulas by 6.1% to RMB3,981.6 million as compared with last year. The revenue growth was mainly driven by the increased sales volume of infant formulas under the brand Adimil, which showed strong momentum during the year, accounting for 17.9% of the Group's total revenue of infant formulas. In 2014, sales volume and revenue of high-tier infant formulas increased by 14.2% and 10.5%, respectively, resulting in a further increase of sales proportion within the product segment by 2.5 percentage points to 63.0% from 60.5% in 2013. Revenue from supreme-tier infant formulas remained stable in 2014, accounting for 37.0% of the total revenue of infant formulas.

Probiotic supplements

Accounted for 9.0% of the Group's total revenue in 2014, revenue of probiotic supplements decreased by 7.2% from RMB458.2 million in 2013 to RMB425.1 million in 2014. Revenue of probiotic supplements resumed in the second half of 2014, with the completion of business unit restructuring, recording an increase of 3.9% as compared with last year. While owing to an insufficiency of dedicated efforts of the Group's sales force, revenue of probiotic supplements had a double-digit decrease rate in the first half of 2014 as compared with the corresponding period of last year.

Dried baby food & nutrition supplements

Revenue of dried baby food and nutrition supplements only accounted 3.2% of the Group's total revenue in 2014, and declined by 23.8% to RMB151.4 million during 2014 compared with 2013. The decrease was mainly due to the suspension of the production of DHA chews/soft capsules as the Group simplified the product portfolio.

Baby care products

Revenue of baby care products increased by 13.9% to RMB173.5 million in 2014 from RMB152.2 million in 2013. The growth in revenue of this segment was mainly attributable to the newly launched baby diapers in December 2014, which received very positive feedback from retail stores and Mama100 members.

(B) Gross profit and gross profit margin

In 2014, the Group recorded gross profit in the amount of RMB2,926.9 million, which slightly decreased by 1.6% compared with last year. Gross profit margin decreased from 65.2% in 2013 to 61.9% in 2014. The decrease in gross profit margin mainly resulted from: (i) reduced ex-factory price by the Group to its distributors started from the second half of 2013; (ii) increased costs on customer rewarding programs, including awarding additional accumulation points to the infant formula customers started from the second half of 2013 and other more marketing campaigns; and (iii) impact of the product mix, in which products with higher gross profit margin took up a lower revenue proportion in the revenue portfolio compared with last year.

(C) Other income and gains

Other income and gains in 2014 amounted to RMB128.1 million, representing an increase of 20.4% comparing with last year. Other income and gains primarily consisted of interest income of RMB113.1 million, government subsidies of RMB10.6 million and others.

(D) Selling and distribution costs

The Group continued to invest in its brand building and organize innovated customer communication events to win brand recognition in 2014. Thus, selling and distribution costs as a percentage of revenue slightly increased by 0.4 percentage points from 33.2% in 2013 to 33.6% in 2014, which was still within the management's expectation. Selling and distribution costs increased by 4.9% from

RMB1,513.0 million in 2013 to RMB1,587.8 million in 2014. The increase was primarily due to (i) the increased investments in the advertising and brand building costs in new media; and (ii) the increased promotional expenses in relation to the consumer communication and store expansion.

(E) Administrative expenses

Administrative expenses decreased by 1.1% from RMB177.3 million in 2013 to RMB175.3 million in 2014. Thanks to the enhancement on the efficiency of the Group, administrative expense as to revenue slightly decreased to 3.7% in 2014 from 3.9% in 2013.

(F) Other expenses

For the financial year ended 31 December 2014, other expenses amounted to RMB87.5 million, primarily consisting of R&D expenses of RMB49.7 million, net exchange loss for the year of RMB8.2 million and others.

(G) Finance costs

In 2014, the Group incurred finance costs of RMB86.7 million, including bank loan interests of RMB8.7 million and non-cash interest expense of Convertible Bonds (as defined below) of RMB78.0 million.

(H) Income tax expenses

Income tax expenses decreased by 8.7% from RMB341.3 million in 2013 to RMB311.6 million in 2014. The effective tax rate declined from 29.4% in 2013 to 27.9% in 2014. The decrease in the effective tax rate was mainly due to the non-continuing one-off expense of a fine amounting to RMB162.9 million incurred in 2013, which is subject to income tax under the PRC tax rules.

(ii) Liquidity and capital resources

(A) Operating activities

For the financial year ended 31 December 2014, the Group had net cash generated from operating activities of RMB972.2 million, consisting of cash generated from operations of RMB1,310.6 million, partially offset by income tax paid of RMB338.4 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB1,159.6 million before working capital adjustments and net positive changes in working capital of RMB151.0 million. Resulting from the Group's effort in maintaining its inventory turnover days at a healthy level, it freed up cash from operating activities.

(B) Investing activities

For the financial year ended 31 December 2014, net cash flows used in investing activities amounted to RMB460.4 million. The Group's net cash outflows for investing activities mainly consisted of (i) outflow for construction in progress, purchase of property, plant and equipment and intangible assets of RMB148.4 million, (ii) payment for the investment in an associate of RMB40.0 million and a loan to the associate of RMB40.0 million, (iii) subscription of bonds of an overseas supplier of RMB48.8 million; and (iv) a net increase in time deposit of RMB293.3 million. The above outflows were partially offset by the interest received and repayment of long-term loan receivable of RMB77.5 million and RMB31.1 million, respectively.

(C) Financing activities

For the financial year ended 31 December 2014, net cash generated in financing activities amounted to RMB1,171.8 million. It primarily reflected net proceeds from issuing Convertible Bonds (as defined below) of RMB2,414.4 million, partially offset by distribution of the dividends to the shareholders of the Company of RMB492.7 million and repayment of bank loans of RMB750.6 million.

(D) Cash and bank balances

As of 31 December 2014, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB3,347.2 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB1,146.2 million, the Group's cash and bank balances amounted to RMB4,493.3 million as of 31 December 2014.

(E) Convertible bonds and interest-bearing bank loans

On 20 February 2014, the Company issued zero coupon convertible bonds due 2019 in the aggregate principal amount of HK$3,100.0 million. The bonds are convertible into shares of the Company at an initial conversion price of HK$90.84 per share prior to 20 February 2019 by the bond holders, or are subject to call for redemption by the bond issuer under certain conditions. 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. No convertible bonds were converted into shares of the Company during 2014 and the carrying amount of the convertible bonds as at 31 December 2014 remained at RMB2,410.5 million. During the year, the Group had repaid all the bank loans thus no interest-bearing bank loans were outstanding as of 31 December 2014. The gearing ratio was 36.4% calculated by dividing the Convertible Bonds by total assets.

(F) Inventories

	As of 31 December	
	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	102,812	147,974
Total	797,027	971,893

Raw materials mainly included i) probiotic powder, dried baby food ingredients and other materials purchased from the Group's material suppliers; ii) finished infant formula products, dried baby food products, baby care products and nutrition supplement products imported with original packaging from the Group's product suppliers, which were subject to bar code affixing; and iii) packaging materials. Raw materials in transit represented the imported raw materials which were still in transit or under the quality inspection procedures performed by Entry-Exit Inspection and Quarantine Bureau (出入境檢驗檢疫局) ("**CIQ**") under General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (國家質量監督檢驗檢疫總局) ("**AQSIQ**").

(G) Working capital cycle

The Group's cash cycle increased from 100 days in 2013 to 112 days in 2014.

The average turnover days of trade and bills receivables maintained at 1 day for the years ended 31 December 2014 and 2013.

The inventory turnover days increased to 176 days in 2014 from 170 days in 2013. The Group endeavoured to maintain its inventory at a healthy level to avoid excess inventory and deep discounting. Through adjusting purchase orders to reflect sales as well as launching series of innovative marketing activities, the Group's inventory turnover days resumed to normal in the second half of 2014. According to the Group's sophisticated real-time distribution management system, the average inventory turnover days at the distributor's level slightly increased by 2 days from 29 days in 2013 to 31 days in 2014.

The average turnover days of trade payables decreased from 71 days in 2013 to 65 days in 2014, which was mainly due to the increased purchases from suppliers with shorter credit terms.

(d) Management discussion and analysis for the financial year ended 31 December 2013

(i) Results of operation

(A) Revenue

For the financial year ended 31 December 2013, revenue increased by 34.9% to RMB4,561.3 million as compared with 2012, reflecting the continuous increase in sales volumes and improvements in product mix. The following table sets forth the Group's revenue by product segment for the years indicated:

	Year ended 31 December		
	2013	**2012**	
	RMB'000	*RMB'000*	**% of growth**
Probiotic supplements	458,164	379,203	20.8%
Infant formulas	3,752,116	2,715,291	38.2%
Dried baby food and nutrition supplements	198,778	181,418	9.6%
Baby care products	152,241	105,989	43.6%
Total	4,561,299	3,381,901	34.9%

Probiotic supplements

Revenue of probiotic supplements increased by 20.8% from RMB379.2 million in 2012 to RMB458.2 million in 2013. The increase was mainly due to the increased sales volume and sales contribution from the launch of new series probiotic product in the first half of 2013.

Infant formulas

As the Group's largest product segment, revenue of infant formulas experienced a solid year-on-year increase by 38.2% to RMB3,752.1 million in 2013, accounting for 82.3% of the Group's total revenue. The revenue growth reflected sales volume increase and product portfolio growth throughout the segment. Driven by the increase in the number of active Mama100 members, ever-growing market reputation and the expansion of distribution channel, the sales volume of infant formula increased by 50.1% in 2013 compared with 2012. In the second half of 2013, the Group introduced a new infant formula brand – Adimil to satisfy the diversified high-end consumers' needs in selecting infant formulas. By the end of 2013, Adimil had been receiving a positive response from the market and recorded a revenue amounted to RMB347.6 million.

Dried baby food and nutrition supplements

Revenue of dried baby food and nutrition supplements increased by 9.6% to RMB198.8 million in 2013 compared with 2012. The increase was mainly attributable to the continuous growth in sales volume of both baby cereal products and nutrition supplements.

Baby care products

Revenue of baby care products increased by 43.6% to RMB152.2 million in 2013 compared with 2012. The Group's precise database marketing and cross-selling strategy had proven to be exceptionally effective to drive revenue increase in baby care products segment.

(B) Gross profit and gross profit margin

Gross profit increased by 33.5% from RMB2,228.9 million in 2012 to RMB2,975.1 million in 2013 primarily due to the increase in revenue. Gross profit margin decreased slightly from 65.9% in 2012 to 65.2% in 2013. The decrease in gross profit margin mainly resulted from the product mix impact, the decrease in ex-factory prices of certain infant formula products and the increased cost on rewards to consumers of infant formula products with addition 50% of accumulation points.

(C) Other income and gains

Other income and gains increased by 86.9% to RMB106.4 million in 2013 compared with 2012. Other income and gains mainly consisted of interest income of RMB87.6 million, net exchange gain of RMB14.0 million and others. The increase was mainly due to the increase in interest income and the record of net foreign exchange gain in 2013 instead of the net exchange loss in 2012.

(D) Selling and distribution costs

Selling and distribution costs increased by 40.4% from RMB1,077.7 million in 2012 to RMB1,513.0 million in 2013, primarily as the result of an increase in the Group's advertising and promotional expenses in relation to the consumer communication and brand building. The increase was also attributable to the increase in staff costs and office expenses resulting from the growth of headcounts. To facilitate the expansion of sales and distribution channels, especially to increase the penetration into low-tier cities, the Group increased the number of its sales offices in Mainland China from 87 to 104 in the second half of 2013 and kept providing extensive training to its sales team in order to support the expansion of its business all across China. As a result, the selling and distribution costs as a percentage of revenue increased from 31.9% in 2012 to 33.2% in 2013.

(E) Administrative expenses

The Group continue to increase headcount of managerial employees and training expenses to better support the business growth and solidify the Group's infrastructure. Therefore, administrative expenses increased by 51.7% from RMB116.9 million in 2012 to RMB177.3 million in 2013. Administrative expenses as a percentage of revenue increased slightly from 3.5% in 2012 to 3.9% in 2013.

(F) Other expenses

For the financial year ended 31 December 2013, other expenses increased by 43.9% to RMB55.6 million compared with the year ended 31 December 2012. Other expenses mainly consisted of R&D expenses and others. The R&D expenses increased by 60.7% to RMB43.7 million in 2013 compared with 2012, resulting from the increased joint development expenses with European infant formula suppliers to provide Chinese consumers with safe and premium infant formulas. R&D expenses as a percentage of revenue increased from 0.8% for the financial year ended 31 December 2012 to 1.0% for the financial year ended 31 December 2013.

(G) Fine on the violation of Anti-Monopoly Law

In June 2013, BiosTime, Inc. (Guangzhou) ("**Biostime Guangzhou**"), a wholly-owned subsidiary of the Company, was under an investigation by the National Development and Reform Commission of the People's Republic of China (the "**NDRC**") in relation to an alleged violation of Article 14 of the Anti-Monopoly Law of the PRC (the "**PRC AML**"). On 6 August 2013, the investigation was concluded and Biostime Guangzhou received the Decision issued by the NDRC. According to the Decision, the NDRC determined that Biostime Guangzhou violated Article 14 of PRC AML by providing fixed prices for its products in its distribution agreements with its distributors, and therefore shall be subject to a fine in the amount of RMB162.9 million according to Article 46 of the PRC AML. The Group shall continue to improve its internal control system to ensure that its various business decisions comply with the applicable PRC laws and regulations.

(H) Income tax expenses

For the financial year ended 31 December 2013, income tax expenses amounted to RMB341.4 million, representing an increase of 11.0% compared with 2012. The increase was in line with the increase in the Group's profit before tax. The effective income tax rate increased slightly from 29.3% in 2012 to 29.4% in 2013. The effective income tax rate kept stable as results of (i) the impact of the one-off fine imposed by the NDRC by approximately 3.5 percentage points, which was subject to income tax under the existing PRC tax rules; (ii) the increased applicable income tax rate of 25.0% for Biostime (Guangzhou) Health Products Limited, which enjoyed a preferential corporate income tax rate of 12.5% in 2012; and (iii) partially offset by the decreased applicable withholding tax rate from 10.0% in 2012 to 5.0%

in 2013 arising from the distribution of retained profits of the Company's subsidiaries in Mainland China. In the second half of 2013, the Company was successfully recognized as a resident of Hong Kong under the "Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and 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)", and enjoyed a lower withholding tax rate of 5.0%.

(I) Profit for the year

As compared with 2012, profit for the year increased from RMB743.1 million to RMB820.7 million in 2013, representing a growth of 10.4%. Excluding the one-off fine of RMB162.9 million imposed by the NDRC, profit for the financial year ended 31 December 2013 amounted to RMB983.6 million, representing an increase of 32.4% as compared with the year ended 31 December 2012.

(ii) Liquidity and capital resources

(A) Operating activities

For the financial year ended 31 December 2013, the Group had net cash generated from operating activities of RMB660.5 million, consisting of cash generated from operations of RMB1,007.9 million, partially offset by income tax paid of RMB347.4 million. The Group's cash generated from operations consisted of cash flow from operating activities of RMB1,174.5 million before working capital adjustments and net negative changes in working capital of RMB166.6 million.

(B) Investing activities

For the financial year ended 31 December 2013, net cash flows used in investing activities amounted to RMB80.7 million. The Group's net cash outflows for investing activities mainly consisted of (i) outflow for construction in progress and purchase of property, plant and equipment of RMB135.7 million, (ii) acquisition of a PRC subsidiary of RMB350.0 million; and (iii) partially offset by the decrease in time deposit of RMB457.6 million.

(C) Financing activities

For the financial year ended 31 December 2013, net cash used in financing activities amounted to RMB214.7 million, primarily reflecting the cash outflow from financing activities of (i) RMB621.9 million for the distribution of final and special dividends for the financial year ended 31 December 2012 and interim and interim special dividends for the six month ended 30 June 2013, and (ii) payment of RMB64.1 million for the purchase of ordinary shares of the Company under the Share Award Scheme. The above cash outflow was partially offset by the cash inflow of RMB480.1 million of net proceeds from bank loans.

(D) Cash and bank balances

As of 31 December 2013, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB1,662.8 million. Taking into consideration of the non-pledged time deposits with original maturity of more than one year when acquired of RMB854.9 million, the Group's cash and bank balances amounted to RMB2,517.7 million as of 31 December 2013.

(E) Interest-bearing bank loans

As at 31 December 2013, the Group's outstanding interest-bearing bank loans amounted to RMB750.6 million, of which all were repayable within one year. The gearing ratio was 16.2%. The gearing ratio is calculated by dividing total interest-bearing bank loans by total assets.

(F) Inventories

	As of 31 December	
	2013	**2012**
	RMB'000	*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	147,974	57,709
Total	**971,893**	**523,267**

Raw materials mainly included i) probiotic powder, dried baby food ingredients and other materials purchased from the Group's material suppliers; ii) finished infant formula products, dried baby food products, baby care products and nutrition supplement products imported with original packaging from the Group's product suppliers, which were subject to bar code affixing; and iii) packaging materials. Raw materials in transit represented the imported raw materials which were still in transit or under the quality inspection procedures performed by CIQ under AQSIQ.

(G) Working capital cycle

The Group's cash cycle increased from 79 days in 2012 to 100 days in 2013.

The average turnover days of trade and bills receivables maintained at 1 day for the years ended 31 December 2013 and 2012.

The average turnover days of inventories increased from 130 days for the financial year ended 31 December 2012 to 170 days for the financial year ended 31 December 2013, primarily due to (i) the increase in inventories resulted from the introduction of the new series infant formula – *Adimil*. Excluding the Adimil infant formulas purchased, the average turnover days of inventories for the financial year ended 31 December 2013 was around 160 days; (ii) the stricter quality inspection procedures for imported goods performed by the CIQ under AQSIQ; and (iii) the increased inventories stored up to satisfy the increasing market demand. Taking no account of the raw materials in transit, the average turnover days of inventories increased from 83 days in 2012 to 96 days in 2013, resulting from the increased inventories stored up to satisfy the increasing market demand.

The average turnover days of trade payables increased from 52 days in 2012 to 71 days in 2013, which was mainly due to the increased trade payables as at the year end, which was still within the credit terms.

3. WORKING CAPITAL STATEMENT OF THE ENLARGED GROUP

The Directors are of the opinion that, after taking into account the financial resources available to the Enlarged Group, including but not limited to the internally generated funds, cash and cash equivalents and the external facilities from banks and financial institutions, the Enlarged Group will have sufficient working capital to meet its present requirements for at least twelve months following the date of this circular.

4. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 November 2016, being the most recent practicable date for the purpose of this statement, the Enlarged Group had total borrowings amounting to approximately RMB6,820.9 million, all of which were secured, details of which are as follows:

	The Group	**The Swisse Group**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Secured and guaranteed interest-bearing bank loans	2,803,934	–	2,803,934
Secured and non-guaranteed convertible bonds	1,210,723	–	1,210,723
Secured and guaranteed senior note	2,806,246	–	2,806,246
Total	6,820,903	–	6,820,903

As at 30 November 2016, the Enlarged Group had bank borrowings of approximately RMB2,803.9 million which were guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and 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, the net book value of which cannot be ascertained. In addition, share pledges over the shares of certain of the Company's PRC and overseas subsidiaries (as guarantors) secured the obligations under the bank borrowings.

On 20 February 2014, the Company issued zero coupon convertible bonds due 20 February 2019 in the aggregate principal amount of HKD3,100,000,000. The convertible bonds have been listed on The Stock Exchange of Hong Kong Limited since 21 February 2014. On 6 June 2016, the Company commenced an offer to repurchase for cash the convertible bonds (the "**Offer**") and, on 15 June 2016, announced that it had accepted for purchase valid tenders of the convertible bonds in the aggregate principal amount of HKD1,814,000,000 pursuant to the Offer at a purchase price of HKD2,140,000 for each HKD2,000,000 in principal amount of the convertible bonds. The Offer was settled on 22 June 2016. As at 30 November 2016, the carrying amount of the convertible bonds outstanding was HKD1,363.6 million (approximately RMB1,210.7 million), which shared the same security with the senior notes on a pari passu basis.

On 21 June 2016, the Company issued senior notes due 21 June 2021 in the aggregate principal amount of USD400,000,000. The interest rate is 7.25% per annum and is paid semi-annually. The senior notes are listed on the Singapore Exchange Securities Trading Limited. The senior notes were secured by (i) the escrow account and (ii) 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). As at 30 November 2016, the carrying amount of the senior notes outstanding was USD407.5 million (approximately RMB2,806.2 million).

Apart from intra-group liabilities and normal trade business, as at 30 November 2016, the Enlarged Group did not have any other outstanding borrowings, loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As mentioned under the paragraph headed "Reasons for and benefits of the 17% Acquisition" in the Letter from the Board in this circular, upon the completion of the 83% Acquisition on 30 September 2015, the financial results of Swisse were consolidated into that of the Group from 1 October 2015 onwards. This milestone event enabled the Group to expand its product portfolios into adult nutrition and care segment with vitamins and health supplements products under the "Swisse" brand name. Accordingly, the Group has repositioned itself as an all-round premium family nutrition and care provider. In the baby nutrition and care market in China, the Group is in leading positions across all major channels. Meanwhile, Swisse is the market leader with strong brand recognition in the Australian vitamin, herbal and mineral supplements segment. In addition, Swisse has demonstrated strong sales momentum since it formed strategic partnerships with major cross-border e-commerce platforms in the Chinese market, and is the market leader in the healthcare category on Alibaba sales platforms.

China's cross-border e-commerce regulations relating to health food products were announced in April 2016, with a one-year grace period to May 2017. Uncertainty around these regulations has impacted sales, primarily due to destocking from distributors in Australia. In November 2016, the grace period was extended to the end of 2017. While the Group has implemented strategies to ensure any impact on sales would be mitigated, the extension of grace period will allow more time for the Group to ensure its premium and proven products will satisfy local consumer demand and regulatory requirements.

Following the Administrative Measure of Registration and Filing of Health Food (《保健食品註冊與備案管理辦法》) coming into effect on 1 July 2016, the Group has also commenced Swisse's offline strategies, including the preparation of both filing and registration procedures, as well as the development of a compelling range of products which can be imported and sold as conventional food products offline from early 2017. This offline product portfolio will be complemented by other product categories, such as sports nutrition protein powders and selected Ultiboost products, which do not require registration. Going forward, the Group will initiate proactive marketing campaigns to improve active sales of "Swisse" branded products in the Chinese market.

While regulation uncertainty may encourage distributors to keep their inventory at low levels, the Group remains confident that given strong underlying consumer demand for vitamin, herbal and mineral supplement (VHMS) products, prompted by heightened health awareness from Chinese consumers, Swisse's leading position in this category and Swisse's multi-channel strategy, the Group is well-positioned to capture its significant business potential in the future.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change to the financial or trading position of the Group since 31 December 2015, being the date on which the latest published audited accounts of the Company were made up.

Building a better
working world

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30 December 2016

The Directors
Biostime International Holdings Limited
Unit No. 3508, 35th Floor, West Tower, Shun Tak Centre
200 Connaught Road Central, Hong Kong

Dear Sirs,

We set out below our report on the financial information of Swisse Wellness Group Pty Ltd ("Swisse Wellness") and its subsidiaries (hereinafter collectively referred to as "Swisse") comprising the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of Swisse for each of the years ended 30 June 2013, 2014 and 2015 and the twelve months ended 30 June 2016 (the "Relevant Periods"), and the consolidated statements of financial position of Swisse, together with the notes thereto (the "Financial Information"), prepared on the basis of preparation set out in note 2 of Section II below, for inclusion in the circular of the Biostime International Holdings Limited (the "Company") dated 30 December 2016 (the "Circular") in connection with the acquisition of an approximate 17% equity interest in Biostime Healthy Australia Holdings Pty Limited, an intermediate holding company of the Swisse Wellness.

Swisse Wellness was incorporated in Australia as a company with limited liability on 13 September 2012 under the Corporations Act 2001 of Australia.

As at the end of each of the Relevant Periods, Swisse Wellness has direct and indirect interests in the subsidiaries as set out in note 22 of Section II below.

For the purpose of this report, the directors of Swisse Wellness (the "Directors") have prepared the consolidated financial statements of Swisse for each of the Relevant Periods (the "Underlying Financial Statements") in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board, which is comparable to Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. The Underlying Financial Statements for the twelve months ended 30 June 2016 were audited by us in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB"). The Underlying Financial Statements for each of the years ended 30 June 2013, 2014 and 2015 were audited by another audit firm pursuant to separate terms of engagement with Swisse.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, after making such adjustments as appropriate.

Directors' responsibility

The Directors of Swisse Wellness are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 Prospectuses and the Reporting Accountant issued by the Hong Kong Institute of Certified Public Accountants.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of preparation set out in note 2 of Section II below, the Financial Information gives a true and fair view of the financial position of Swisse as at 30 June 2013, 2014, 2015 and 2016 and of the financial performance and cash flows of Swisse for each of the Relevant Periods.

The Financial Information for each of the years ended 30 June 2013, 2014 and 2015 were audited by another audit firm pursuant to separate terms of engagement with Swisse and presented in the circular of the Company dated 9 November 2015 in connection with the acquisition of approximately 83% equity interest in Swisse.

I FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended

		For the twelve months ended	For the year ended		
		30 June 2016	30 June 2015	30 June 2014	30 June 2013
		Audited	*Audited*	*Audited*	*Audited*
Continuing operations	*Notes*	*$'000*	*$'000*	*$'000*	*$'000*
Revenue	5	608,546	312,412	125,324	149,661
Other income	5	4,894	828	5,706	78
Materials, consumables and freight		(228,990)	(118,924)	(61,601)	(65,660)
Employee benefits expense		(145,162)	(26,898)	(19,112)	(16,255)
Depreciation and amortisation expense		(3,264)	(3,067)	(3,080)	(2,298)
Advertising and marketing expense		(54,481)	(26,499)	(29,736)	(45,128)
Selling and other rebates		(5,591)	(5,056)	(4,160)	(10,460)
Occupancy expenses		(4,371)	(2,183)	(1,571)	(1,181)
Administrative expenses		(30,999)	(8,338)	(3,826)	(5,253)
Distribution costs		(10,994)	(5,610)	(2,733)	(4,513)
Other expenses		(8,149)	(6,441)	(5,044)	(5,116)
Finance costs	6	(5,119)	(7,693)	(7,680)	(2,745)
Share of profit from associates		–	–	312	326
Profit/(loss) before income tax	7	116,320	102,531	(7,201)	(8,544)
Income tax (expense)/benefit	8	(47,010)	(28,781)	1,587	2,786
Profit/(loss) from continuing operations		69,310	73,750	(5,614)	(5,758)
Profit/(loss) from discontinued operations	28	–	–	(33,796)	(11,563)
Profit/(loss) for the period		69,310	73,750	(39,410)	(17,321)
Other comprehensive income/(loss)					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		(1,310)	(847)	(1,179)	554
Total comprehensive income/(loss) for the period		68,000	72,903	(40,589)	(16,767)
Profit/(loss) attributable to					
Owners of the parent		67,600	72,351	(39,952)	(17,321)
Non-controlling interests		1,710	1,399	542	–
		69,310	73,750	(39,410)	(17,321)
Total comprehensive income/(loss) attributable to					
Owners of the parent		66,290	71,504	(41,131)	(16,767)
Non-controlling interests		1,710	1,399	542	–
		68,000	72,903	(40,589)	(16,767)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at			
		30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
		Audited	*Audited*	*Audited*	*Audited*
	Notes	*$'000*	*$'000*	*$'000*	*$'000*
NON-CURRENT ASSETS					
Trade and other receivables	10	–	297	6,960	3,433
Investment accounted for using the equity method		–	–	–	325
Property, plant and equipment	12	8,495	3,145	5,285	6,542
Deferred tax assets	13	4,740	3,416	4,645	3,012
Intangible assets		2,291	1,361	1,636	2,078
Total non-current assets		15,526	8,219	18,526	15,390
CURRENT ASSETS					
Cash and cash equivalents	11	102,816	57,219	14,146	797
Trade and other receivables	10	89,067	116,464	30,632	50,296
Inventories	9	110,141	18,303	13,785	16,875
Current tax receivables		–	–	273	2,969
Total current assets		302,024	191,986	58,836	70,937
CURRENT LIABILITIES					
Trade and other payables	14	126,519	110,077	54,766	65,801
Borrowings	15	10	553	1,759	28,450
Current tax liabilities		18,314	24,214	–	–
Derivative financial instruments		901	–	–	–
Provisions		2,068	781	634	822
Total current liabilities		147,812	135,625	57,159	95,073
Net current assets/(liabilities)		154,212	56,361	1,677	(24,136)
Total assets less current liabilities		169,738	64,580	20,203	(8,746)
NON-CURRENT LIABILITIES					
Borrowings	15	–	43,734	66,353	1,646
Provisions		421	251	171	90
Related party loans	16	137,626	–	–	–
Total non-current liabilities		138,047	43,985	66,524	1,736
Net assets/(liabilities)		31,691	20,595	(46,321)	(10,482)
EQUITY					
Equity attributable to owners of the parent					
Contributed equity	17	6,965	2,512	1	1
Other reserves		(2,782)	3,278	4,125	554
Retained earnings/(accumulated losses)		25,737	13,533	(50,989)	(11,037)
Non-controlling interests		1,771	1,272	542	–
Total equity/(deficiency)		31,691	20,595	(46,321)	(10,482)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the twelve months ended

	Attributable to owners of the parent					
Audited	Contributed equity $'000	Other reserves $'000	Retained earnings/ (Accumulated losses) $'000	Total $'000	Non-controlling interests $'000	Total equity/ (deficiency) $'000
At 1 July 2015	2,512	3,278	13,533	19,323	1,272	20,595
Profit/(loss) for the period	–	–	67,600	67,600	1,710	69,310
Other comprehensive income/(loss)	–	(1,310)	–	(1,310)	–	(1,310)
Total comprehensive income/(loss)	–	(1,310)	67,600	66,290	1,710	68,000
Dividend paid	–	–	(55,557)	(55,557)	(1,211)	(56,768)
Conversion of warrants	4,750	(4,750)	–	–	–	–
Cancellation of convertible shares	(297)	–	–	(297)	–	(297)
De-consolidation of RSS 4PS Pty Ltd	–	–	161	161	–	161
At 30 June 2016	6,965	(2,782)	25,737	29,920	1,771	31,691

For the year ended

	Attributable to owners of the parent					
	Contributed equity	Other reserves	Retained earnings/ (Accumulated losses)	Total	Non-controlling interests	Total equity/ (deficiency)
Audited	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 July 2012	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
Total comprehensive income/(loss)	–	554	(17,321)	(16,767)	–	(16,767)
Dividend paid	–	–	(100)	(100)	–	(100)
At 30 June 2013	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)
Total comprehensive income/(loss)	–	(1,179)	(39,952)	(41,131)	542	(40,589)
Issue of warrants	–	4,750	–	4,750	–	4,750
At 30 June 2014	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)
Total comprehensive income/(loss)	–	(847)	72,351	71,504	1,399	72,903
Contributions of equity, net of transaction costs and tax	2,511	–	–	2,511	–	2,511
Dividend paid	–	–	(7,829)	(7,829)	(669)	(8,498)
At 30 June 2015	2,512	3,278	13,533	19,323	1,272	20,595

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended

	Notes	For the twelve months ended 30 June 2016 Audited $'000	For the year ended 30 June 2015 Audited $'000	For the year ended 30 June 2014 Audited $'000	For the year ended 30 June 2013 Audited $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax		116,320	102,531	(7,201)	(8,544)
Adjustments for:					
Fair value loss on derivatives		901	–	–	–
Depreciation and amortisation	7	3,264	3,067	3,080	2,298
Loss on sale of property, plant and equipment	7	1,171	–	–	–
Inventory provision		5,695	(1,447)	(59)	(1,511)
Discontinued operations		–	–	11,663	–
Provision for doubtful debts		906	300	4,832	–
Unwinding of discount on loan payable		–	2,123	1,270	–
Other non-cash items		–	(1,146)	342	653
		128,257	105,428	13,927	(7,104)
Decrease/(increase) in inventories		(97,533)	(3,070)	3,148	–
Decrease/(increase) in trade and other receivables		26,788	(80,857)	11,614	(6,064)
Increase/(decrease) in trade and other payables		16,442	57,296	(22,698)	6,197
Increase/(decrease) in provisions		1,457	228	(108)	325
Income tax paid		(54,234)	(3,067)	(31,128)	(15,409)
Net cash flows from/(used in) operating activities		21,177	75,958	(25,245)	(22,055)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment		(9,936)	(653)	(1,637)	(5,074)
Purchases of items of intangible assets		(930)	–	–	–
Proceeds from disposal of items of property, plant and equipment		151	–	250	–
Net cash flows from/(used in) investing activities		(10,715)	(653)	(1,387)	(5,074)

	Notes	For the twelve months ended 30 June 2016 *Audited* *$'000*	For the year ended 30 June 2015 *Audited* *$'000*	30 June 2014 *Audited* *$'000*	30 June 2013 *Audited* *$'000*
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of finance leases		(543)	–	–	–
Proceeds from borrowings		–	–	61,922	27,039
Repayment of borrowings		(43,734)	(25,948)	(26,691)	–
Dividends paid to shareholders	19	(56,768)	(8,498)	–	–
Proceeds of loans from related parties		164,257	–	–	–
Repayment of loans to related parties		(26,631)	–	–	–
Issue of shares		–	2,214	–	–
Issue of warrants		–	–	4,750	–
Net cash flows (used in)/from financing activities		36,581	(32,232)	39,981	27,039
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		47,043	43,073	13,349	(90)
Cash and cash equivalents at beginning of period	11	57,219	14,146	797	887
Effect of foreign exchange rate changes, net		(1,607)	–	–	–
Impact of RSS 4PS Pty Ltd		161	–	–	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	11	102,816	57,219	14,146	797

II NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Swisse Wellness Group Pty Ltd ("Swisse Wellness") is a limited liability company incorporated and domiciled in Australia. The registered office address of Swisse Wellness is Level 18, 530 Collins Street, Melbourne VIC 3000, Australia.

Swisse Wellness and its subsidiaries (together, "Swisse") is principally engaged in the distribution of vitamins, supplements and other health, body and skin products.

Swisse Wellness' ultimate holding company is Biostime Pharmaceuticals (China) Limited, a limited liability company incorporated in the British Virgin Islands. Swisse Wellness' immediate holding company, Biostime Healthy Australia Investment Pty Limited, a limited liability company incorporated and domiciled in Australia, acquired 83% of the ordinary shares of Swisse Wellness on 30 September 2015 and the remaining 17% of the ordinary shares of Swisse Wellness on 14 September 2016.

2. BASIS OF PREPARATION

The consolidated financial information of Swisse for the Relevant Periods has been prepared in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board, which is comparable to the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board.

The consolidated financial information has been prepared under the historical cost convention except for a derivative financial instrument, which has been measured at fair value. The consolidated financial information is presented in Australian Dollars ("$") and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial information has been produced for inclusion in a circular of the Company to its shareholders for the acquisition of the minority interest in Biostime Healthy Australia Holdings Pty Limited, an intermediate holding company of the Swisse Wellness, using the principal accounting policies which are materially consistent with those of the Company as applied in the Company's consolidated financial statements for the year ended 31 December 2015. The consolidated financial information is prepared solely for the purpose of the Company with adjustments made to reflect the applicable accounting policies of the Company and to ensure the three years and twelve months are presented on a consistent basis. Where changes in accounting policies have resulted in a change in the reported result and position of Swisse, a consequential adjustment has been made to the associated deferred tax position (where applicable). The consolidated financial information should not be construed as indicative of the financial performance of Swisse in any future period.

3. ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial information includes the financial information of Swisse Wellness and its subsidiaries for the years ended 30 June 2013, 2014 and 2015 and the twelve months ended 30 June 2016. The financial statements of the subsidiaries are prepared for the same reporting period as Swisse Wellness, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which Swisse Wellness 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 Swisse Wellness 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 entities controlled by Swisse Wellness are eliminated in full on consolidation.

Swisse Wellness 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 Swisse Wellness 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 profit or loss. Swisse's share of components previously recognised in other comprehensive income is reclassified to the profit or loss or retained profits, as appropriate, on the same basis as would be required if Swisse had directly disposed of the related assets or liabilities.

Restructure of the Swisse

On 30 July 2013 the Swisse group of entities underwent a corporate restructure wherein Swisse Wellness acquired Swisse Wellness Pty Ltd and its controlled entities. The restructure has been treated as a business combination involving entities under common control.

The financial information incorporates the acquired group's results and balance sheet as if both groups had always been combined. Consequently, 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. In addition, the corresponding amounts for the 2013 financial year reflect the combined results of both groups, even though the transaction did not occur until 30 July 2013.

Comparatives

Comparative financial information may have been reclassified for consistency with the presentation and disclosure of balances as at the end of the current balance date or reporting period ended on that date.

New accounting standards adopted

Swisse adopted the new and revised standards effective from 30 June 2015. The adoption of these new interpretations and amendments has had no financial effect on the consolidated financial information and therefore, the consolidated financial information are the same as those used in Swisse's annual consolidated financial statements for the year ended 30 June 2015.

New accounting standards issued, but not yet effective

Swisse has not applied the new and revised standards, which have been issued but are not yet effective, in the consolidated financial information.

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

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by Swisse Wellness. Control is achieved when Swisse 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 Swisse the current ability to direct the relevant activities of the investee).

When Swisse Wellness has, directly or indirectly, less than a majority of the voting or similar rights of an investee, Swisse 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) Swisse's voting rights and potential voting rights.

The results of subsidiaries are included in Swisse Wellness' profit or loss to the extent of dividends received and receivable. Swisse Wellness' 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.

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 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 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 Swisse 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 Swisse;

(ii) has significant influence over Swisse; or

(iii) is a member of the key management personnel of Swisse or of a parent of Swisse;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and Swisse 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 Swisse 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 Swisse or an entity related to Swisse;

(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 Swisse or the parent of Swisse.

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 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, Swisse 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:

–	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%

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 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.

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 Swisse is the lessee, rentals payable under operating leases are charged to the profit or loss 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 Swisse 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 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 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 profit or loss. The loss arising from impairment is recognised in the 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 Swisse 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 profit or loss. The loss arising from impairment is recognised in the 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 Swisse's consolidated statement of financial position) when:

(a) the rights to receive cash flows from the asset have expired; or

(b) Swisse 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) Swisse has transferred substantially all the risks and rewards of the asset, or (b) Swisse has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Swisse 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, Swisse continues to recognise the transferred asset to the extent of Swisse's continuing involvement in the asset. In that case, Swisse also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Swisse 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 Swisse could be required to repay.

Impairment of financial assets

Swisse 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 loss 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, Swisse first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Swisse 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 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 Swisse.

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 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.

Swisse'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 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 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 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 re-measured 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.

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 Swisse'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 profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the profit or loss is recognised outside the 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 Swisse 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:

(a) 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

(b) 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:

(a) 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

(b) 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 and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Swisse Wellness, 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.

In addition to its own current and deferred tax amounts, Swisse Wellness 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 for any current tax payable assumed and are compensated by Swisse Wellness for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Swisse Wellness 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 Swisse.

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.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Swisse 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 Swisse 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

Swisse Wellness operates a management incentive share plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of Swisse's operations. Employees (including directors) of Swisse 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 Swisse's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the 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.

Swisse Wellness grants the share options and share awards to its subsidiaries' employees in exchange for their services provided to the subsidiaries. Accordingly, in Swisse Wellness' statement of financial position, the equity-settled share option and share award expense, which is recognised in the consolidated financial information, 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 Swisse 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.

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 Swisse Wellness is the Australian Dollar. Each entity in Swisse 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 Swisse 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 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 Australian Dollars. As at the end of the reporting period, the assets and liabilities of the entity is translated into the presentation currency of Swisse Wellness at the exchange rate ruling at the end of the reporting period and its profit or loss is translated into Australian Dollars at the weighted average exchange rate for the reporting period. 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 profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into Australian Dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the reporting period are translated into Australian Dollars at the weighted average exchange rate for the reporting period.

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.

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 and 2016 with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

Swisse recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to Swisse Wellness' shareholders after certain adjustments. Swisse 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 Swisse 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 Swisse 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

Revenues, expenses and assets are recognised net of the amount of associated Goods and Services Tax ("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 which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

4. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of Swisse's consolidated financial information 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 Swisse'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 consolidated financial information:

Tax provisions

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Swisse 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 Swisse 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 Swisse 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 reporting period and discounts and rebate claims settled subsequent to reporting date.

Impairment of loans and receivables

Swisse 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, Swisse 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.

5. REVENUE AND OTHER INCOME

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

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

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Revenue				
Sale of goods	728,083	391,375	183,978	225,099
Less: trade discounts, rebates and returns	(119,537)	(78,963)	(58,654)	(75,438)
	608,546	312,412	125,324	149,661
Other income				
Bank interest income	1,138	653	227	69
Foreign exchange gains (net)	–	–	–	9
Other income	3,756	175	5,479	–
	4,894	828	5,706	78

6. FINANCE COSTS

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Interest expense	3,006	5,570	6,410	2,745
Fair value loss on derivatives	2,113	–	–	–
Unwinding of discount on syndicated facility	–	2,123	1,270	–
	5,119	7,693	7,680	2,745

7. PROFIT/(LOSS) BEFORE TAX

Swisse's profit/(loss) before tax is arrived at after charging/(crediting):

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Cost of inventories sold	228,990	118,924	61,601	65,660
Depreciation and amortisation	3,264	3,067	3,080	2,298
Loss on sale of property, plant and equipment	1,171	1,843	1,618	1,149
Research and development costs*	697	–	–	–
Occupancy expenses	4,371	2,183	1,571	1,181
Employee benefits expenses	145,162	26,898	19,112	16,255
Foreign exchange (gain)/loss, net	(1,195)	–	–	–
Impairment of trade receivables*	906	300	4,842	–
Write-down of inventories to net realisable value#	6,297	–	–	–

* Included in "Other expenses" and recognised in the profit or loss.

\# Included in "Materials, consumables and freight" and recognised in the profit or loss.

The profit before tax includes the following significant transactions:

Transaction costs

Swisse and the Company announced on 17 September 2015 that they have entered into an agreement for Biostime Healthy Australia Investment Pty Limited to acquire 83% of the ordinary shares in Swisse for total consideration of $1.38 billion (the "Acquisition"). An amount of $22.3 million has been expensed during the period for transaction costs related to the Acquisition. This expense has been included in "Administrative expenses" and recognised in the profit and loss.

Management long term incentives

In accordance with the terms of the Management Incentive Share Plan, the convertible shares were cancelled due to the Acquisition being completed within 12 months of the award and the eligible employees were paid a cash bonus of $95.7 million in lieu of their convertible shares equal to the proceeds each eligible employee would have received had their convertible shares converted to ordinary shares and sold under the Acquisition. Based on the purchase price paid by Biostime Healthy Australia Investment Pty Limited and the number of ordinary and convertible shares issued as at 30 September 2015, each convertible share was valued at $142.03.

The expense of $95.7 million arising from cash-settled share-based payments, plus $4.7 million in associated payroll taxes and workers compensation, has been included in "Employee benefits expenses" and recognised in the profit or loss during the period ended 30 June 2016 amounting to $100.4 million.

8. INCOME TAX EXPENSE/(BENEFIT)

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Current tax				
Current income tax payable	48,334	30,860	(2,075)	(289)
Adjustment in respect of previous periods	–	1,062	(35)	–
Deferred tax				
Deferred tax relating to the origination and reversal of temporary differences	(1,324)	(3,141)	523	(2,497)
Income tax expense/(benefit)	47,010	28,781	(1,587)	(2,786)

Reconciliation of accounting profit/(loss) before tax from continuing operations to prima facie tax:

	30 June 2016	30 June 2015	30 June 2014	30 June 2013
Profit before income tax expense/(benefit)	116,320	102,531	(7,201)	(8,544)
Income tax expense/(benefit) at the Australian tax rate of 30% (2015: 30%)	34,896	30,759	(2,160)	(2,563)
Effect of differential tax rates	1,010	–	–	–
Non-deductible expenses	7,486	1,066	327	318
Utilisation of previously unrecognised tax losses	–	(3,723)	–	–
Origination of unrecognised tax losses in foreign jurisdictions	4,505	–	–	–
Research and development deductions	(742)	(373)	(379)	(370)
Adjustments in respect of previous periods	–	1,061	(35)	–
Other	(145)	(9)	660	(171)
Income tax expense/(benefit)	47,010	28,781	(1,587)	(2,786)

9. INVENTORIES

	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Raw material and stores	20,271	4,210	179	–
Finished goods	96,133	14,661	15,621	18,949
Provision for stock obsolescence	(6,263)	(568)	(2,015)	(2,074)
	110,141	18,303	13,785	16,875

10. TRADE AND OTHER RECEIVABLES

	30 June 2016 *Audited* *$'000*	30 June 2015 *Audited* *$'000*	30 June 2014 *Audited* *$'000*	30 June 2013 *Audited* *$'000*
Current				
Trade receivables	80,847	110,248	33,843	46,146
Provision for impairment of receivables	(1,081)	(5,132)	(4,832)	(10)
	79,766	105,116	29,011	46,136
Receivables from related parties	772	5,275	–	466
Prepayments	6,602	1,375	1,383	3,383
Other receivables	1,927	4,698	238	311
	89,067	116,464	30,632	50,296

Receivables from related parties, trade and other receivables are unsecured, interest free and credit terms are normally less than 60 days.

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:

	30 June 2016 *Audited* *$'000*	30 June 2015 *Audited* *$'000*	30 June 2014 *Audited* *$'000*	30 June 2013 *Audited* *$'000*
Current	60,347	97,056	28,673	39,947
Within 1 month	7,796	4,870	142	5,403
1 to 3 months	9,063	3,080	169	–
Over 3 months	2,560	110	27	786
	79,766	105,116	29,011	46,136

Due to the short term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. The fair values are calculated based on the cash flows discounted using the 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.

	30 June 2016 *Audited* *$'000*	30 June 2015 *Audited* *$'000*	30 June 2014 *Audited* *$'000*	30 June 2013 *Audited* *$'000*
Non-current				
Receivables from related parties	–	297	6,960	3,433

None of the non-current receivables are impaired or past due but not impaired, and their carrying amount is assumed to be the same as their fair value.

11. CASH AND CASH EQUIVALENTS

	30 June 2016 *Audited* *$'000*	30 June 2015 *Audited* *$'000*	30 June 2014 *Audited* *$'000*	30 June 2013 *Audited* *$'000*
Cash at bank and on hand	102,816	57,219	14,146	797

12. PROPERTY, PLANT AND EQUIPMENT

Audited	Leasehold Improvements *$'000*	Computer & Office Equipment *$'000*	Plant & Equipment *$'000*	Total *$'000*
At 30 June 2013				
Cost	1,911	1,994	5,875	9,780
Accumulated depreciation	(413)	(766)	(2,059)	(3,238)
Net book value	1,498	1,228	3,816	6,542
At 30 June 2014				
Cost	2,009	1,655	7,627	11,291
Accumulated depreciation	(604)	(1,034)	(4,368)	(6,006)
Net book value	1,405	621	3,259	5,285
At 30 June 2015				
Cost	2,135	1,761	7,887	11,783
Accumulated depreciation	(1,150)	(1,263)	(6,225)	(8,638)
Net book value	985	498	1,662	3,145
At 30 June 2016				
Cost	5,177	1,807	8,395	15,379
Accumulated depreciation	(344)	(580)	(5,960)	(6,884)
Net book value	4,833	1,227	2,435	8,495

13. DEFERRED TAX ASSETS

	30 June 2016 Audited $'000	30 June 2015 Audited $'000	30 June 2014 Audited $'000	30 June 2013 Audited $'000
Deferred tax assets				
Tax losses and offsets	–	12	3,691	1,516
Employee benefits	722	309	212	273
Accruals and payables	2,024	4,653	810	395
Stock on hand	1,442	–	381	701
Other	1,476	258	411	139
Deferred tax assets	5,664	5,232	5,505	3,024
Deferred tax liabilities				
Property, plant and equipment	83	789	825	2
Accrued income	784	600	–	–
Other	57	427	35	10
Deferred tax liabilities	924	1,816	860	12
Net deferred tax assets	4,740	3,416	4,645	3,012

14. TRADE AND OTHER PAYABLES

	30 June 2016 Audited $'000	30 June 2015 Audited $'000	30 June 2014 Audited $'000	30 June 2013 Audited $'000
Trade payables	84,584	62,245	27,658	47,130
Payables to related parties	5,819	–	–	1,875
Accrued expenses	13,326	21,804	5,226	4,745
Accrual for US closure costs	1,694	6,732	11,663	–
Accrual for discounts and sales returns	21,096	19,296	10,219	12,051
	126,519	110,077	54,766	65,801

Payables to related parties, trade and other payables are unsecured, interest free and are normally settled within 60 days.

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

	30 June 2016 Audited $'000	30 June 2015 Audited $'000	30 June 2014 Audited $'000	30 June 2013 Audited $'000
Current	68,393	41,504	18,614	33,831
Within 1 month	7,851	10,220	4,015	12,444
1 to 3 months	13,456	9,578	3,844	855
Over 3 months	703	943	1,185	–
	90,403	62,245	27,658	47,130

15. BORROWINGS

	30 June 2016 *Audited* *$'000*	30 June 2015 *Audited* *$'000*	30 June 2014 *Audited* *$'000*	30 June 2013 *Audited* *$'000*
Current				
Lease liabilities	10	553	1,759	1,261
Other loans	–	–	–	27,189
	10	553	1,759	28,450
Non-current				
Syndicated facility (a)	–	43,694	66,009	–
Lease liabilities	–	40	344	1,646
	–	43,734	66,353	1,646

During the reporting period, Swisse:

(a) Repaid the 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. The syndicated facility was terminated and all encumbrances under the facility agreement were released by the financier.

(b) Discharged a guarantee and indemnity limited to $8.45 million 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.

(c) Discharged the security under a facility provided in favour of HSBC Bank Australia Limited, comprising a guarantee of $1.85 million, an uncommitted and unadvised foreign exchange facility and a corporate platinum credit card with a $150,000 limit.

Syndicated facility

The bank facilities held by Swisse Wellness in previous years and in turn working capital was provided to controlled entities by way of at call loans. All wholly owned Australian subsidiaries were guarantors to the $70 million, 3 year term loan facility provided to Swisse Wellness.

For the majority of the interest-bearing liabilities, 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.

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 (note 18).

Other loans

The other loans held by Swisse in previous years comprised a corporate debtor finance and a multiple advance facility with limits of $22 million and $20 million respectively. These facilities had a maturity date of 31 January 2014.

16. RELATED PARTY LOANS

	30 June 2016 *Audited* *$'000*	**30 June 2015** *Audited* *$'000*	**30 June 2014** *Audited* *$'000*	**30 June 2013** *Audited* *$'000*
Biostime Healthy Australia Investment Pty Limited	137,626	–	–	–

On 30 September 2015, Swisse Wellness entered into an unsecured loan agreement with its immediate holding company, Biostime Healthy Australia Investment Pty Limited, a limited liability company incorporated and domiciled in Australia, to borrow an interest free loan of $164.3 million with a maturity date of 30 September 2025.

On 23 February 2016, Swisse Wellness repaid $26.6 million.

17. CONTRIBUTED EQUITY

	30 June 2016 *Audited* *$'000*	**30 June 2015** *Audited* *$'000*	**30 June 2014** *Audited* *$'000*	**30 June 2013** *Audited* *$'000*
Ordinary share capital – fully paid	6,965	2,215	1	1
Convertible share capital	–	297	–	–
	6,965	2,512	1	1

	30 June 2016 *Audited* *Shares*	**30 June 2015** *Audited* *Shares*	**30 June 2014** *Audited* *Shares*	**30 June 2013** *Audited* *Shares*
Ordinary share capital – fully paid	10,814,854	10,410,969	9,600,000	100
Convertible share capital	–	675,687	–	–
	10,814,854	11,086,656	9,600,000	100

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of Swisse 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 Swisse does not have a limited amount of authorised capital.

Convertible shares

The Board of Swisse Wellness approved a Management Incentive Share Plan to enable eligible employees to acquire convertible shares in Swisse. During the year ended 30 June 2015 Swisse 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 and conditions were met, in which case it would rank equally with all other ordinary shares on conversion. The convertible shares did not confer on the holders any voting rights or dividends declared by Swisse.

In the event that the sale of Swisse occurred prior to 6 June 2016 (including the satisfaction of certain conditions as part of the sale), the convertible shares would automatically cancel and eligible employees would become entitled to a cash bonus in lieu of their convertible shares equal to the proceeds each eligible employee would have received had their convertible shares converted to ordinary shares and sold under the sale arrangement.

Swisse assessed the fair value of the convertible shares to be equal to the acquisition price of $0.44 per share. The fair value was determined using a 2-step discrete time binomial lattice model, which is based on the value of an ordinary share, adjusted for the probability of a liquidity event and continued employment over the term of the award.

As at 30 June 2015, the award was accounted for as an equity-settled share-based payment on the basis the decision of whether or not to effect a change of control was within Swisse's control.

No liability for cash-settled share-based payment was recognised at 30 June 2015.

As a result of the Acquisition on 30 September 2015, the convertible shares were cancelled and cash-settled, resulting in a reduction to equity during the period ended 30 June 2016.

The movement in contributed equity is summarised as follows:

	Ordinary shares		**Convertible shares**	
	Shares	*$'000*	*Shares*	*$'000*
At 1 July 2012	100	1	–	–
Shares issued	–	–	–	–
At 30 June 2013	100	1	–	–
Shares issued	9,599,900	–	–	–
At 30 June 2014	9,600,000	1	–	–
Shares issued	810,969	2,214	675,687	297
At 30 June 2015	10,410,969	2,215	675,687	297
Shares issued	403,885	4,750	–	–
Cancellation of convertible shares	–	–	(675,687)	(297)
At 30 June 2016	10,814,854	6,965	–	–

18. RESERVES

Share capital reserve

On 31 July 2013, Swisse 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.

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 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

19. DIVIDENDS

The following dividends were recognised during the reporting period:

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Fully franked based on tax paid at 30%	56,768	8,498	–	100

20. CONTINGENCIES

At 30 June 2016, Swisse did not have any contingent liabilities (June 2015: nil, June 2014: nil, June 2013: nil).

21. COMMITMENTS

Operating leases

Swisse has the following commitments for minimum lease repayments in relation to non-cancellable operating leases as follows:

	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Within 1 year	2,286	808	1,018	903
Later than 1 year, but not later than 5 years	10,163	4,309	1,432	1,656
Later than 5 years	6,151	5,102	–	–
	18,600	10,219	2,450	2,559

Finance leases

	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Within 1 year	10	562	1,838	1,384
Later than 1 year, but not later than 5 years	–	42	349	1,695
	10	604	2,187	3,079

Capital commitments

At 30 June 2016, Swisse did not have any capital commitments (June 2015: nil, June 2014: nil, June 2013: nil).

22. INTERESTS IN OTHER ENTITIES

The financial position of Swisse includes the following entities:

			Equity Holding			
			30 June 2016	30 June 2015	30 June 2014	30 June 2013
Name of entity	*Notes*	**Country of incorporation**	%	%	%	%
SW International Pty Ltd	(a)	Australia	100	100	100	100
SWG Holdco Pty Ltd	(a)	Australia	100	100	100	100
Swisse Wellness Pty Ltd	(b)	Australia	100	100	100	100
SW Production Holdings Pty Ltd	(a)	Australia	100	–	–	–
SW Translink Packaging Pty Ltd	(e)	Australia	100	–	–	–
Swisse Wellness (NZ) Pty Limited	(b)	New Zealand	100	100	100	100
SWG (US) Inc	(a)	United States of America	100	100	100	100
Swisse Wellness Inc	(b)	United States of America	100	100	100	100
Swisse Wellness (UK) Limited	(b)	England and Wales	100	100	–	–
Swisse Wellness GmbH	(b)	Switzerland	100	100	100	100
Swisse China Limited	(a)	Hong Kong	100	–	–	–
Swisse Wellness (Guangzhou) Limited	(b)	Peoples Republic of China	100	–	–	–
Noisy Beast Pty Ltd	(c)	Australia	47	47	47	40
Noisy Beast UK Limited	(c)	England and Wales	47	47	47	40
RSS 4PS Pty Ltd	(d)	Australia	–	–	–	–

Principle activities

(a) Immediate holding company.

(b) Research, marketing and distribution of vitamin and health supplements.

(c) Advertising agency controlled by Swisse.

(d) RSS 4PS Pty Ltd has been consolidated up to 30 September 2015, on the basis it was previously under common shareholding and was economically dependent on Swisse.

(e) Packing and distribution of vitamin and health supplements.

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of trade and other receivables, cash and cash equivalents, trade and other payables and interest-bearing liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

There are no financial instruments which carrying amounts are materially different from the relevant fair values for the period, including the related party loan payable to Biostime Healthy Australia Investment Pty Limited. The related party loan has been classified as a non-current liability as Swisse Wellness has an unconditional right to defer payment for at least 12 months after the end of the reporting period. However, Swisse Wellness intends to settle the related party loans in the near term and therefore, management has assessed the fair value of related party loans approximates its carrying amount.

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 value of receivables has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. Swisse's own non-performance risk for interest-bearing liabilities and the suppliers' non-performance risk for loans as at 30 June 2016 was assessed to be insignificant.

(b) Swisse enters into forward currency contracts with various counterparties, principally financial institutions. Derivative financial instruments arising from the forward currency contracts are measured using market observable inputs (Level 2). The carrying amounts of forward currency contracts are the same as their fair values.

24. FINANCIAL INFORMATION OF SWISSE WELLNESS

The financial position of Swisse Wellness is as follows:

	30 June 2016 *Audited* *$'000*	**30 June 2015** *Audited* *$'000*	**30 June 2014** *Audited* *$'000*	**30 June 2013** *Audited* *$'000*
CURRENT ASSETS				
Related party loans	95,624	77,478	34,325	200
Trade and other receivables	2,288	–	–	–
Total current assets	97,912	77,478	34,325	200
CURRENT LIABILITIES				
Income tax payable	15,866	23,668	–	–
Trade and other payables	–	1,563	–	–
Total current liabilities	15,866	25,231	–	–
NON-CURRENT LIABILITIES				
Related party loans	137,626	–	–	–
Interest bearing liabilities	–	43,694	66,009	–
Total non-current liabilities	137,626	43,694	66,009	–
Net assets/(liabilities)	(55,580)	8,553	(31,684)	200
EQUITY				
Equity attributable to owners of the parent				
Share capital	6,965	2,512	200	200
Other reserves	–	4,749	–	–
Retained earnings/(accumulated losses)	(62,545)	1,292	(31,884)	–
	(55,580)	8,553	(31,684)	200

25. RELATED PARTY TRANSACTIONS

Parent entities

The immediate holding company of Swisse is Biostime Health Australia Investment Pty Limited, a company incorporated and domiciled in Australia.

The ultimate holding company of Swisse is Biostime Pharmaceuticals (China) Limited, a company incorporated and domiciled in the British Virgin Islands.

Compensation to key management personnel

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Short-term employee benefits	2,493	4,659	2,698	2,506
Long-term benefits	194	25	24	23
Post-employment benefits	63	–	–	–
Share-based payments	65,260	202	–	–
	68,010	4,886	2,722	2,529

Transactions with key management personnel

The following transactions were recognised during the reporting period from loans with key management personnel:

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Beginning of the reporting period	5,229	5,176	1,596	92
Loans advanced	23	2,033	3,410	5,590
Loan repayment received	(5,245)	(2,683)	–	(4,000)
Interest charged	–	–	–	(114)
Interest received	–	703	170	28
	7	5,229	5,176	1,596

Transactions with other relates parties

The following transactions were recognised during the reporting period with other related parties:

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Sale of goods (a)	12,309	–	–	–
Administrative services (b)	4,096	–	–	–
Rental expense (c)	269	324	374	427
Purchase of advertising services (d)	–	–	578	4,645
	16,674	324	952	5,072

(a) Finished goods sold to the Company at cost.

(b) General administrative services provided by the Company to Swisse Wellness (Guangzhou) Limited.

(c) Rents payable to Anmarin Pty Ltd, an entity controlled by key management personnel.

(d) Advertising services purchased from Noisy Beast Pty Ltd, which has been consolidated from November 2013, the date on which Swisse obtained control.

Subsidiaries

Interests in subsidiaries are set out in note 22.

26. OPERATING SEGMENTS

For management purposes, Swisse is organised into business units based on their products and services. Swisse has two reportable segments as follows:

(a) Vitamins and supplements; and

(b) Other (superfoods, active, skincare)

Swisse's revenue from external customers is predominately derived from Australia and New Zealand and its non-current assets are located in Australia. Management monitors the results of Swisse's segments separately for the purposes of making decisions about resources allocation and performance assessment.

During the period ended 30 June 2016, sales to 3 external customers (June 2015: 4, June 2014: 4, June 2013: 2) were individually 10% or more of the total revenue of Swisse.

Operating segment information is as follows:

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Segment revenue				
Vitamins	614,768	347,357	159,463	202,687
Other products	113,315	44,018	24,515	22,412
Swisse	728,083	391,375	183,978	225,099
Segment result				
Vitamins	434,844	237,342	104,815	139,144
Other products	64,249	35,111	17,560	15,782
Swisse	499,093	272,453	122,375	154,926
Reconciliations				
Trade discounts	(119,537)	(78,963)	(58,654)	(75,438)
Interest income	1,138	653	227	69
Other income and unallocated gains	3,756	175	5,479	9
Corporate and other unallocated expenses	(263,011)	(84,092)	(68,948)	(85,365)
Finance costs	(5,119)	(7,693)	(7,680)	(2,745)
Income tax (expense)/benefit	(47,010)	(28,783)	1,587	2,786
Loss from discontinued operations	–	–	(33,796)	(11,563)
Profit/(loss) after tax	69,310	73,750	(39,410)	(17,321)
Other segment information				
Depreciation and amortisation	(3,264)	(3,067)	(3,080)	(2,298)
Write down of inventories to net realisable value	(6,297)	(872)	(2,251)	(2,021)
Capital expenditure	(10,616)	(653)	(1,637)	(5,074)

27. FINANCIAL RISK MANAGEMENT

This note explains Swisse's exposure to financial risks and how these risks could affect the Target Group's future financial performance.

Swisse's risk management is carried out by the executive management team under policies approved by the directors of Swisse Wellness. The executive management team identifies and evaluates financial risks while the directors provide 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.

Market risk

Foreign exchange risk

Swisse has one European supplier, with the purchase of goods denominated in Euro's. Forward exchange contracts are taken out to hedge the risk of unfavourable movements in foreign exchange rates.

Movements in the fair value of these financial instruments are recognised directly in the profit and loss.

Other expenses denominated in foreign currencies are expected to be repaid with receipts from sales in foreign currencies and therefore, foreign currency exposure of these transactions has not been hedged.

Swisse's exposure to foreign currency risk at the end of the reporting period, expressed in Australian Dollars is as follows:

	HKD	EUR	GBP	USD	NZD	CNY
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
30 June 2016						
Cash at bank	–	5,795	–	741	–	–
Trade receivables	–	–	–	–	–	–
Other receivables	–	–	–	–	–	–
Trade payables	–	(6,423)	(138)	(2,974)	–	(5,819)
Total	–	(628)	(138)	(2,233)	–	(5,819)

	HKD	EUR	GBP	USD	NZD	CNY
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
30 June 2015						
Trade receivables	–	–	–	–	3,558	–
Other receivables	–	–	–	4,503	43	–
Trade payables	–	–	(31)	(765)	(597)	–
Other payables	–	–	–	(225)	(94)	–
Total	–	–	(31)	3,513	2,910	–

	HKD	EUR	GBP	USD	NZD	CNY
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
30 June 2014						
Trade receivables	–	–	–	839	578	–
Other receivables	–	–	–	17	5	–
Trade payables	–	–	–	(1,206)	(144)	–
Other payables	–	–	–	(1,746)	(25)	–
Total	–	–	–	(2,096)	414	–

	HKD	EUR	GBP	USD	NZD	CNY
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
30 June 2013						
Receivables from related parties	–	–	–	15		
Trade payables	–	–	–	(856)	–	–
Other payables	–	–	–	(957)	–	–
Total	–	–	–	(1,798)	–	–

Sensitivity

The sensitivity of profit or loss to changes in these exchange rates is as follows:

	Increase/(decrease) in profit or loss			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	$'000	*$'000*	*$'000*	*$'000*
EUR/AUD exchange rate – increase 10%	(104)	–	–	–
EUR/AUD exchange rate – decrease 10%	85	–	–	–
USD/AUD exchange rate – increase 10%	(334)	(319)	190	163
USD/AUD exchange rate – decrease 10%	273	390	(233)	(199)
NZD/AUD exchange rate – increase 10%	–	(265)	(38)	–
NZD/AUD exchange rate – decrease 10%	–	323	46	–
CNY/AUD exchange rate – increase 10%	(133)	–	–	–
CNY/AUD exchange rate – decrease 10%	109	–	–	–

Cash flow and fair value interest rate risk

Swisse's main interest rate risk arises from long term borrowings with variable rates, which expose Swisse to cash flow interest rate risk. Swisse's borrowings at variable rate were mainly denominated in Australian Dollars.

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.

Credit risk

Credit risk arises from cash and cash equivalents and credit exposures to customers, including outstanding receivables.

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, Swisse 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 no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

Security

For customers without credit rating, Swisse 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 Swisse 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.

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 approval by the directors of Swisse Wellness.

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.

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 impairment has been incurred, but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment.

Swisse considers that there is evidence of impairment if any of the following indicators are present:

(a) significant financial difficulties of the debtor;

(b) probability that the debtor will enter bankruptcy or financial reorganisation; and

(c) 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 the profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Beginning of the reporting period	(5,132)	(4,832)	–	–
Provision for impairment recognised	(906)	(300)	(4,832)	–
Receivables written off during the period	4,957	–	–	–
	(1,081)	(5,132)	(4,832)	–

Past due not impaired

At the end of the reporting period, 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:

	30 June 2016 *Audited* *$'000*	**30 June 2015** *Audited* *$'000*	**30 June 2014** *Audited* *$'000*	**30 June 2013** *Audited* *$'000*
Within 1 month	7,796	4,870	–	–
1 to 3 months	9,063	3,080	311	5,152
Over 3 months	2,560	110	27	786
	19,419	8,060	338	5,938

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. Swisse 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.

Liquidity risk

Financing arrangements

Swisse had access to the following undrawn borrowing facilities at the end of the reporting period:

	30 June 2016 *Audited* *$'000*	**30 June 2015** *Audited* *$'000*	**30 June 2014** *Audited* *$'000*	**30 June 2013** *Audited* *$'000*
Floating rate				
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.

Maturities of financial liabilities

The tables below analyse Swisse's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The contractual undiscounted cash flows at 30 June 2016 were as follows:

	Less than 6 months *$'000*	**6-12 months** *$'000*	**1-2 years** *$'000*	**More than 2 years** *$'000*	**Total contractual cash flows** *$'000*	**Carrying amount liabilities** *$'000*
Non-derivatives						
Trade payables	84,584	–	–	–	84,584	84,584
Payables to related parties	5,819	–	–	–	5,819	5,819
Related party loans	–	–	–	137,626	137,626	137,626
	90,403	–	–	137,626	228,029	228,029

The contractual undiscounted cash flows at 30 June 2015 were as follows:

	Less than 6 months	6-12 months	1-2 years	More than 2 years	Total contractual cash flows	Carrying amount liabilities
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Non-derivatives						
Trade payables	62,245	–	–	–	62,245	62,245
Lease liabilities	549	12	32	10	603	593
Syndicated facility	1,427	1,449	46,969	–	49,845	43,694
	64,221	1,461	47,001	10	112,693	106,532

The contractual undiscounted cash flows at 30 June 2014 were as follows:

	Less than 6 months	6-12 months	1-2 years	More than 2 years	Total contractual cash flows	Carrying amount liabilities
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Non-derivatives						
Trade payables	27,658	–	–	–	27,658	27,658
Lease liabilities	922	922	562	42	2,448	2,103
Syndicated facility	2,294	2,329	4,442	72,536	81,601	66,009
	30,874	3,251	5,004	72,578	111,707	95,770

The contractual undiscounted cash flows at 30 June 2013 were as follows:

	Less than 6 months	6-12 months	1-2 years	More than 2 years	Total contractual cash flows	Carrying amount liabilities
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Non-derivatives						
Trade payables	47,130	–	–	–	47,130	47,130
Lease liabilities	922	922	1,844	604	4,292	2,907
Syndicated facility	17,512	10,300	–	–	27,812	27,189
	65,564	11,222	1,844	604	79,234	77,226

28. DISCONTINUED OPERATIONS

During the year ended 30 June 2014, Swisse 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 financial statements of Swisse as a discontinued operation.

Financial information relating to the discontinued operation for the twelve months ended is set out below:

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
Revenue	–	–	2,519	11,734
Expenses	–	–	(36,315)	(23,297)
Loss before income tax	–	–	(33,796)	(11,563)
Income tax expenses	–	–	–	–
Loss after income tax of discontinued operations	–	–	(33,796)	(11,563)

	For the year ended			
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2013**
	Audited	*Audited*	*Audited*	*Audited*
	$'000	*$'000*	*$'000*	*$'000*
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	–	1,639	149	480

The carrying amounts of assets and liabilities as at 30 June 2014 were:

	30 June 2014
	Audited
	$'000
Cash and cash equivalents	230
Trade and other receivables	856
Inventories	2,920
Total assets	4,006
Trade and other payables	(20,597)
Net liabilities	(16,591)

The 2014 financial statements included accruals for closure costs of $16,495,000 relating to expected costs to be incurred on stock returns, onerous contracts, handling and repacking costs, freight and other costs to be incurred in the closure of the USA operations.

29. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 14 September 2016, the shareholders of the minority interest rolled-up their shareholding in Swisse Wellness into Biostime Healthy Australia Holdings Pty Limited. As a result of this transaction, Swisse Wellness became 100% held by the Biostime Healthy Australia Holdings Pty Limited income tax consolidated group (which includes Biostime Healthy Australia Investment Pty Limited as a member) and accordingly, Swisse Wellness and its wholly-owned Australian controlled entities automatically joined the Biostime Healthy Australia Holdings Pty Limited tax consolidated group.

On 15 September 2016, Swisse Wellness issued 971,309 fully paid ordinary shares to Biostime Healthy Australia Investment Pty Limited at $141.69 per share as consideration for the settlement of the outstanding loan amount of $137.6 million owing to Biostime Healthy Australia Investment Pty Limited.

On 25 October 2016, the Target Company paid a cash dividend of $45.2 million to its shareholder Biostime Healthy Australia Investment Pty Limited. The funds were used by Biostime Healthy Australia Investment Pty Limited to pay interest and principal under its senior debt facility.

Other than the above, no matter or circumstance has occurred subsequent to 30 June 2016 that has significantly affected, or may significantly affect, the operations of Swisse, the results of those operations or the state of affairs of Swisse or economic entity in subsequent reporting periods.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Swisse Wellness or any of its subsidiaries in respect of any period subsequent to 30 June 2016.

Yours faithfully,
Ernst & Young
Chartered Accountants
Melbourne, Australia

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

30 December 2016

The Directors
Biostime International Holdings Limited
Unit No. 3508, 35th Floor, West Tower, Shun Tak Centre
200 Connaught Road Central, Hong Kong

Dear Sirs,

We set out below our report on the financial information of Biostime Healthy Australia Holdings Pty Limited (the "Company") comprising the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Company for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and for the six months ended 30 June 2016 (the "Relevant Periods"), and the statements of financial position of the Company as at 31 December 2015 and 30 June 2016, together with the notes thereto (the "Financial Information"), prepared on the basis of preparation set out in note 2.1 of Section II below, for inclusion in the circular of Biostime International Holdings Limited dated 30 December 2016 (the "Circular") in connection with the acquisition of the remaining approximately 17% equity interest in the Company (the "17% Acquisition").

The Company was incorporated in Australia as a company with limited liability on 4 September 2015 under the Corporations Act 2001 of Australia.

As at the date of this report, no statutory financial statements have been prepared for the Company as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at 30 June 2016, the Company's interest in a subsidiary is set out in note 6 of Section II below. The Company has adopted 31 December as its financial year end date.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the financial statements of the Company (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which is comparable to Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. The Underlying Financial Statements for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and for the six months ended 30 June 2016 were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of preparation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Company as at 31 December 2015 and 30 June 2016 and of the financial performance and cash flows of the Company for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and for the six months ended 30 June 2016.

I FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Section II *Notes*	Period from 1 January 2016 to 30 June 2016 *AUD*	Period from 4 September 2015 (date of incorporation) to 31 December 2015 *AUD*
Other income and gains		4	1
Administrative expenses		(8,000)	–
Other expenses		(469)	(177)
LOSS BEFORE TAX	3	(8,465)	(176)
Income tax expense	5	–	–
LOSS FOR THE PERIOD AND TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(8,465)	(176)

STATEMENTS OF FINANCIAL POSITION

	Section II *Notes*	As at 30 June 2016 *AUD*	As at 31 December 2015 *AUD*
NON-CURRENT ASSET			
Investment in a subsidiary	6	1	1
CURRENT ASSET			
Cash and bank balances	7	530	1,011
CURRENT LIABILITY			
Other payables and accruals	8	9,171	1,187
NET CURRENT LIABILITY		(8,641)	(176)
		(8,640)	(175)
DEFICIENCY IN ASSETS			
Share capital	9	1	1
Accumulated losses		(8,641)	(176)
		(8,640)	(175)

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Accumulated losses	Total equity
	AUD	*AUD*	*AUD*
Issue of share upon incorporation*	1	–	1
Loss and total comprehensive loss for the period	–	(176)	(176)
At 31 December 2015	1	(176)	(175)
At 1 January 2016	1	(176)	(175)
Loss and total comprehensive loss for the period	–	(8,465)	(8,465)
At 30 June 2016	1	(8,641)	(8,640)

* *Details are set out in note 9 of Section II.*

STATEMENTS OF CASH FLOWS

	Section II *Notes*	Period from 1 January 2016 to 30 June 2016 *AUD*	Period from 4 September 2015 (date of incorporation) to 31 December 2015 *AUD*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(8,465)	(176)
Increase in other payables and accruals		7,984	1,187
Net cash flows (used in)/from operating activities		(481)	1,011
CASH FLOWS FROM AN INVESTING ACTIVITY			
Capital injection to a new subsidiary and net cash flows used in an investing activity	6	–	(1)
CASH FLOWS FROM A FINANCING ACTIVITY			
Proceed from issue of share and net cash flows from a financing activity	9	–	1
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(481)	1,011
Cash and cash equivalents at beginning of period		1,011	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD		530	1,011
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	7	530	1,011

II NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Australia on 4 September 2015. The registered office of the Company is located at Suite 12, Level 12, 37 Bligh Street, Sydney, New South Wales, Australia.

The principal activity of the Company is investment holding.

The Company's immediate holding Company is Biostime Healthy Australia Pty Limited ("BHA"), a company incorporated in Australia. Biostime International Holdings Limited ("BIHL"), a company incorporated in the Cayman Islands and whose shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of the Company. In the opinion of the Directors, the Company's ultimate holding company is Biostime Pharmaceuticals (China) Limited, a limited liability company incorporated in the British Virgin Islands. Its registered office is located at P.O. Box 3152, Road Town, the British Virgin Islands.

2.1 BASIS OF PREPARATION

The Company's Underlying Financial Statements have been prepared on a going concern basis notwithstanding that the Company recorded net current liability and deficiency in assets as at 30 June 2016 and 31 December 2015 as BIHL has undertaken to provide continuing financial support to the Company to enable it to meet its obligations and liabilities as and when they fall due.

The Financial Information of the Company for the Relevant Periods has been prepared in accordance with IFRSs issued by IASB, which is comparable to the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board.

The Financial Information has been prepared under the historical cost convention and is presented in Australian dollars ("AUD").

The Financial Information has been produced for inclusion in the Circular for the 17% Acquisition, using the principal accounting policies which are materially consistent with those of BIHL as applied in the BIHL's consolidated financial statements for the year ended 31 December 2015.

Consolidated financial statements have not been prepared as the Company is a wholly-owned subsidiary of BIHL as at 30 June 2016 and 31 December 2015, which prepares consolidated financial statements in accordance with IFRSs, which can be accessed by public in its website www.biostime.com.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Company has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Financial Information:

IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IFRS 2	*Share-based payment: Classification and Measurement*[2]
Amendments to IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 4	*Insurance Contracts*[2]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to a number of IFRSs*[1,2]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 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.

The Company is in the process of making an assessment of the impact of the new and revised IFRSs upon initial application. So far, the Company considers these new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

2.3 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 Company 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 Company 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 Company 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 Company's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statements of profit or loss to the extent of dividends received and receivable.

Related parties

A party is considered to be related to the Company 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 Company;

  (ii) has significant influence over the Company; or

  (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Company 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 Company 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 the Company;

  (vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) the 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 Company or to the parent of the Company.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than 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 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 an 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 profit or loss in the period in which it arises.

Financial instruments

Financial assets

The Company's financial asset represents cash and bank balances, which is classified and accounted for as loans and receivables and are recognised on the trade date.

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 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 finance costs for loans and in other expenses for receivables.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets have expired or have been transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

The carrying amount of the asset is reduced through the use of an allowance amount and the amount of the loss is recognised in profit or 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 Company.

Financial liabilities

The Company's financial liability represents other payables and accruals.

Financial liabilities are initially recognised at fair value and, in case of loans and borrowings, net of directly attributable transaction costs incurred and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired, less bank overdrafts.

Foreign currency transactions

The functional and presentation currency of the Company is AUD. Transactions in foreign currencies are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the retranslation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Income tax

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 Company operates.

3. LOSS BEFORE TAX

The Company's loss before tax is arrived at after charging/(crediting):

	Period from 1 January 2016 to 30 June 2016 *AUD*	Period from 4 September 2015 (date of incorporation) to 31 December 2015 *AUD*
Auditor's remuneration	8,000	–
Staff costs (excluding directors' remuneration *(note 4)*):		
Wages and salaries	–	–
Pension scheme contributions	–	–
	–	–
Foreign exchange differences, net	(4)	(1)

4. DIRECTORS' REMUNERATION

No director received any fees or emoluments in respect of their services rendered to the Company during the Relevant Periods.

5. INCOME TAX

No provision for profits tax has been made as the Company did not generate any assessable profits arising during the Relevant Periods.

6. INVESTMENT IN A SUBSIDIARY

	30 June 2016 *AUD*	31 December 2015 *AUD*
Investment, at cost	1	1

As at 30 June 2016, the Company had direct interest in the following subsidiary, which is a private limited company, the particulars of which are set out below:

Name	Place of incorporation	Issued ordinary share capital	Percentage of ordinary shares directly held by the Company	Principal activity
Biostime Healthy Australia Investment Pty Ltd ("BHAI")	Australia	AUD1	100	Investment holding

No statutory financial statements have been prepared for BHAI as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

7. CASH AND BANK BALANCES

All the Company's cash and bank balances are denominated in AUD.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and bank balances approximate to their fair values.

8. OTHER PAYABLES AND ACCRUALS

	30 June 2016 *AUD*	31 December 2015 *AUD*
Due to the intermediate holding company	1,171	1,187
Accruals	8,000	–
	9,171	1,187

The amount due to the intermediate holding company is unsecured, interest-free and repayable on demand.

9. SHARE CAPITAL

	30 June 2016	31 December 2015
Issued and fully paid:		
1 (31 December 2015: 1) ordinary share of AUD1 (31 December 2015: AUD1) each	AUD1	AUD1

On the date of incorporation, 1 ordinary share of AUD1 each was issued to a subscriber for cash.

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash and bank balances and other payables and accruals. The main purpose of these financial instruments is to raise finance for the Company's operations.

As at 31 December 2015 and 30 June 2016, the carrying amounts of the Company's financial instruments recorded at amortised cost in this Financial Information approximated to their fair values largely due to the short-term maturities of these instruments.

The main risk arising from the Company's financial instruments is liquidity risk. This risk is managed by the Company's financial management policies and practices described below:

Liquidity risk

In managing the liquidity risk of the Company, the management monitors and maintains a level of operating funds deemed adequate by the management to finance the Company's operations.

As at 31 December 2015 and 30 June 2016, the Company's financial liability would be due within twelve months and the Company recorded net current liability and deficiency in assets as 31 December 2015 and 30 June 2016, respectively. However, BIHL has undertaken to provide continuing financial support to the Company to enable it to meet its obligations and liabilities as and when they fall due.

Capital management

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as going concern and to maintain reasonable capital ratios in order to support its business and maximise shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

In the opinion of the Directors, since the Company manages its capital structure mainly through the amount due to the intermediate holding company, the presentation of the quantitative capital management analysis would provide no additional useful information to the users of this Financial Information.

11. EVENT AFTER THE END OF THE REPORTING PERIOD

On 30 September 2015, BHAI, the Company's wholly-owned subsidiary, acquired an approximate 83% equity interest in Swisse Wellness Group Pty Ltd ("Swisse") from third parties (the "Acquisition"). Along with the Acquisition, BHAI simultaneously entered into a roll-up call option deed (the "Roll-Up Call Option Deed") with the non-controlling shareholders of Swisse (the "Minority Shareholders"). Under the Roll-Up Call Option Deed, BHAI has the right to require the Minority 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 the Company within an agreed period.

The exercise of the aforementioned Roll-Up Call option was completed on 14 September 2016. Consequently, BHAI's equity interest in Swisse increased to 100%. Simultaneously, BHA, the immediate holding company of the Company and the Minority Shareholders in aggregate hold approximately 83% and 17% equity interest in the Company, respectively.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2016.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

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

30 December 2016

The Directors
Biostime International Holdings Limited
Unit No. 3508, 35th Floor, West Tower, Shun Tak Centre
200 Connaught Road Central, Hong Kong

Dear Sirs,

We set out below our report on the financial information of Biostime Healthy Australia Investment Pty Limited (the "Company") comprising the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Company for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and for the six months ended 30 June 2016 (the "Relevant Periods"), and the statements of financial position of the Company as at 31 December 2015 and 30 June 2016, together with the notes thereto (the "Financial Information"), prepared on the basis of preparation set out in note 2.1 of Section II below, for inclusion in the circular of Biostime International Holdings Limited dated 30 December 2016 (the "Circular") in connection with the acquisition of the remaining approximately 17% equity interest in Biostime Healthy Australia Holdings Pty Limited (the "17% Acquisition").

The Company was incorporated in Australia as a company with limited liability on 4 September 2015 under the Corporations Act 2001 of Australia.

As at the date of this report, no statutory financial statements have been prepared for the Company as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at 30 June 2016, the Company's interest in a subsidiary is set out in note 7 of Section II below. The Company has adopted 31 December as its financial year end date.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the financial statements of the Company (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which is comparable to Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. The Underlying Financial Statements for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and for the six months ended 30 June 2016 were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of preparation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Company as at 31 December 2015 and 30 June 2016 and of the financial performance and cash flows of the Company for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and for the six months ended 30 June 2016.

I FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Section II *Notes*	Period from 1 January 2016 to 30 June 2016 *AUD'000*	Period from 4 September 2015 (date of incorporation) to 31 December 2015 *AUD'000*
Other income and gains		–	1,908
Administrative expenses		(12)	(1,629)
Other expenses		(21,375)	–
Finance costs	3	(6,504)	–
(LOSS)/PROFIT BEFORE TAX	4	(27,891)	279
Income tax expense	6	–	–
(LOSS)/PROFIT FOR THE PERIOD AND TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(27,891)	279

STATEMENTS OF FINANCIAL POSITION

	Section II *Notes*	As at 30 June 2016 *AUD'000*	As at 31 December 2015 *AUD'000*
NON-CURRENT ASSETS			
Investment in a subsidiary	7	1,289,585	1,289,585
Other receivable	8	137,626	164,258
		1,427,211	1,453,843
CURRENT ASSET			
Cash and bank balances	9	18	1
CURRENT LIABILITIES			
Other payables and accruals	10	876,454	1,453,565
Interest-bearing bank loans	11	97,877	–
Total current liabilities		974,331	1,453,565
NET CURRENT LIABILITIES		(974,313)	(1,453,564)
TOTAL ASSETS LESS CURRENT LIABILITIES		452,898	279
NON-CURRENT LIABILITY			
Interest-bearing bank loans	11	480,510	–
		(27,612)	279
EQUITY			
Share capital	12	–	–
(Accumulated loss)/retained profit		(27,612)	279
(Deficiency in assets)/total equity		(27,612)	279

STATEMENTS OF CHANGES IN EQUITY

	Share capital	**Retained profit/ (accumulated loss)**	**Total equity**
	AUD'000	*AUD'000*	*AUD'000*
Issue of share upon incorporation*	–	–	–
Profit and total comprehensive income for the period	–	279	279
At 31 December 2015	–	279	279
At 1 January 2016	–	279	279
Loss and total comprehensive loss for the period	–	(27,891)	(27,891)
At 30 June 2016	–	(27,612)	(27,612)

* *Details are set out in note 12 of Section II.*

STATEMENTS OF CASH FLOWS

	Section II Notes	Period from 1 January 2016 to 30 June 2016 AUD'000	Period from 4 September 2015 (date of incorporation) to 31 December 2015 AUD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(27,891)	279
Adjustments for:			
Finance costs	3	6,504	–
		(21,387)	279
Increase in accruals		12	–
Net cash flows (used in)/generated from operating activities		(21,375)	279
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary	13	(26,631)	(1,262,954)
Decrease/(increase) in amount due from a subsidiary		26,632	(164,258)
Net cash flows from/(used in) investing activities		1	(1,427,212)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceed from issue of share	12	–	–
New bank loans		578,387	–
Interest paid		(6,504)	–
(Decrease)/increase in amount due to the intermediate holding company		(550,492)	1,426,934
Net cash flows from financing activities		21,391	1,426,934
NET INCREASE IN CASH AND CASH EQUIVALENTS		17	1
Cash and bank balances at beginning of period		1	–
CASH AND BANK BALANCES AT END OF PERIOD		18	1
ANALYSIS OF BALANCES OF CASH AND BANK BALANCES			
Cash and bank balances	9	18	1

II NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Australia on 4 September 2015. The registered office of the Company is located at Suite 12, Level 12, 37 Bligh Street, Sydney, New South Wales, Australia.

The principal activity of the Company is investment holding.

The Company is a wholly-owned subsidiary of Biostime Healthy Australia Holdings Pty Limited ("BHAH"), a company incorporated in Australia. Biostime International Holdings Limited ("BIHL"), a company incorporated in the Cayman Islands and whose shares are listed on The Stock Exchange of Hong Kong Limited, is an intermediate holding company of the Company. In the opinion of the Directors, the Company's ultimate holding company is Biostime Pharmaceuticals (China) Limited, a limited liability company incorporated in the British Virgin Islands. Its registered office is located at P.O. Box 3152, Road Town, the British Virgin Islands.

2.1 BASIS OF PREPARATION

The Company's Underlying Financial Statements have been prepared on a going concern basis notwithstanding that the Company recorded net current liabilities as at 30 June 2016 and 31 December 2015, respectively, and deficiency in assets as at 30 June 2016 as BIHL has undertaken to provide continuing financial support to the Company to enable it to meet its obligations and liabilities as and when they fall due.

The Financial Information of the Company for the Relevant Periods has been prepared in accordance with IFRSs issued by IASB, which is comparable to the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Australian dollars ("AUD") and all values are rounded to the nearest thousand except when otherwise indicated.

The Financial Information has been produced for inclusion in the Circular for the 17% Acquisition, using the principal accounting policies which are materially consistent with those of BIHL as applied in the BIHL's consolidated financial statements for the year ended 31 December 2015.

Consolidated financial statements have not been prepared as the Company is a wholly-owned subsidiary of BIHL as at 30 June 2016 and 31 December 2015, which prepares consolidated financial statements in accordance with IFRSs, which can be assessed by public in its website www.biostime.com.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Company has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Financial Information:

IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IFRS 2	*Share-based payment: Classification and Measurement*[2]
Amendments to IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 4	*Insurance Contracts*[2]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to a number of IFRSs*[1,2]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 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.

The Company is in the process of making an assessment of the impact of the new and revised IFRSs upon initial application. So far, the Company considers these new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

2.3 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 Company 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 Company 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 Company 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 Company's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statements of profit or loss to the extent of dividends received and receivable.

Related parties

A party is considered to be related to the Company 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 Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Company 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 Company 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 the Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) the 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 Company or to the parent of the Company.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than 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 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 an 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 profit or loss in the period in which it arises.

Financial instruments

Financial assets

The Company's financial assets include cash and bank balances and other receivable, which are classified and accounted for as loans and receivables and are recognised on the trade date.

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 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 finance costs for loans and in other expenses for receivables.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets have expired or have been transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

The carrying amount of the asset is reduced through the use of an allowance amount and the amount of the loss is recognised in profit or 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 Company.

Financial liabilities

The Company's financial liabilities include other payables and accruals and interest-bearing bank loans.

Financial liabilities are initially recognised at fair value and, in case of loans and borrowings, net of directly attributable transaction costs incurred and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired, less bank overdrafts.

Foreign currency transactions

The functional and presentation currency of the Company is AUD. Transactions in foreign currencies are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the retranslation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Income tax

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 Company operates.

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.

3. FINANCE COSTS

Finance costs represented interest on interest-bearing bank loans for the period from 1 January 2016 to 30 June 2016.

4. (LOSS)/PROFIT BEFORE TAX

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

	Period from 1 January 2016 to 30 June 2016 *AUD'000*	**Period from 4 September 2015 (date of incorporation) to 31 December 2015** *AUD'000*
Auditor's remuneration	12	–
Staff costs (excluding directors' remuneration *(note 5)*):		
Wages and salaries	–	–
Pension scheme contributions	–	–
	–	–
Foreign exchange differences, net	21,375	(1,908)

5. DIRECTORS' REMUNERATION

No director received any fees or emoluments in respect of their services rendered to the Company during the Relevant Periods.

6. INCOME TAX

No provision for profits tax has been made as the Company did not generate any assessable profits arising during the Relevant Periods.

7. INVESTMENT IN A SUBSIDIARY

	30 June 2016 *AUD'000*	31 December 2015 *AUD'000*
Investment, at cost	1,289,585	1,289,585

As at 30 June 2016, the Company had direct interest in the following subsidiary, which is a private limited liability company, the particulars of which are set out below:

Name	Place of incorporation	Issued ordinary share capital	Percentage of ordinary shares directly held by the Company	Principal activities
Swisse Wellness Group Pty Ltd ("Swisse")	Australia	AUD6,963,111	83	Investment holding

The consolidated financial statements of Swisse for the twelve months ended 30 June 2016, prepared under IFRSs, have been audited by EY Melbourne, chartered accountants in Australia. The statutory consolidated financial statements of Swisse for each of the three years ended 30 June 2013, 2014 and 2015 have been audited by another audit firm registered in Australia. Please refer to Appendix II of this circular for details.

8. OTHER RECEIVABLE

	30 June 2016 *AUD'000*	31 December 2015 *AUD'000*
Due from a subsidiary	137,626	164,258

On 30 September 2015, Swisse entered into an unsecured loan agreement with the Company to obtain an interest free loan of AUD164,258,000 from the Company which is due for repayment on 30 September 2025.

During the six months ended 30 June 2016, Swisse has partially repaid an amount of AUD26,632,000 to the Company.

9. CASH AND BANK BALANCES

All the Company's cash and bank balances are denominated in AUD.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the Company's cash and bank balances approximate to their fair values.

10. OTHER PAYABLES AND ACCRUALS

	30 June 2016 *AUD'000*	31 December 2015 *AUD'000*
Due to the intermediate holding company	876,442	1,426,934
Consideration payables	–	26,631
Accruals	12	–
	876,454	1,453,565

The amount due to the intermediate holding company is unsecured, interest-free and repayable on demand.

11. INTEREST-BEARING BANK LOANS

	30 June 2016			31 December 2015		
	Effective interest rate *(%)*	Maturity	*AUD'000*	Effective interest rate *(%)*	Maturity	*AUD'000*
Current						
Secured bank loan	BBSY*+ margin	April 2017	46,653	–	–	–
Secured bank loan	Libor#+ margin	April 2017	51,224	–	–	–
			97,877			–
Non-current						
Secured bank loan	BBSY+margin	April 2019	220,419	–	–	–
Secured bank loan	Libor+ margin	April 2019	260,091	–	–	–
			480,510			–
			578,387			–

The bank loans are guaranteed on a joint and several basis by BIHL and certain of the BIHL's subsidiaries and are secured by fixed and floating charges (in respect of the fellow subsidiary of the Company, Biostime Hong Kong Limited, a floating charge only) over all the present and future assets of BIHL and certain of its subsidiaries and assignments over BIHL's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, certain BIHL's subsidiaries' shares are pledged.

* *BBSY stands for Australian Bank Bill Swap Bid Rate*

\# *Libor stands for London InterBank Offered Rate*

12. SHARE CAPITAL

	30 June 2016	31 December 2015
Issued and fully paid:		
1 (31 December 2015: 1) ordinary share of AUD1 (31 December 2015: AUD1) each	AUD1	AUD1

On the date of incorporation, 1 ordinary share of AUD1 each was issued to a subscriber for cash.

13. BUSINESS COMBINATION

On 30 September 2015, the Company acquired an approximate 83% equity interest in Swisse from third parties. Swisse is 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 purchase consideration amounted to AUD1,289,585,000 in total. As at 30 June 2016, all the purchase consideration has been paid.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash and bank balances, other receivable, other payables and accruals and interest-bearing bank loans. The main purpose of these financial instruments is to raise finance for the Company's operations.

As at 31 December 2015 and 30 June 2016, the carrying amounts of the Company's financial instruments recorded at amortised cost in this Financial Information approximated to their fair values. Management has assessed the fair values of cash and bank balances and other payables and accruals approximated to their fair values largely due to the short-term maturities of these instruments.

The amount due from Swisse recorded in other receivable has been classified as a non-current asset as Swisse has an unconditional right to defer payment for at least 12 months after the end of the reporting period. However, Swisse intends to settle the amount due in the near term and therefore, management has assess the fair value of this receivable approximates its carrying amount.

The fair values of the interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The Company's own non-performance risk as at 30 June 2016 was assessed to be insignificant.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk and liquidity risk. These risks are managed by the Company's financial management policies and practices described below:

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's interest-bearing bank loans with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax by assuming the floating rate borrowings outstanding at the end of the reporting period were outstanding for the six months ended 30 June 2016.

	Increase/ (decrease) in basis points	**(Decrease)/ increase in profit before tax**
		AUD'000
Period from 1 January 2016 to 30 June 2016	50	(408)
Period from 1 January 2016 to 30 June 2016	(50)	408

Foreign currency risk

The Company also has certain interest-bearing bank loans and other payables denominated in United States dollar ("USD") and Hong Kong dollar ("HK$"). The Company did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations. However, the Company 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 USD and HK$ exchange rates, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in US$/HK$ rates	**Increase/(decrease) in profit before tax**	
		Period from 1 January 2016 to 30 June 2016	**Period from 4 September 2015 (date of incorporation) to 31 December 2015**
	%	*AUD'000*	*AUD'000*
If the AUD weakens against the USD	5	(1,571)	–
If the AUD strengthens against the USD	(5)	1,571	–
If the AUD weakens against the HK$	5	(2,336)	(2,415)
If the AUD strengthens against the HK$	(5)	2,336	2,415

Liquidity risk

In managing the liquidity risk of the Company, the management monitors and maintains a level of operating funds deemed adequate by the management to finance the Company's operations.

As at 31 December 2015 and 30 June 2016, the Company's other payables and accruals would be due within twelve months and the Company recorded net current liabilities as at 31 December 2015 and 30 June 2016, respectively. However, BIHL has undertaken to provide continuing financial support to the Company to enable it to meet its obligations and liabilities as and when they fall due.

Capital management

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as going concern and to maintain reasonable capital ratios in order to support its business and maximise shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

In the opinion of the Directors, since the Company manages its capital structure mainly through the amount due to the intermediate holding company and interest-bearing bank loans, the presentation of the quantitative capital management analysis would provide no additional useful information to the users of this Financial Information.

15. EVENT AFTER THE END OF THE REPORTING PERIOD

(a) Along with the acquisition of Swisse, details of which are set out in note 13, the Company simultaneously entered into a roll-up call option deed (the "Roll-Up Call Option Deed") with the non-controlling shareholders of Swisse (the "Minority Shareholders"). Under the Roll-Up Call Option Deed, the Company has the right to require the Minority Shareholders to sell all of the shares they continue to hold in Swisse after the completion of the acquisition of Swisse, in exchange for an issue of shares representing an equivalent stake in BHAH within an agreed period.

The exercise of the aforementioned Roll-Up Call option was completed on 14 September 2016. Consequently, the Company's equity interest in Swisse increased to 100%. Simultaneously, Biostime Healthy Australia Pty Limited, the immediate holding company of BHAH, and the Minority Shareholders in aggregate hold approximately 83% and 17% equity interest in BHAH, respectively.

(b) On 15 September 2016, Swisse issued 971,309 fully paid ordinary shares to the Company at AUD141.69 per share as consideration for the settlement of the outstanding loan amount of AUD137,626,000 owing to the Company.

(c) On 25 October 2016, Swisse paid a cash dividend of AUD45,237,000 million to the Company.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2016.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

(i) Basis of preparation of the unaudited pro forma financial information of the Group

To provide additional financial information, the unaudited pro forma financial information of the Group comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows (collectively referred to as the "**Unaudited Pro Forma Financial Information**") has been prepared based on:

(a) the interim condensed consolidated statement of financial position of the Group as at 30 June 2016, the interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2016 and the interim condensed consolidated statement of cash flows for the six months ended 30 June 2016 which have been extracted from the Company's published interim report for the six months ended 30 June 2016; and

(b) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the proposed acquisition of the remaining approximately 17% equity interest in Biostime Australia Holdings (the "17% Acquisition") might have affected the historical financial information in respect of the Group as if the 17% Acquisition had been completed on 30 June 2016 for the unaudited pro forma consolidated statement of financial position and as if it had taken place on 1 January 2016 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the financial information contained in this circular and the accountants' reports on the Swisse Group, Biostime Australia Holdings, and Biostime Australia Investment (collectively the "Target Group") as set out in Appendices II, IIIA and IIIB to this circular.

The Unaudited Pro Forma Financial Information of the Group has been prepared by the Directors of the Company for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Group as at the specified dates, where applicable, or any future dates.

(ii) Unaudited Pro Forma Consolidated Statement of Financial Position of the Group

	The Group As at 30 June 2016 (Unaudited)	**Pro Forma Adjustment (Unaudited)**	**Pro Forma Adjustments (Unaudited)**	**Pro Forma The Group As at 30 June 2016 (Unaudited)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	
NON-CURRENT ASSETS				
Property, plant and equipment	532,736	–	–	532,736
Prepaid land lease payments	61,027	–	–	61,027
Goodwill	5,164,178	–	–	5,164,178
Intangible assets	2,979,614	–	–	2,979,614
Bonds receivable	128,893	–	–	128,893
Loans receivable	52,803	–	–	52,803
Deposits	4,242	–	–	4,242
Investment in an associate	37,347	–	–	37,347
Held-to-maturity investment	18,607	–	–	18,607
Time deposits	122,467	–	–	122,467
Deferred tax assets	144,528	–	–	144,528
Pledged deposits	30,000	–	–	30,000
Total non-current assets	9,276,442	–	–	9,276,442
CURRENT ASSETS				
Inventories	990,902	–	–	990,902
Trade and bills receivables	415,314	–	–	415,314
Prepayments, deposits and other receivables	130,178	–	–	130,178
Loan to an associate	40,000	–	–	40,000
Loans receivable	24,288	–	–	24,288
Derivative financial instruments	30,486	–	–	30,486
Pledged deposits	1,102,498	–	–	1,102,498
Cash and cash equivalents	1,559,963	–	(1,539,441)	20,522
Total current assets	4,293,629	–	(1,539,441)	2,754,188

	The Group As at 30 June 2016 (Unaudited) *RMB'000* *Note 1*	Pro Forma Adjustment (Unaudited) *RMB'000* *Note 2*	Pro Forma Adjustments (Unaudited) *RMB'000* *Note 3*	Pro Forma The Group As at 30 June 2016 (Unaudited) *RMB'000*
CURRENT LIABILITIES				
Trade and bills payables	596,953	–	–	596,953
Other payables and accruals	949,971	–	–	949,971
Derivative financial instruments	9,939	(5,482)	–	4,457
Interest-bearing bank loans	654,022	–	–	654,022
Convertible bonds	1,147,097	–	–	1,147,097
Senior notes	192,312	–	–	192,312
Tax payable	140,903	–	–	140,903
Total current liabilities	3,691,197	(5,482)	–	3,685,715
NET CURRENT ASSETS/ (LIABILITIES)	602,432	5,482	(1,539,441)	(931,527)
TOTAL ASSETS LESS CURRENT LIABILITIES	9,878,874	5,482	(1,539,441)	8,344,915
NON-CURRENT LIABILITIES				
Senior notes	2,426,927	–	–	2,426,927
Interest-bearing bank loans	2,376,217	–	–	2,376,217
Other payables and accruals	26,742	–	–	26,742
Deferred tax liabilities	894,790	–	–	894,790
Total non-current liabilities	5,724,676	–	–	5,724,676
NET ASSETS	4,154,198	5,482	(1,539,441)	2,620,239
EQUITY				
Equity attributable to owners of the parent				
Issued capital	5,389	–	–	5,389
Equity component of convertible bonds	24,489	–	–	24,489
Other reserves	3,754,957	5,482	(1,178,834)	2,581,605
	3,784,835	5,482	(1,178,834)	2,611,483
Non-controlling interests	369,363	–	(360,607)	8,756
Total equity	4,154,198	5,482	(1,539,441)	2,620,239

(iii) Unaudited Pro Forma Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Group

	The Group for six months ended 30 June 2016 (Unaudited) *RMB'000* *Note 1*	Pro Forma Adjustment (Unaudited) *RMB'000* *Note 5*	Pro Forma The Group for six months ended 30 June 2016 (Unaudited) *RMB'000*
REVENUE	3,008,304	–	3,008,304
Cost of sales	(1,080,196)	–	(1,080,196)
Gross profit	1,928,108	–	1,928,108
Other income and gains	137,473	–	137,473
Selling and distribution costs	(954,704)	–	(954,704)
Administrative expenses	(165,362)	–	(165,362)
Other expenses	(52,517)	–	(52,517)
Finance costs	(228,389)	–	(228,389)
Share of loss of an associate	(2,858)	–	(2,858)
PROFIT BEFORE TAX	661,751	–	661,751
Income tax expense	(256,859)	–	(256,859)
PROFIT FOR THE PERIOD	404,892	–	404,892
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	46,166	–	46,166
Exchange difference on net investment in a foreign operation	92,090	–	92,090
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	138,256	–	138,256
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	543,148	–	543,148
Profit attributable to:			
Owners of the parent	356,909	44,656	401,565
Non-controlling interests	47,983	(44,656)	3,327
	404,892	–	404,892
Total comprehensive income attributable to:			
Owners of the parent	480,549	58,901	539,450
Non-controlling interests	62,599	(58,901)	3,698
	543,148	–	543,148

(iv) Unaudited Pro Forma Consolidated Statement of Cash Flows of the Group

	The Group for six months ended 30 June 2016 (Unaudited) *RMB'000* *Note 1*	Pro Forma Adjustments (Unaudited) *RMB'000* *Note 3*	Pro Forma The Group for six months ended 30 June 2016 (Unaudited) *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	661,751	–	661,751
Adjustments for:			
Bank interest income	(24,183)	–	(24,183)
Interest income from loans and bonds receivables	(5,159)	–	(5,159)
Finance costs	228,389	–	228,389
Depreciation	41,062	–	41,062
Amortisation of intangible assets	47,350	–	47,350
Amortisation of prepaid land lease payments	738	–	738
Loss on disposal of items of property, plant and equipment	3,240	–	3,240
Equity-settled share option expense	18,783	–	18,783
Equity-settled share award expense	14,375	–	14,375
Fair value gains on derivative financial instruments	(9,647)	–	(9,647)
Impairment of trade receivables	346	–	346
Write-down of inventories to net realisable value	71,568	–	71,568
Share of losses of an associate	2,858	–	2,858
	1,051,471	–	1,051,471
(Increase)/decrease in inventories	(206,246)	–	(206,246)
Decrease/(increase) in trade and bills receivables	207,182	–	207,182
Increase in prepayments, deposits and other receivables	(17,170)	–	(17,170)
Decrease in trade and bills payables	(21,758)	–	(21,758)
Decrease in other payables and accruals	(211,241)	–	(211,241)
Decrease in rental deposits	4,027	–	4,027

	The Group for six months ended 30 June 2016 (Unaudited) *RMB'000* *Note 1*	**Pro Forma Adjustments (Unaudited)** *RMB'000* *Note 3*	**Pro Forma The Group for six months ended 30 June 2016 (Unaudited)** *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	806,265	–	806,265
Corporate income tax paid	(254,825)	–	(254,825)
Net cash flows from operating activities	551,440	–	551,440
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	(53,084)	–	(53,084)
Purchases of items of intangible assets	(8,081)	–	(8,081)
Purchase of minority equity interests in a subsidiary	–	(1,539,441)	(1,539,441)
Residual payment in relation to the acquisition of a subsidiary	(131,956)	–	(131,956)
Proceeds from disposal of items of property, plant and equipment	7,702	–	7,702
Repayment of loans receivable	2,509	–	2,509
Interest received	135,314	–	135,314
Increase in time deposits with original maturity of three months or more when acquired	(119,880)	–	(119,880)
Increase in time deposits with maturity date after one year	(52,308)	–	(52,308)
Net cash flows used in investing activities	(219,784)	(1,539,441)	(1,759,225)

	The Group for six months ended 30 June 2016 (Unaudited)	Pro Forma Adjustments (Unaudited)	Pro Forma The Group for six months ended 30 June 2016 (Unaudited)
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 3*	
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options	1,830	–	1,830
New bank loans	2,860,239	–	2,860,239
Repurchase of convertible bonds	(1,649,465)	–	(1,649,465)
Repayment of bank loans	(4,570,450)	–	(4,570,450)
Interest paid	(162,264)	–	(162,264)
Issuance of senior notes, net of transaction costs	2,591,813	–	2,591,813
Increase in pledged deposits for senior notes	(944,498)	–	(944,498)
Decrease in pledged deposits	1,739,000	–	1,739,000
Dividends paid to non-controlling shareholders	(2,327)	–	(2,327)
Net cash flows used in financing activities	(136,122)	–	(136,122)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	195,534	(1,539,441)	(1,343,907)
Cash and cash equivalents at beginning of period	1,115,235	–	1,115,235
Effect of foreign exchange rate changes, net	46,314	–	46,314
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,357,083	(1,539,441)	(182,358)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	1,357,083	(1,539,441)	(182,358)

(v) Notes to the Unaudited Pro Forma Financial Information of the Group

1. The interim condensed consolidated statement of financial position as at 30 June 2016, the interim condensed consolidated statement of profit or loss and other comprehensive income and the interim condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2016 were extracted from the Company's published interim report for the six months ended 30 June 2016.

2. The financial indebtedness adjustment clause related to the Holdco Put Option (as defined underneath), amounting to RMB5.5 million, has been accounted for as a derivative financial instrument as at 30 June 2016. Assuming the 17% Acquisition was completed on 30 June 2016, the Group would have derecognised this derivative financial instrument with a corresponding adjustment to equity of the Group.

   Holdco Put Option means each Target Minority Shareholders will have the right to require the Purchaser to buy all of its shares in Biostime Australia Holdings on the third, fifth, sixth, seventh and eighth anniversaries of completion of the 83% Acquisition.

   This adjustment would not have continuing effect on the financial information of the Group.

3. The adjustments reflect the amount that would have been paid by the Group for the 17% Acquisition as at 30 June 2016 as if it had been completed on that date for the unaudited pro forma consolidated statement of financial position and as if it had taken place on 1 January 2016 for the unaudited pro forma consolidated statement of cash flows. They also reflect the amount of non-controlling interests in respect of the Swisse Group that would have been derecognised as at 30 June 2016 should the 17% Acquisition was completed on that date.

   As at 30 June 2016, the Company had a 100% direct equity interest in Biostime Australia Holdings and a 100% indirect equity interest in Biostime Australia Investment and an approximate 83% indirect equity interest in the Swisse Group. As at that date, the Group has recorded non-controlling interests in respect of Swisse Group of RMB360.6 million.

   Upon completion of the transaction set out in note 4 below on 14 September 2016 and as at the Latest Practicable Date, the Company owned 83% equity interest in the Target Group. After the completion of the 17% Acquisition, the Company's shareholding in the Target Group will increase to 100%. According to the Group's accounting policy and International Financial Reporting Standard 10 *Consolidated Financial Statements*, the 17% Acquisition will be accounted for as an equity transaction (i.e. the transaction with owners in their capacity as owners). Therefore, such a change will have no impact on goodwill, nor will it give rise to any gain or loss and the difference between the consideration and the non-controlling interests' share of assets and liabilities at the date of acquisition will be debited/credited to equity of the Group.

Assuming the 17% Acquisition was completed on 30 June 2016 for the unaudited pro forma consolidated statement of financial position and the purchase consideration was paid in cash on the same date, the balances of cash and cash equivalents would have been reduced by AUD311.3 million (equivalent to RMB1,539.4 million) and the non-controlling interests would have been reduced by RMB360.6 million. The difference of RMB1,178.8 million would be debited to equity of the Group.

Assuming the 17% Acquisition was completed on 1 January 2016 for the unaudited consolidated statement of cash flows, the Group would have recorded cash outflows in respect of purchase of minority equity interests in a subsidiary of RMB1,539.4 million.

These adjustments would not have continuing effect on the financial information of the Group.

4. On 14 September 2016, Biostime Australia Investment gave an option notice to the Target Minority Shareholders to exercise the Roll-up Call Option under the Roll-Up Call Option Deed, namely, the right to require the Target Minority Shareholders to sell all of the shares they hold in Swisse Wellness to Biostime Australia Investment in exchange for an issue of shares representing an equivalent stake in Biostime Australia Holdings.

   On the same date, the Purchaser, Biostime Australia Holdings and the Target Minority Shareholders entered into the Roll-Up Shareholders' Agreement, the principal terms of which were set out in the Company's circular dated 29 August 2016 (the "**Previous Circular**"). As a result, Biostime Australia Investment holds the entire share capital of Swisse Wellness. The Purchaser holds approximately 83% equity interest in Biostime Australia Holdings and the Target Minority Shareholders in aggregate holds approximately 17% equity interest in Biostime Australia Holdings.

   To avoid ambiguity and for the purpose of this circular, no adjustment has been made to give effect of the above transaction on the unaudited pro forma financial information of the Group as at 30 June 2016 and for the six months then ended as set out on pages IV-2 to IV-7 of this circular. Please refer to Appendix III "Unaudited Pro Forma Financial Information of the Group" of the Previous Circular for an illustration of the impact of the above transaction on the financial information of the Group.

   The terms "Roll-Up Call Option", "Roll-up Call Option Deed" and "Roll-Up Shareholders' Agreement" as defined in the Previous Circular have the same meanings when used in this appendix.

5. This adjustment reflects the amount of profit and total comprehensive income which the Group would not have been shared with the Target Minority Shareholders in respect of the Swisse Group for the six months ended 30 June 2016 should the 17% Acquisition was completed on 1 January 2016.

   During the six months ended 30 June 2016, the Target Minority Shareholders have shared profit of RMB44.7 million and total comprehensive income of RMB58.9 million in respect of the Swisse Group. No profit and total comprehensive income would be attributed to the Target Minority Shareholders for the six months ended 30 June 2016 should the 17% Acquisition have been completed on 1 January 2016.

   This adjustment would have continuing effect on the financial information of the Group as the Target Minority Shareholders will no longer be entitled to any share of the Group's profit and total comprehensive income after the completion of the 17% Acquisition.

6. No adjustment has been made to reflect the transaction costs relating to the 17% Acquisition since the Directors cannot reliably estimate the amounts involved at this stage but believe such amounts will not be significant.

7. For the purpose of this Unaudited Pro Forma Financial Information, the balance stated in Australian dollars is converted into Renminbi at the rate of AUD1.000 to RMB4.9452.

8. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2016.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular, in respect of the unaudited pro forma financial information of the Group.

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

30 December 2016

To the board of directors of Biostime International Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Biostime International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2016, and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the six months then ended and related notes as set out on pages IV-2 to IV-10 of the circular (the "Circular") dated 30 December 2016 issued by the Company. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the remaining approximately 17% equity interest in Biostime Healthy Australia Holdings Pty Limited (the "17% Acquisition") on the Group's financial position as at 30 June 2016 and the Group's financial performance and cash flows for the six months ended 30 June 2016 as if the transaction had taken place at 30 June 2016 and 1 January 2016, respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's interim condensed consolidated financial statements for the six months ended 30 June 2016, on which a review report has been published.

Directors' responsibility for the unaudited pro forma financial information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of the unaudited pro forma financial information included in the Circular is solely to illustrate the impact of the 17% Acquisition on the unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS ON BIOSTIME AUSTRALIA HOLDINGS AND BIOSTIME AUSTRALIA INVESTMENT

Set out below is the management discussion and analysis on Biostime Australia Holdings and Biostime Australia Investment for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and the six months ended 30 June 2016.

Each of Biostime Australia Holdings and Biostime Australia Investment is an investment holding company and an indirect subsidiary of the Company, incorporated in September 2015 solely for the purposes of holding the equity interest in Swisse.

Biostime Australia Holdings recorded losses of AUD176 and AUD8,465, respectively, for the period from 4 September 2015 (date of incorporation) to 31 December 2015 and for the six months ended 30 June 2016. The losses mainly represented the set up costs, the auditors' remuneration and the foreign exchange losses.

Biostime Australia Investment recorded profit of AUD0.3 million for the period from 4 September 2015 (date of incorporation) to 31 December 2015, which mainly represented the foreign exchange gain from its payables to its intermediate holding company denominated in HKD, partially offset by the costs incurred for the insurance obtained in relation to the 83% Acquisition. The loss of AUD27.9 million for the six months ended 30 June 2016 mainly represented (i) the foreign exchange loss of AUD21.4 million from the payables to its intermediate holding company denominated in HKD (which were related to advances from its intermediate holding company for the purpose of funding part of the cash consideration paid for the 83% Acquisition) and an interest-bearing bank loan denominated in USD (which was used to refinancing the bridge financing of USD450 million for financing the 83% Acquisition); and (ii) finance cost of AUD6.5 million for such interest-bearing bank loan.

On 24 April 2016, a facility agreement was entered into among Biostime Australia Investment, as borrower, the Company and certain subsidiaries as guarantors, and affiliates of The Goldman Sachs Group, Inc., to provide for a 3-year senior secured term loan facility in an aggregate amount of USD450 million, which was syndicated to other financial institutions in July 2016. The term loan facility was used to refinance the bridge financing of USD450 million for financing the 83% Acquisition. As of 30 June 2016, the carrying amount of the term loan facility was AUD578.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE SWISSE GROUP

Set out below is the management discussion and analysis on the Swisse Group for the twelve months ended 30 June 2016 and the three financial years ended 30 June 2013, 2014 and 2015.

Since the completion of the 83% Acquisition in September 2015, the financial year end of the Swisse Group has been changed from 30 June to 31 December to be consistent with the remainder of the Group, which came into effect on 1 October 2015. Accordingly, the accounting period of the Swisse Group for the first financial year upon such change will be the period from 1 July 2015 to 31 December 2016.

1. FOR THE TWELVE MONTHS ENDED 30 JUNE 2016

Set out below is the management discussion and analysis on the Swisse Group for the twelve months ended 30 June 2016.

BUSINESS AND FINANCIAL REVIEW

The Swisse Group is principally engaged in the research, marketing and distribution of vitamins and health supplements in Australia, New Zealand and China under the "Swisse" brand. The Swisse Group is a strong player in the Australian vitamin, and herbal and mineral supplements segment. The Swisse Group has a large and differentiated portfolio of premium nutrition supplement products across key nutrition categories. The Swisse Group, with almost 50 years' history, has displayed robust growth in recent years which it owes to its unique formulations, proven quality, and track record of innovation, together with an aspirational brand supported by strong sales and marketing teams. Swisse has embarked on a global market expansion strategy by entering into a joint venture collaboration agreement with PGT Healthcare LLP (a joint venture between Procter & Gamble and Teva Pharmaceutical Industries) ("**PGT Collaboration Agreement**"), with a plan to increase the Swisse Group's global presence.

For the twelve months ended 30 June 2016 and 30 June 2015, the Swisse Group generated revenues of AUD608.5 million and AUD312.4 million, respectively, and EBITDA of AUD123.6 million and AUD112.6 million, respectively.

The revenues of the Swisse Group increased by 94.8% for the twelve months ended 30 June 2016 compared to that for the twelve months ended 30 June 2015. The increase was primarily attributable to market share gain in the Australian vitamin, herbal and mineral supplement (VHMS) market and strong demand linked to the continued growth in underlying demand for Swisse products in China.

Gross profit of the Swisse Group increased from 61.9% to 62.4% for the twelve months ended 30 June 2016 compared to that for the twelve months ended 30 June 2015. The increase in gross profit was the result of supply chain improvements relating to raw materials, consumables and freight, driven by increased scale of the Swisse Group, supplier diversification and penetration in the high-margin pharmacy channel.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Swisse Wellness' daily operation and capital expenditures are mainly funded by cash generated from the operations. As at 30 June 2016, the net current assets of the Swisse Group amounted to approximately AUD154.2 million, and the net asset of the Swisse Group amounted to approximately AUD31.7 million.

The debt ratio (being total liabilities over total assets) was approximately 90.0% as at 30 June 2016.

As at 30 June 2016, the Swisse Group had cash and cash equivalents of AUD102.8 million, minimal financial lease liabilities and no short term or long term borrowings. The Swisse Group has consistently generated healthy net cash from operations during the twelve months ended 30 June 2016.

All banking facilities were held by Swisse Wellness and Swisse Wellness Pty Ltd which in turn provides working capital to group entities by way of at call loans.

As at 30 June 2016, the equity attributable to owners of Swisse Wellness was AUD31.7 million.

The Swisse Group's risk management is carried out by the executive management team under policies approved by the board of directors of Biostime Australia Holdings. The executive management team identifies and evaluates financial risks. The board of directors of Biostime Australia Holdings 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.

PLEDGE AND CHARGES ON ASSETS

The Swisse Group did not have any interest-bearing bank loans at 30 June 2016 and therefore none of the Swisse Group's assets were pledged to secure such loans.

FOREIGN EXCHANGE EXPOSURE

The business operation of the Swisse Group is principally conducted in Australia and most of the transactions are denominated in AUD.

The foreign exchange risk is managed through measures such as working capital management in same currency, pricing negotiation with overseas suppliers in AUD and forward exchange contracts. The Swisse Group's exposure to foreign exchange movements for the twelve months ended 30 June 2016 was mainly related to purchases of materials and services by operating units in Euro and USD. The Swisse Group entered into foreign exchange forward contracts to hedge against potential movements in these foreign currencies.

SIGNIFICANT INVESTMENT HELD

For the twelve months ended 30 June 2016, the Swisse Group did not have any significant investments.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARY OR ASSOCIATED COMPANY

For the twelve months ended 30 June 2016, the Swisse Group did not enter into any material acquisition or disposal of subsidiaries or associated company.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Swisse Group has no plans for material investments or capital assets in the coming year.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Swisse Group had a total of 322 employees. The total employee benefit expenses were AUD145.2 million for the twelve months ended 30 June 2016. This amount is inclusive of AUD100.4 million arising from cash-settled share-based payments and associated payroll taxes and workers' compensation paid to eligible employees as part of the 83% Acquisition and paid by the Swisse Group.

The Swisse Group adopted a Management Incentive Share Plan to enable eligible employees to acquire convertible shares in the Swisse Group prior to the 83% Acquisition. In accordance with the terms of the Management Incentive Share Plan, the convertible shares were forfeited and/or cancelled immediately prior to completion of the 83% Acquisition. Eligible employees were paid a cash bonus on completion of the 83% Acquisition, equivalent to the proceeds the eligible employees would have received had the convertible shares been converted into ordinary shares.

The Swisse Group is committed to employment policies that follow best practice, are based on equal opportunities for all, and recognise the diversity of its employees. This approach includes the fair treatment of people with disabilities in relation to their recruitment, training and development.

Superannuation was contributed at 9.5% of before-tax salary in accordance with the legislative minimum for all of the permanent, casual and executive employees.

Superannuation has been paid on Ordinary Time Earnings ("**OTE**") and contributions have been made to Australian superannuation funds. Superannuation was not paid to consultants engaged by the Swisse Group as it is not required to be. OTE are the salary or wage employees earns for their ordinary hours of work. OTE must be used to calculate the minimum Super Guarantee contribution employers need to make for their employees.

CONTINGENT LIABILITIES

The Swisse Group had no material contingent liabilities as at 30 June 2016.

OUTLOOK

The Swisse Group has a global supply chain and it adheres to the Therapeutic Goods of Administration of Australia guidelines when manufacturing its products. It is the Swisse Group's commitment to premium ingredients and quality manufacturing that has enabled it to obtain success and this continues to be a key focus for the Swisse Group quality assurance team, the Swisse Group executive management team and the Swisse Group board to ensure this is maintained.

The Swisse Group has invested significantly in its supply chain and knowledge of raw materials and brand which has seen it generate a strong intellectual property portfolio over a long period of time. The Swisse Group has market-leading initiatives around new product development, best in class ingredients and a unique 360 degree marketing model that is a key driver of such intellectual property.

The Swisse Group has over the past three years devoted significant resources into its operations and procurement teams and is specifically focused on optimising contract manufacturer selection and cost drivers of its product.

From March 2016, the Swisse Group entered the Chinese market directly by establishing an online flagship store with Tmall.hk and distributing to other China e-commerce platforms.

2. FOR THE THREE FINANCIAL YEARS ENDED 30 JUNE 2013, 2014 AND 2015

Set out below is the management discussion and analysis on the Swisse Group for the three financial years ended 30 June 2013, 2014 and 2015.

BUSINESS AND FINANCIAL REVIEW

For each of the three financial years ended 30 June 2013, 2014 and 2015, the Swisse Group generated revenue from continuing operations of AUD149.7 million, AUD125.3 million and AUD312.4 million, respectively. EBITDA from the continuing operations of the Swisse Group was AUD(3.6) million, AUD3.3 million and AUD112.6 million for the three financial years ended 30 June 2013, 2014 and 2015, respectively.

For the financial year ended 30 June 2013, the Swisse Group recorded revenue from continuing operations of AUD149.7 million and EBITDA from continuing operations of AUD(3.6) million. During the year, the Swisse Group strived to achieve number one ranking in the "health and wellness" category in the vitamins, herbal and mineral supplements segment in Australia. The Swisse Group focused on revenue growth, using discounts to gain market share and shelf space. During the financial year ended 30 June 2013, the business invested heavily in advertising and marketing, which included the 2012 Olympics campaign, to promote brand awareness and secure additional shelf space with key grocery and pharmacy retailers.

The revenue decreased by 16.3% in the financial year ended 30 June 2014 as compared with the financial year ended 30 June 2013. The decrease was mainly due to (i) customer overstocking in the financial year ended 30 June 2013 as the Swisse Group pushed to gain more shelf space in the pharmacy channel; (ii) sales of a new product range in some key grocery customers not gaining traction after a promotion campaign; and (iii) deliberate strategy by the management team of the Swisse Group to reduce discretionary discount which would be for the long term benefit of the business.

EBITDA from continuing operations increased from AUD(3.6) million in the financial year ended 30 June 2013 to AUD3.3 million in the financial year ended 30 June 2014. The increase was mainly due to management's focus on the core business to ensure profitability. In particular, the board of directors of the Swisse Group and its executive team focused on improving margins, reducing losses and improving shareholder profitability.

The Swisse Group tried to expand its overseas business, having launched its US business in 2013. However, due to the lack of adequate funding for the investment and various other factors, management made a decision to close its US operation and initiated an active program to exit the US market during the financial year ended 30 June 2014. The US operations were reported in the 2013 and 2014 financial statements of the Swisse Group as loss from discontinued operation of AUD11.6 million and AUD33.8 million, respectively.

The revenue increased significantly by 149.3% in the financial year ended 30 June 2015 as compared to the financial year ended 30 June 2014. The increase was primarily driven by growth in demand from China from October 2014 which was harnessed by the Swisse Group and an increase in local consumption in Australia and New Zealand due to higher brand awareness. Furthermore, the average selling price within the pharmacy channel increased due to the decrease in percentage of discount led by the new discounting strategy that gave consumers extra stock rather than discounts.

EBITDA from continuing operations increased from AUD3.3 million for the financial year ended 30 June 2014 to AUD112.6 million for the financial year ended 30 June 2015. The significant increase in EBITDA was mainly driven by passive demand from China based consumers, a decrease in the percentage of discounts given, a further improvement in the cost of goods sold through the engagement of new suppliers and having negotiated better pricing with incumbents, and lower advertising spend as a result of a large investment for the financial year ended 30 June 2013.

The Swisse Group earns royalties in the form of commission based on the amount of sales under the PGT Collaboration Agreement. The first royalties were generated in the 2015 financial year.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Swisse Group's daily operation and capital expenditures are mainly funded by cash generated from the operations. As at 30 June 2013, 2014 and 2015, the net current assets/(liability) of the Swisse Group amounted to approximately AUD(24.1) million, AUD1.7 million and AUD56.4 million, respectively, and the net asset/(liability) of the Swisse Group amounted to approximately AUD(10.5) million, AUD(46.3) million and AUD20.6 million, respectively.

The debt ratio (being total liabilities over total assets) was approximately 112.1%, 159.9% and 89.7% as at 30 June 2013, 2014 and 2015, respectively.

As at 30 June 2013, 2014 and 2015, the Swisse Group had cash and cash equivalents of AUD0.8 million, AUD14.1 million, and AUD57.2 million, respectively, and has consistently generated healthy net cash from operations during the relevant periods.

As at 30 June 2013, 2014 and 2015, the Swisse Group had AUD28.5 million, AUD1.8 million and AUD0.6 million in short term borrowings and financial lease liabilities.

As at 30 June 2013, 2014 and 2015, the Swisse Group had AUD1.6 million, AUD66.4 million and AUD43.7 million in long term borrowings and financial lease liabilities. All banking facilities were held by Swisse Wellness and Swisse Wellness Pty Ltd which in turn provides working capital to group entities by way of at call loans. All wholly owned Australian subsidiaries were guarantors to the AUD70 million of three-year term loan facilities provided to Swisse Wellness.

As at 30 June 2013, 2014 and 2015, the equity/(deficiency in equity) attributable to owners of Swisse Wellness was AUD(10.5) million, AUD(46.3) million and AUD20.6 million respectively.

The gearing ratio (being net debt divided by total equity attributable to owners of Swisse Wellness) was approximately (279.5)%, (116.5)% and (62.8%) as at 30 June 2013, 2014 and 2015, respectively.

PLEDGE AND CHARGES ON ASSETS

As at 30 June 2013, 2014 and 2015, the Swisse Group's total assets with net carrying amount of approximately AUD86.3 million, AUD77.4 million and AUD200.2 million respectively were pledged to secure the Swisse Group's interest-bearing bank borrowings of AUD30.1 million, AUD68.1 million and AUD44.3 million respectively. Save for the above, Swisse Wellness did not have any charge on assets as at 30 June 2013, 2014 and 2015.

Subsequent to 30 June 2015, the Swisse 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. The syndicated facility was terminated on 25 September 2015 and all encumbrances under the facility agreement were released by the financier. The Swisse Group was discharged from a guarantee and indemnity of up to AUD8,450,000 provided in favour of HSBC Bank Australia Limited in relation to a loan provided to an entity controlled by a member of key management personnel.

SIGNIFICANT INVESTMENT HELD

For the financial years ended 30 June 2013, 2014 and 2015, the Swisse Group did not have any significant investments.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARY OR ASSOCIATED COMPANY

On 30 July 2013, the Swisse Group underwent a corporate restructuring where Swisse Wellness acquired Swisse Wellness Pty Ltd and its controlled entities.

Prior to October 2013, the Swisse Group had a 40.0% stake in Noisy Beast Pty Ltd ("**Noisy Beast**"). In October 2014, the Swisse Group acquired an additional 7.33% interest in Noisy Beast.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2013, 2014 and 2015, the Swisse Group had a total of 152, 154 and 186 employees respectively. The total employee benefit expenses were AUD16.3 million, AUD19.1 million and AUD26.9 million, respectively, for the financial years ended 30 June 2013, 2014 and 2015.

CONTINGENT LIABILITIES

The Swisse Group had no material contingent liabilities as at 30 June 2013, 2014 and 2015.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short position of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO); (b) to be recorded in the register required to be kept by the Company under Section 352 of the SFO; or (c) to be notified by the Directors and chief executive to the Company and the Stock Exchange pursuant to the 'Model Code for Securities Transactions by Directors of Listed Issuers' set out in Appendix 10 to the Listing Rules, are set out below:

Name of Director	Capacity/Nature of interest	Long/Short position	Shares or underlying Shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company (%) *(Note 10)*
Luo Fei	Beneficial owner	Long position	372,744 *(Note 1)*	0.059
	Beneficial owner	Long position	414,093 *(Note 2)*	0.066
	Beneficial owner	Long position	320,531 *(Note 3)*	0.051
	Beneficiary of a trust	Long position	450,000,000 *(Note 4)*	71.377
Luo Yun	Beneficiary of a trust	Long position	450,000,000 *(Note 4)*	71.377
Radek Sali	Beneficial owner	Long position	1,096,513 *(Note 5)*	0.174
	Beneficial owner	Long position	974,178 *(Note 6)*	0.155
	Beneficial owner	Long position	324,726 *(Note 7)*	0.052
	Beneficiary of a trust	Long position	1,060,518 *(Note 8)*	0.168
Ngai Wai Fung	Beneficial owner	Long position	60,000 *(Note 9)*	0.010
Tan Wee Seng	Beneficial owner	Long position	60,000 *(Note 9)*	0.010
Xiao Baichun	Beneficial owner	Long position	60,000 *(Note 9)*	0.010

Note 1: These are the Shares subject to the exercise of the Pre-IPO Share Options granted by the Company under the Pre-IPO Share Option Scheme on 16 July 2010.

Note 2: These are the Shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 29 December 2015.

Note 3: These are the awarded shares (the "**Awarded Shares**") granted by the Company under the Share Award Scheme, including 97,000 Awarded Shares granted on 30 March 2012, 55,000 Awarded Shares granted on 3 July 2012, 30,500 Awarded Shares granted on 25 March 2013 and 138,031 Awarded Shares granted on 31 December 2015.

Note 4: As at the Latest Practicable Date, Biostime Pharmaceuticals (China) Limited was owned as to 47.71% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited. Coliving Limited is owned as to 65.00% by Flying Company Limited and 35.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited. UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor ("**Mr. Luo Fei's Family Trust**") and Mr. Luo Yun as the settlor ("**Mr. Luo Yun's Family Trust**"), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively.

Note 5: These are the Shares directly held by Mr. Radek Sali.

Note 6: These are the Shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 29 December 2015.

Note 7: These are the Awarded Shares granted by the Company under the Share Award Scheme on 31 December 2015.

Note 8: As at the Latest Practicable Date, Kednel Pty Ltd and Super Radek Pty Ltd act as the trustee of Sali Investment Trust and Super Radek Superannuation Fund, respectively. The beneficiary of Sali Investment Trust and Super Radek Superannuation Fund is Mr. Radek Sali. Sali Investment Trust and Super Radek Superannuation Fund each hold 1,060,516 and 2 Shares, respectively.

Note 9: These are the Shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme on 16 December 2011.

Note 10: As at the Latest Practicable Date, the total number of the issued Shares of the Company was 630,456,914.

As at the Latest Practicable Date, no right to acquire the aforementioned interests had been granted to the Directors or chief executive or their respective associates of the Company.

Disclosure of interests of substantial Shareholders

So far as is known to the Company, as at the Latest Practicable Date, the following persons, other than any Director or the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Number of Shares	Capacity/ Nature of interest	Long/Short position	Approximate percentage of interest in the Company (%) *(Note 2)*
Biostime Pharmaceuticals (China) Limited *(Note 1)*	450,000,000	Beneficial owner	Long position	71.377
Coliving Limited *(Note 1)*	450,000,000	Interest in a controlled corporation	Long position	71.377
Flying Company Limited *(Note 1)*	450,000,000	Interest in a controlled corporation	Long position	71.377
Sailing Group Limited *(Note 1)*	450,000,000	Interest in a controlled corporation	Long position	71.377
UBS Trustees (BVI) Limited *(Note 1)*	450,000,000	Trustee	Long position	71.377

Note 1: As at the Latest Practicable Date, Biostime Pharmaceuticals (China) Limited was owned as to 47.71% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited. Coliving Limited is owned as to 65.00% by Flying Company Limited and 35.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited. UBS Trustees (BVI) Limited, the trustee of each of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust, through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company.

Note 2: As at the Latest Practicable Date, the total number of the issued Shares of the Company was 630,456,914.

Save as mentioned above, as at the Latest Practicable Date, the Company had not been notified by any other person (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or been proposed to enter, into any service contract with the Company or any other member of the Group which is not expiring or may not be terminable by the Group within one year without payment of compensation (other than statutory compensation).

4. INTERESTS IN ASSETS AND CONTRACTS AND COMPETING BUSINESS

Save as disclosed herein (in relation to the Acquisitions from Radek Sali as described in the section headed "7. LISTING RULES IMPLICATIONS" above), as at the Latest Practicable Date, none of the Directors were materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Enlarged Group, and since 31 December 2015 (the date to which the latest published 2015 full year results of the Group were made up).

Save as disclosed herein (in relation to the Acquisitions from Radek Sali as described in the section headed "7. LISTING RULES IMPLICATIONS" above), as at the Latest Practicable Date, none of the Directors were directly or indirectly interested in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

5. QUALIFICATIONS, CONSENTS AND INTERESTS OF EXPERTS

The following are the qualifications of the experts who have given advice or opinion for incorporation and as contained in this circular:

Name	Qualifications
Ernst & Young (Hong Kong firm)	Certified Public Accountants, Hong Kong
Ernst & Young in Australia	Chartered Accountants Australia and New Zealand (formally the Institute of Chartered Accountants of Australia)

As at the Latest Practicable Date, the experts identified above had no shareholding, direct or indirect, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, the experts identified above had no direct or indirect interests in any assets which have been, since 31 December 2015 (the date to which the latest published 2015 full year results of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

The experts identified above have given and have not withdrawn their written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

The experts made this statement on the Latest Practicable Date for incorporation in this circular.

6. MATERIAL LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Enlarged Group was involved in any litigation or claim of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Enlarged Group) were entered into by member(s) of the Enlarged Group within the two years immediately preceding the date of this circular which are or may be material:

(a) the Previous Share Sale Agreement, as described in the Previous Circular;

(b) the shareholders' agreement in respect of Swisse Wellness dated 17 September 2015 and entered into between Biostime Australia Investment, the Company, Swisse Wellness and the Target Minority Shareholders, the key terms of which are disclosed in the Previous Circular;

(c) the call option deed dated 17 September 2015 entered into between Biostime Australia Investment and the Target Minority Shareholders;

(d) the shareholders' agreement in respect of Biostime Australia Holdings dated 14 September 2016 and entered into by Biostime Australia, Biostime Australia Holdings and the Target Minority Shareholders, the key terms of which are disclosed in the Roll-Up Circular;

(e) the facility agreement dated 17 September 2015 in relation to a USD450 million bridge term loan facility obtained to finance the 83% Acquisition, as described in the Previous Circular;

(f) the USD450 million term loan facility agreement dated 24 April 2016 obtained by Biostime Australia Investment to refinance the bridge loan facility provided under the facility agreement referred to in subparagraph (e) above;

(g) the amendment and restatement agreement dated 21 June 2016, relating to the facility agreement referred to in subparagraph (f) above;

(h) the further amendment and restatement agreement dated 11 July 2016, relating to the agreements referred to in subparagraphs (f) and (g) above;

(i) the subordinated bridge commitment letter and the relevant fee letter issued by Goldman Sachs (Asia) L.L.C. and Goldman Sachs Mortgage Company on 14 December 2016 and accepted and countersigned by the Company on 15 December 2016, pursuant to which Goldman Sachs (Asia) L.L.C. and Goldman Sachs Mortgage Company have agreed to arrange and underwrite a USD150,000,000 subordinated bridge facility to be made available to the Company, if necessary, to finance part of the consideration for the 17% Acquisition;

(j) the engagement letter issued by Goldman Sachs (Asia) L.L.C. on 14 December 2016 and accepted and countersigned by the Company on 15 December 2016, pursuant to which the Company has agreed to retain Goldman Sachs (Asia) L.L.C. (or its affiliates) to act as exclusive bookrunner, underwriter, global coordinator, initial purchaser, placement agent and/or arranger (as appropriate) with respect to any debt and/or equity financing to be undertaken by the Company to finance part of the consideration for the 17% Acquisition;

(k) the Share Sale Agreement, as described in this circular; and

(l) the stakeholder deed dated 15 December 2016 entered into between the Company, the Target Minority Shareholders and Herbert Smith Freehills, in relation to the appointment of Herbert Smith Freehills as the stakeholder to hold the deposit as partial payment of the consideration for the 17% Acquisition.

8. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents will be available for inspection during the normal business hours from 9:00 a.m. to 5:00 p.m. (from Monday to Friday, excluding Saturday and public holidays) at principal place of business of the Company in Hong Kong at Unit No. 3508, 35th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong from the date of this circular up to and including 17 January 2017 from Monday to Friday, excluding Saturday and public holidays):

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the financial years ended 31 December 2015 and 31 December 2014, respectively;

(c) contracts referred to in the section headed "Material Contracts" in this Appendix VI;

(d) the accountants' reports on the Swisse Group, the text of which is set out in Appendix II to this circular;

(e) the accountants' reports on each of Biostime Australia Holdings and Biostime Australia Investment, the text of which is set out in Appendices IIIA and IIIB to this circular, respectively;

(f) the report on the unaudited pro forma financial information of the Group as at 30 June 2016, the text of which is set out in Appendix IV to this circular;

(g) the written consents referred to in the paragraph headed "5. Qualifications, Consents and Interests of Experts" of this Appendix VI;

(h) the Roll-Up Circular; and

(i) this circular.

9. GENERAL

The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal place of business of the Company in Hong Kong is at Unit No. 3508, 35th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

The principal place of business of the Company in the PRC is at 29th Floor, Guangzhou International Finance Center, 5 Zhujiang West Road, Zhujiang New Town, Tianhe District, Guangzhou, Guangdong Province 510623, PRC.

The principal share registrar and transfer office of the Company in the Cayman Islands is Royal Bank of Canada Trust Company (Cayman) Limited, 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands.

The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The joint company secretaries of the Company are: (a) Ms. Wong Tak Yee who is a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries; and (b) Ms. Yang Wenyun.

The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

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

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Extraordinary General Meeting**") of Biostime International Holdings Limited (the "**Company**") will be held at 29/F, Guangzhou International Finance Center, 5 Zhujiang West Road, Zhujiang New Town, Tianhe District, Guangzhou, Guangdong Province, PRC on Tuesday, 17 January 2017 at 9:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

"**THAT**:

(a) the 17% Acquisition (as defined in the circular of the Company dated 30 December 2016) be and is hereby approved, confirmed and ratified; and

(b) any one director of the Company (or any two directors of the Company or any one director and the company secretary of the Company if the affixation of the common seal is necessary), be and is/are hereby authorised for and on behalf of the Company to execute all such other documents and agreements and do all such acts and things as he or they may in his or their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement and/or give effect to the 17% Acquisition and all matters incidental or ancillary thereto."

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

Hong Kong, 30 December 2016

Notes:

1. The resolution at the EGM will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.

2. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company. If more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised.

3. Where there are joint holders of any share any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.

4. In order to be valid, a form of proxy together with the power of attorney (if any) or other authority (if any) under which it is signed or a certified copy thereof shall be deposited at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. The form of proxy will be published on the website of the Stock Exchange.

As at the date of this notice, 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.