THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Scheme Document, the Scheme, or as to the action to be taken, you should consult a licensed securities dealer, or registered institution in securities, a bank manager, solicitor, or other professional adviser.

If you have sold all your shares in Bloomage BioTechnology Corporation Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser.

Grand Full Development Limited
(創隆發展有限公司)
(Incorporated in Hong Kong with limited liability)

Bloomage BioTechnology Corporation Limited
華 熙 生 物 科 技 有 限 公 司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 00963)

SCHEME DOCUMENT RELATING TO

(1) PROPOSAL FOR THE PRIVATISATION OF BLOOMAGE BIOTECHNOLOGY CORPORATION LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE COMPANIES LAW) AND (2) PROPOSED WITHDRAWAL OF LISTING

Financial Adviser to the Offeror

華泰金融控股(香港)有限公司
HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

Independent Financial Adviser to the Independent Board Committee

Gram Capital Limited
嘉林資本有限公司

Unless the context requires otherwise, capitalised terms used in this Scheme Document are defined under the section headed "Definitions" in Part I of this Scheme Document.

A letter from the Board is set out in Part IV of this Scheme Document. A letter from the Independent Board Committee, containing its advice to the Independent Shareholders and the Optionholders in relation to the Proposal, the Scheme and the Option Offer (as the case may be) is set out in Part V of this Scheme Document. A letter from Gram Capital, being the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Proposal, the Scheme and the Option Offer is set out in Part VI of this Scheme Document. An Explanatory Memorandum regarding the Scheme is set out in Part VII of this Scheme Document.

The actions to be taken by the Shareholders and the Optionholders are set out in Part II of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held on Monday, 16 October 2017 are set out in Appendix IV and Appendix V, respectively, to this Scheme Document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under "Part II — Actions to be taken" of this Scheme Document. If the **pink** form of proxy is not so lodged, it may also be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

This Scheme Document is issued jointly by the Offeror and the Company.

The English language text of this Scheme Document shall prevail over the Chinese language text.

15 September 2017

CONTENTS

In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise.

"acting in concert"	has the meaning ascribed to it in the Takeovers Code
"AIM First"	AIM First Investments Limited, a company incorporated in the British Virgin Islands and directly and wholly owned by Ms. Zhao
"Articles"	the articles of association of the Company
"associates"	has the meaning ascribed to it in the Takeovers Code
"Beneficial Owner"	any beneficial owner of the Shares
"Board"	the board of Directors
"Business Day"	a day on which the Stock Exchange is open for the transaction of business
"Cancellation Price"	the cancellation price of HK$16.30 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Participant"	a person admitted to participate in CCASS as a participant
"Companies Law"	the Companies Law Cap. 22 (Law 3 of 1961), as consolidated and revised, of the Cayman Islands
"Company"	Bloomage BioTechnology Corporation Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are currently listed on the Main Board of the Stock Exchange
"Conditions"	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed "Conditions of the Proposal and the Scheme" in the letter from the Board contained in Part IV of this Scheme Document
"Convertible Bonds"	the 4% convertible bonds in the aggregate principal amount of HK$465,000,000 issued by the Company due 2020 convertible into Shares at the initial conversion price of HK$17.20 per Share, subject to adjustments

"Court Meeting"	a meeting of the Scheme Shareholders to be convened at the direction of the Grand Court at which the Scheme will be voted upon, which is to be held at Ballroom C, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong at 3:00 p.m. on Monday, 16 October 2017, notice of which is set out in Appendix IV to this Scheme Document, or any adjournment thereof
"Directors"	the directors of the Company
"Director Shareholders"	namely Mr. Jin, Mr. Gong Anmin, Ms. Wang Aihua and Mr. Yau Wai Yan
"Disclosure Period"	the period beginning from the date which is six months prior to the Offer Period Commencement Date and ending with the Latest Practicable Date, both dates inclusive
"Effective Date"	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the court order of the Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law, and which is expected to be Monday, 30 October 2017 (Cayman Islands time)
"EGM"	the extraordinary general meeting of the Company to be held at Ballroom C, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong at 3:30p.m. on Monday, 16 October 2017 (or so soon thereafter as the Court Meeting convened on the same day and place shall have been concluded or adjourned), notice of which is set out in Appendix V to this Scheme Document, or any adjournment thereof
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
"Explanatory Memorandum"	the explanatory memorandum set out in Part VII of this Scheme Document and issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised)
"Form(s) of Acceptance"	the form(s) of acceptance despatched to Optionholders in connection with the Option Offer
"GIC"	GIC Pte. Ltd., a private limited company incorporated under the laws of Singapore

"Gram Capital" or "Independent Financial Adviser"	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee in relation to the Proposal, the Scheme and the Option Offer
"Grand Court"	the Grand Court of the Cayman Islands
"Group"	the Company and its subsidiaries
"HA"	hyaluronic acid (also known as hyaluronan, hyaluronic acid sodium)
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Huatai Financial"	Huatai Financial Holdings (Hong Kong) Limited 華泰金融控股(香港)有限公司, the financial adviser to the Offeror in connection with the Proposal and the Option Offer. Huatai Financial is a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Huatai Financial Group"	Huatai Financial and persons controlling, controlled by or under the same control (with the meanings ascribed to such terms in the Takeovers Code) as Huatai Financial
"Independent Board Committee"	the independent board committee of the Company established by the Board to make a recommendation to the Independent Shareholders in respect of, among others, the Proposal and the Scheme and to the Optionholders in respect of the Option Offer
"Independent Shareholders"	the Shareholders other than the Offeror and the Offeror Concert Parties (including the Directors) and any other Shareholders who are interested in or involved in the Proposal, the Scheme and/or the Option Offer
"Investor Participant"	a person admitted to participate in CCASS as an investor participant

"Jin Share Options"	an aggregate of 6,950,000 Share Options held by Mr. Jin, comprising 310,000 Share Options with an exercise price of HK$4.422 per Share and 6,640,000 Share Options with an exercise price of HK$16.652 per Share
"Joint Announcement"	the announcement jointly issued by the Offeror and the Company dated 19 June 2017 in relation to the Proposal, the Scheme and the Option Offer
"Latest Option Exercise Date"	3:30p.m. on Thursday, 19 October 2017, being the expected latest time and date upon which Optionholders must exercise their vested and outstanding Share Option(s)
"Last Trading Day"	15 June 2017, being the last half trading day for the Shares prior to the trading halt in the Shares prior to the release of the Joint Announcement
"Latest Practicable Date"	12 September 2017, being the last practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 January 2018 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct)
"Meeting Record Date"	Monday, 16 October 2017 or such other time and date as may be announced to the Shareholders, being the record date for the purpose of determining the entitlement of Shareholders to attend and vote at the Court Meeting and the EGM
"Mr. Jin"	Mr. Jin Xuekun, an executive Director
"Mr. Jin Undertaking"	the irrevocable undertaking dated 16 June 2017 executed by Mr. Jin and Wealthy Delight in favour of the Offeror and the Company with respect to the Jin Share Options and the Warrants, the material terms of which are set out in the paragraph headed "Irrevocable Undertakings — The Mr. Jin Undertaking" in the letter from the Board contained in Part IV of this Scheme Document
"Ms. Zhao"	Ms. Zhao Yan, the chairman and an executive director of the Company
"Offer Period Commencement Date"	19 June 2017, being the date of the Joint Announcement

“Offeror”	Grand Full Development Limited (創隆發展有限公司), a company incorporated in Hong Kong with limited liability
“Offeror Concert Parties”	parties acting in concert or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code
“Option Agreement”	the option agreement dated 22 May 2014 entered into by and among AIM First, Ms. Zhao (as warrantor for AIM First), Wealthy Delight and Mr. Jin (as warrantor for Wealthy Delight), the details of which are set out in the section headed “The Termination” in the letter from the Board contained in Part IV of this Scheme Document
“Option Offer”	the offer to be made by or on behalf of the Offeror to the Optionholders
“Option Offer Letter(s)”	the letter(s) setting out the terms and conditions of the Option Offer sent separately to the Optionholders and substantially in the form set out in Appendix VI to this Scheme Document
“Option Offer Price”	HK$11.878, being the per Share price payable by the Offeror to the Optionholders in consideration for their agreement to cancel their Share Option(s) with an exercise price of HK$4.422 per Share, or HK$0.00001, being the per Share price payable by the Offeror to the Optionholders in consideration for their agreement to cancel their Share Option(s) with an exercise price of HK$16.652 per Share, the details of which are set out in the section headed “The Option Offer” in the letter from the Board contained in Part IV of this Scheme Document
“Option Offer Record Date”	Monday, 30 October 2017, or such other time and date as may be announced or notified to the Optionholders, being the record date for the purpose of determining entitlements under the Option Offer
“Optionholder(s)”	holder(s) of the Share Options
“Ora Investment”	Ora Investment Pte. Ltd., a private limited company incorporated under the laws of Singapore. It is an investment vehicle managed by GIC’s private equity and infrastructure group. GIC is one of the world’s leading sovereign wealth funds established in 1981 to manage Singapore’s foreign reserves

"Ora Investment Undertaking"	the irrevocable undertaking dated 17 June 2017 executed by Ora Investment in favour of the Offeror and the Company with respect to the Convertible Bonds held by Ora Investment, the material terms of which are set out in the paragraph headed "Irrevocable Undertakings — The Ora Investment Undertaking" in the letter from the Board contained in Part IV of this Scheme Document
"PRC"	the People's Republic of China, which for the purpose of this Scheme Document, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Proposal"	the proposal for (1) the privatisation of the Company by the Offeror by way of the Scheme and the restoration of the share capital of the Company to the amount simultaneously with the cancellation of the Scheme Shares, (2) the surrender and cancellation of the Zhao Shares and issue to the Offeror of such number of new Shares as is equal to the number of the Zhao Shares surrendered and cancelled, (3) the Termination, and (4) the withdrawal of the listing of the Shares on the Stock Exchange, on the terms and subject to the conditions set out in this Scheme Document
"Registered Owner"	any owner of Shares (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) entered in the register of members of the Company
"Relevant Authorities"	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
"RMB"	Renminbi, the lawful currency of the PRC
"Scheme"	a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of all the Scheme Shares and the issue to the Offeror of such number of new Shares as is equal to the number of Scheme Shares cancelled
"Scheme Document"	this composite scheme document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
"Scheme Record Date"	Monday, 30 October 2017, or such other date as may be announced to Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders under the Scheme
"Scheme Share(s)"	Share(s) other than those held by Ms. Zhao and AIM First

"Scheme Shareholder(s)"	holders of Scheme Shares as at the Scheme Record Date
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Share Option(s)"	the share options granted under the Share Option Scheme from time to time. As at the Latest Practicable Date, there were 14,021,200 outstanding Share Options
"Share Option Scheme"	the share option scheme adopted by the Company on 3 September 2008
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers
"Termination"	the termination of the Option Agreement upon the terms and subject to the conditions set out in the Termination Agreement
"Termination Agreement"	the conditional termination agreement dated 16 June 2017 entered into by and among AIM First, Ms. Zhao (as warrantor for AIM First), Wealthy Delight and Mr. Jin (as warrantor for Wealthy Delight) in relation to the Termination, the material terms of which are set out in the section headed "The Termination" in the letter from the Board contained in Part IV of this Scheme Document
"Termination Fee"	compensation of HK$104.58 million payable by AIM First to Wealthy Delight pursuant to the terms of the Termination Agreement
"trading day"	a day on which the Stock Exchange is open for the business of dealings in securities
"Warrants"	the 16,600,000 outstanding unlisted warrants issued by the Company to Wealthy Delight which each entitles Wealthy Delight to subscribe for one Share at the exercise price of HK$16.652 per Share initially (subject to adjustment) during the relevant period

"Wealthy Delight"	Wealthy Delight Group Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Jin
"Zhao Shares"	1,200,000 Shares held by Ms. Zhao as at the Latest Practicable Date

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and the Effective Date, which are the relevant date in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time.

ACTIONS TO BE TAKEN BY SHAREHOLDERS

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to the Registered Owners. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 3:00 p.m. (Hong Kong time) on Saturday, 14 October 2017 or be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it, and the **white** form of proxy for use at the EGM should be lodged not later than 3:30 p.m. (Hong Kong time) on Saturday, 14 October 2017. Completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the relevant form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of the Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Scheme Shareholders, Independent Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 11 October 2017 to Monday, 16 October 2017 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 10 October 2017.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or such other relevant person in advance of the deadline(s) in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC may vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

ACTIONS TO BE TAKEN BY OPTIONHOLDERS

The Option Offer Letter is being sent to each Optionholder, together with this Scheme Document and a Form of Acceptance. If you are a holder of outstanding Share Option(s) as at the Option Offer Record Date and you wish to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, at c/o Bloomage BioTechnology Corporation Limited, Room 501, Hutchison House, No. 10 Harcourt Road, Central, Hong Kong, for the attention of the board of directors of the Offeror and marked "Bloomage BioTechnology Corporation Limited — Option Offer" by no later than 4:00 p.m. on Monday, 13 November 2017 (or such later date and time as may be notified to you by the Offeror or Huatai Financial). No acknowledgement of receipt of any Form of Acceptance or other document evidencing the grant of Share Option(s) or any other document will be given. The Offeror will offer HK$16.30 minus the relevant exercise price for each Share Option. If the exercise price of the relevant Share

Option granted to you is HK$4.422 per Share, the "see-through" price is HK$11.878 per Share Option. If the exercise price of the relevant Share Option granted to you is HK$16.652 per Share, the "see-through" price is zero and a cash offer of a nominal amount (HK$0.00001 per Share Option) will be made.

All Optionholders must lodge the duly completed and executed Form of Acceptance as mentioned above at or before 4:00 p.m. on Monday, 13 November 2017 (or such later date and time as may be notified to you by the Offeror or Huatai Financial).

You are urged to read the instructions and other terms and conditions of the Option Offer in the Option Offer Letter, substantially in the form set out in Appendix VI to this Scheme Document.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, WE URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING THE BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, WE ENCOURAGE YOU TO PROVIDE HKSCC WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND THE EGM WITHOUT DELAY (AS DETAILED IN THE SECTION "ACTIONS TO BE TAKEN — ACTION TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS" ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTES.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR OR OTHER PROFESSIONAL ADVISER.

NOTICE TO OVERSEAS INVESTORS

The Proposal relates to the ordinary shares with a par value of HK$0.01 each in the share capital of the Company, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange, and is proposed to be effected by way of a scheme of arrangement under the laws of the Cayman Islands and applicable rules and regulations in Hong Kong. The Option Offer will be conditional upon the Scheme becoming effective.

The making and implementation of the Scheme to Scheme Shareholders and the Option Offer to Optionholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and Optionholders are located. Such Scheme Shareholders and Optionholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and Optionholders wishing to take any action in relation to the Scheme and the Option Offer respectively to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any acceptance by the Scheme Shareholders and the Optionholders will be deemed to constitute a representation and warranty from such persons to the Offeror and the Company and their respective advisers that those laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

Overseas Scheme Shareholders and Optionholders are advised to read “17. Overseas Scheme Shareholders and Optionholders” in the Explanatory Memorandum set out in Part VII of this Scheme Document for further information.

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

The performance and the results of operations of the Group contained in this document are historical in nature and past performance is not a guarantee of the future results of the Group. This document may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions and you should not place undue reliance on such forward-looking statements and opinions. Subject to the requirements of applicable laws, rules and regulations, including the Takeovers Code, none of the Offeror, the Company, Huatai Financial, any of their respective directors, officers, employees, agents, affiliates or advisers or any other person involved in the Proposal, the Scheme or the Option Offer assumes any obligation to correct or update the forward-looking statements or opinions contained in this document.

Shareholders may obtain free copies of this Scheme Document at the websites maintained by the SFC at www.sfc.hk, by the Stock Exchange at www.hkexnews.hk or by the Company at http://www.bloomagebio-tech.com/.

	Hong Kong Time *(unless otherwise stated)*
Date of despatch of this Scheme Document	Friday, 15 September 2017
Date of despatch of the Option Offer Letter for the Share Options	Friday, 15 September 2017
Latest time for Optionholders to exercise their vested and outstanding Share Options in order to become Shareholders and entitled to vote at the Court Meeting and the EGM (Note 1)	3:30 p.m. on Tuesday, 10 October 2017
Latest time for lodging transfers of Shares in order to qualify for attending and voting at the Court Meeting and the EGM	4:30 p.m. on Tuesday, 10 October 2017
Register of members of the Company closed for determination of entitlements of Scheme Shareholders to attend and vote at the Court Meeting and of Shareholders to attend and vote at the EGM (Note 2)	from Wednesday, 11 October 2017 to Monday, 16 October 2017 (both days inclusive)
Latest time for lodging forms of proxy in respect of the Court Meeting (Note 3)	3:00 p.m. on Saturday, 14 October 2017 (or to be handed directly to the chairman at the Court Meeting)
Latest time for lodging forms of proxy in respect of the EGM (Note 3)	3:30 p.m. on Saturday, 14 October 2017
Meeting Record Date	Monday, 16 October 2017
Court Meeting (Note 4)	3:00 p.m. on Monday, 16 October 2017
EGM (Note 4)	3:30 p.m. on Monday, 16 October 2017 (or immediately after the conclusion or adjournment of the Court Meeting)
Announcement of results of the Court Meeting and the EGM	not later than 7:00 p.m. on Monday, 16 October 2017
Expected last day for dealing in the Shares on the Stock Exchange	Tuesday, 17 October 2017

Latest Option Exercise Date (Note 5)	3:30 p.m. on Thursday, 19 October 2017
Latest time for lodging transfers of Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Friday, 20 October 2017
Register of members of the Company closed for determining entitlements to qualify under the Scheme (Note 6)	from Monday, 23 October 2017 onwards
Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction	Friday, 27 October 2017 **(Cayman Islands Time)**
Announcement of the result of the Grand Court hearing to sanction the Scheme and to confirm the capital reduction	Monday, 30 October 2017
Scheme Record Date	Monday, 30 October 2017
Option Offer Record Date (Note 7)	Monday, 30 October 2017
Effective Date (Note 8)	Monday, 30 October 2017 **(Cayman Islands Time)**
Lapse of unexercised outstanding Share Options	Monday, 30 October 2017
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange	Tuesday, 31 October 2017 (before 8:30 a.m.)
Expected withdrawal of the listing of Shares on the Stock Exchange becomes effective (Note 9)	4:00 p.m. on Wednesday, 1 November 2017
Latest time to despatch cheques for cash payment under the Scheme	on or before Wednesday, 8 November 2017
Latest time to accept the Option Offer and closing date of the Option Offer (Note 10)	4:00 p.m. on Monday, 13 November 2017
Announcement of the results of the Option Offer on the website of the SFC	not later than 7:00 p.m. on Monday, 13 November 2017
Latest time to despatch cheques for cash payment under the Option Offer, in respect of the Share Options as at the Option Offer Record Date (Note 11)	on or before Wednesday, 22 November 2017

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

(1) Holders of Share Options that vest after the Meeting Record Date are not able to exercise their Share Options in time to entitle them to attend and vote at the Court Meeting and the EGM.

(2) The register of members of the Company will be closed during such period for the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the EGM. The book closure period is not for determining entitlements under the Scheme.

(3) Forms of proxy should be lodged with the office of the Company's branch share registrar, Tricor Investor Services Limited as soon as possible and in any event no later than the times and dates stated above. In order to be valid, the **pink** form of proxy for the Court Meeting and the **white** form of proxy for the EGM must be lodged no later than the latest times and dates stated above. If the **pink** form of proxy is not so lodged, it may also be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Scheme Shareholder and Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the form of proxy will be deemed to have been revoked.

(4) The Court Meeting and the EGM will be held at Ballroom C, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong at the times and dates specified above. Please see the notice of Court Meeting set out in Appendix IV to this Scheme Document and the notice of EGM set out in Appendix V to this Scheme Document for details.

(5) If Optionholders wish to qualify for entitlements under the Scheme, they must exercise their Share Options in accordance with the Share Option Scheme and become registered holders of the Shares by the time of closing of the register of members of the Company for determining entitlements to qualify under the Scheme.

(6) The register of members of the Company will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.

(7) Holders of outstanding Share Option(s) as at the Option Offer Record Date will be entitled to accept the Option Offer.

(8) The Scheme will only become effective on this date if all the Conditions set out in the paragraph headed "4. Conditions of the Proposal and the Scheme" in the Explanatory Memorandum set out in Part VII of this Scheme Document have been fulfilled or (to the extent permitted) waived (as the case may be).

(9) If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn after 4:00 p.m. on Wednesday, 1 November 2017.

(10) Forms of Acceptance, duly completed and executed in accordance with the instructions on them, must be lodged with the Offeror at c/o Bloomage BioTechnology Corporation Limited, Room 501, Hutchison House, No. 10 Harcourt Road, Central, Hong Kong, for the attention of the board of directors of the Offeror and marked "Bloomage BioTechnology Corporation Limited — Option Offer" not later than 4:00 p.m. on Monday, 13 November 2017 (or such later date and time as may be notified by the Offeror or Huatai Financial), failing which these holders will not receive the Option Offer Price.

(11) Payment by cheque in respect of validly completed and executed Forms of Acceptance received after the Option Offer Record Date but at or before 4:00 p.m. on Monday, 13 November 2017 will be despatched within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of such validly completed and executed Forms of Acceptance.

Bloomage BioTechnology Corporation Limited
華熙生物科技有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock code: 00963)

Executive Directors:
Ms. Zhao Yan
Mr. Jin Xuekun
Mr. Gong Anmin
Ms. Wang Aihua

Non-executive Director:
Mr. Yau Wai Yan

Independent non-executive Directors:
Ms. Zhan Lili
Mr. Li Junhong
Mr. Xue Zhaofeng

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

Principal Place of Business in Hong Kong:
Room 501
Hutchison House
No. 10 Harcourt Road
Central
Hong Kong

15 September 2017

To the Shareholders and Optionholders

Dear Sir/Madam,

(1) PROPOSAL FOR THE PRIVATISATION OF BLOOMAGE BIOTECHNOLOGY CORPORATION LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE COMPANIES LAW) AND (2) PROPOSED WITHDRAWAL OF LISTING

INTRODUCTION

On 15 June 2017, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal, the Scheme and the Option Offer, the expected timetable of the Proposal, the Scheme and the Option Offer and to give you notices of the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part V of this Scheme Document, the letter from Gram Capital set out in Part VI of this Scheme Document, the Explanatory Memorandum set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix III to this Scheme Document.

TERMS OF THE PROPOSAL AND THE OPTION OFFER

The Scheme

The Scheme will provide that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK$16.30 in cash for each Scheme Share so cancelled.

Under the Scheme, the total consideration payable for the Scheme Shares will be payable by the Offeror.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

The Cancellation Price of HK$16.30 per Scheme Share represents:

- a premium of approximately 13.99% over the closing price of HK$14.30 per Share as quoted on the Stock Exchange on the Last Trading Day;

- a premium of approximately 23.39% over the average closing price of approximately HK$13.21 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

- a premium of approximately 24.43% over the average closing price of approximately HK$13.10 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

- a premium of approximately 30.30% over the average closing price of approximately HK$12.51 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

- a premium of approximately 35.16% over the average closing price of approximately HK$12.06 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

- a premium of approximately 231.30% over the audited consolidated net asset value per Share of approximately HK$4.92 as at 31 December 2016 (Note);

- a premium of approximately 215.28% over the unaudited consolidated net asset value per Share of approximately HK$5.17 as at 30 June 2017 (Note); and

- a premium of approximately 12.57% over the closing price of HK$14.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Note: The exchange rate adopted is RMB1.00 = HK$1.15 for illustration purpose only. Such conversion should not be construed as a representation that the currency could actually be converted into HK$ at the rate or at all.

The Cancellation Price has been determined on a commercial basis after taking into account the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

The Zhao Shares

Ms. Zhao was the beneficial owner of the Zhao Shares as at the Latest Practicable Date. Upon the Scheme becoming effective, Ms. Zhao will surrender the Zhao Shares for cancellation and the Company will allot and issue to the Offeror such number of new Shares as is equal to the number of the Zhao Shares surrendered and cancelled.

The Termination

On 22 May 2014, in order to incentivize Mr. Jin and encourage him to stay with the Company for a longer period and for Mr. Jin's continuous contribution to the Group, AIM First, Ms. Zhao (as warrantor for AIM First), Wealthy Delight and Mr. Jin (as warrantor for Wealthy Delight) entered into the Option Agreement pursuant to which, (i) AIM First granted a call option (the "**AIM First Call Option**") to Wealthy Delight exercisable from the date of the Option Agreement until 22 May 2019 (both days inclusive) to require AIM First to transfer an aggregate of 9,960,000 Shares, representing approximately 2.72% of the issued share capital of the Company as at the Latest Practicable Date (subject to adjustment upon any consolidation or subdivision of Shares during the term of the Option Agreement) (the "**Option Shares**") or any part thereof held by AIM First to Wealthy Delight at HK$5.8 per Share (subject to adjustment); and (ii) Wealthy Delight granted a call option to AIM First exercisable during the period commencing the date of completion of the transfer of the Option Shares until 22 May 2019 (both days inclusive) to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AIM First at HK$5.8 per Share (subject to adjustment upon any consolidation or subdivision of Shares during the term of the Option Agreement) on the condition that AIM First Call Option has been exercised by Wealthy Delight and Mr. Jin resigns as the chief executive officer of the Company due to personal reason(s). No other consideration was payable by either AIM First or Wealthy Delight pursuant to the Option Agreement. For details of the AIM First Call Option, please refer to the announcement of the Company dated 22 May 2014.

The AIM First Call Option has not been exercised by Wealthy Delight and on 16 June 2017, AIM First, Ms. Zhao (as warrantor for AIM First), Wealthy Delight and Mr. Jin (as warrantor for Wealthy Delight) entered into the Termination Agreement. Pursuant to the Termination Agreement, subject to and upon the Scheme becoming effective, the Option Agreement shall terminate and the Termination Fee of HK$104.58 million shall be payable by AIM First to Wealthy Delight as compensation upon the Scheme becoming effective. The Termination Fee has been calculated on a "see-through" basis, pursuant to which Wealthy Delight will be entitled to receive a sum for each Option Share equivalent to the amount calculated by deducting the transfer price of HK$5.8 per Share from the Cancellation Price per Scheme Share under the Scheme.

The Option Offer

As at the Latest Practicable Date, there were 14,021,200 outstanding Share Options granted under the Share Option Scheme, each relating to one Share. Among the said Share Options, outstanding Share Options with respect to 11,688,900 new Shares have already vested as at the Latest Practicable Date, outstanding Share Options with respect to 672,300 new Shares are expected to vest on 30 October 2017 and outstanding Share Options with respect to 1,660,000 new Shares are expected to vest on 23 December 2017.

Mr. Jin, an executive Director, gave the Mr. Jin Undertaking to the Offeror and the Company that he will not exercise any of the Jin Share Options from the date of the Mr. Jin Undertaking to the date on which the Proposal is completed or (as the case may be) to such time it is determined that the Proposal will not proceed, and that he will accept the Option Offer in respect of all of the Jin Share Options.

The exercise of the said outstanding Share Options granted under the Share Option Scheme (other than the Jin Share Options) in full would result in the issue of 7,071,200 new Shares, representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.90% of the issued share capital of the Company as enlarged by the issue of such new Shares.

As at the Latest Practicable Date, none of the Offeror and the Offeror Concert Parties (other than the Director Shareholders) held any Share Option.

The Offeror will make (or procure to be made on its behalf) an appropriate offer to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Share Options, vested and unvested, in exchange for cash. The Option Offer will be conditional upon the Scheme becoming effective.

The Option Offer will be calculated on a "see-through" basis, pursuant to which each Optionholder will be entitled to receive a sum for each Share Option equivalent to the amount calculated by deducting the exercise price per Share payable on exercise of the relevant Share Option from the Cancellation Price per Scheme Share under the Scheme.

As at the Latest Practicable Date, the Company had 4,692,000 outstanding Share Options with an exercise price of HK$4.422 per Share and 9,329,200 outstanding Share Options with an exercise price of HK$16.652 per Share. The Offeror will make (or procure to be made on its behalf) an appropriate offer to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Share Options in exchange for cash being an amount equal to HK$11.878 for each outstanding Share Option with an exercise price of HK$4.422 per Share and HK$0.00001 for each outstanding Share Option with an exercise price of HK$16.652 per Share.

In the event that any of the outstanding Share Options are exercised on or prior to the Scheme Record Date in accordance with the relevant provisions of the Share Option Scheme, any Shares issued as a result of the exercise of such outstanding Share Options will be subject to and eligible to participate in the Scheme.

The Option Offer will be conditional upon the Scheme becoming effective.

You are urged to read carefully the details in respect of the Share Options and the Option Offer in the section headed "9. Share Options and the Option Offer" in the Explanatory Memorandum set out in Part VII of this Scheme Document and the Option Offer Letter set out in Appendix VI to this Scheme Document.

IRREVOCABLE UNDERTAKINGS

The Ora Investment Undertaking

As at the Latest Practicable Date, Ora Investment was the holder of 16,145,834 Shares and the Convertible Bonds. On 17 June 2017, Ora Investment executed the Ora Investment Undertaking in favour of the Offeror and the Company pursuant to which Ora Investment irrevocably undertook to the Offeror and the Company that from the date of the Ora Investment Undertaking to the date on which the Proposal is completed or (as the case may be) to such time it is determined that the Proposal will not proceed, it will:

1. not exercise the rights attaching to any of the Convertible Bonds held by it to convert any of the Convertible Bonds into Shares;

2. not sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of the Convertible Bonds or any interest therein; and

3. not accept, or give any undertaking (whether conditional or unconditional) to accept, or otherwise agree to, any offer made or proposed to be made in respect of the Convertible Bonds by the Offeror or any other person or otherwise make any of the Convertible Bonds available for acceptance.

As such, no offer will be made for the Convertible Bonds. No consideration or other benefit or any agreement, arrangement or understanding in respect thereof was or will be given to Ora Investment.

Neither the Offeror nor any of the Offeror Concert Parties are connected with Ora Investment or GIC.

The Mr. Jin Undertaking

As at the Latest Practicable Date, Mr. Jin was the holder of the Jin Share Options and Wealthy Delight was the holder of the Warrants. On 16 June 2017, Mr. Jin and Wealthy Delight executed the Mr. Jin Undertaking in favour of the Offeror and the Company pursuant to which Mr. Jin (in the case of the Jin Share Options) and Wealthy Delight (in the case of the Warrants) irrevocably undertook to the Offeror and the Company that from the date of the Mr. Jin Undertaking to the date on which the Proposal is completed or (as the case may be) to such time it is determined that the Proposal will not proceed, he or it will:

1. not exercise the rights attaching to any of the Jin Share Options to subscribe for Shares;

2. not sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of the Jin Share Options or any interest therein;

3. accept the Option Offer in respect of all of the Jin Share Options;

4. not exercise the rights attaching to any of the Warrants to subscribe for Shares;

5. not sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of the Warrants or any interest therein;

6. not tender any or all of the Warrants to the Offeror during the offer period and will not accept the offer to cancel any Warrant even if such offer is made to it or otherwise make any of the Warrants available for acceptance; and

7. surrender and cancel the Warrants upon the Scheme becoming unconditional.

As the Warrants exercise price is higher than the Cancellation Price, no compensation or any agreement, arrangement or understanding in respect thereof will be payable to Wealthy Delight. As such, no offer will be made for the Warrants.

Mr. Jin and Ms. Zhao are Directors and business partners of companies which are outside the Group. Save as aforesaid, there is no relationship (including financial, business, family or other relationship(s)) between them.

No agreement, arrangement or understanding has been entered into or discussed with Directors as to whether they would remain as directors of the Board upon the Scheme being effective.

Total Consideration and Financial Resources

On the basis of the Cancellation Price of HK$16.30 per Scheme Share and 181,901,334 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares were in aggregate valued at approximately HK$2,964.99 million. As at the Latest Practicable Date, the Share Options, the Convertible Bonds and the Warrants were outstanding. Except for the outstanding Share Options, the Convertible Bonds and the Warrants, there are no other outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

Assuming that all Optionholders (other than Mr. Jin) exercise their outstanding Share Options to become Scheme Shareholders before the Scheme Record Date, the amount of cash required for the Scheme is approximately HK$3,080.25 million and the amount of cash required for the Option Offer (in respect of the Jin Share Options only) is approximately HK$3.68 million.

Assuming that none of the outstanding Share Options will be exercised or will lapse before the Scheme Record Date, the amount of cash required for the Scheme is approximately HK$2,964.99 million, and the amount of cash required for the Option Offer (in respect of all the outstanding Share Options including the Jin Share Options) is approximately HK$55.73 million, which is equal to the aggregate of (1) the see-through price of HK$11.878 per Share Option multiplied by 4,692,000 outstanding Share Options with an exercise price of HK$4.422 per Share and (2) the see-through price of HK$0.00001 per Share Option multiplied by 9,329,200 outstanding Share Options with an exercise price of HK$16.652 per Share.

The maximum amount of cash required for the Scheme and the Option Offer on the basis described above would be approximately HK$3,083.93 million. The Offeror intends to finance the cash required for the Scheme and the Option Offer from available loan facilities. Huatai Financial, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Scheme and the Option Offer.

CONDITIONS OF THE PROPOSAL AND THE SCHEME

Your attention is drawn to the section headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Memorandum set out in Part VII of this Scheme Document.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, which comprises the non-executive Director, namely Mr. Yau Wai Yan and all the independent non-executive Directors, namely Ms. Zhan Lili, Mr. Li Junhong and Mr. Xue Zhaofeng, has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting, and to the Optionholders as to its views on acceptance of the Option Offer.

Mr. Yau Wai Yan does not have any direct or indirect interest in the Scheme other than as a Shareholder.

Ms. Zhao has a material interest in the Proposal and the Scheme and has not participated in any vote of the Board in relation to the Proposal and the Scheme. The Directors (excluding members of the Independent Board Committee) believe that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Shareholders as a whole.

The full text of the letter from the Independent Board Committee in relation to recommendations with respect to the Proposal, the Scheme and the Option Offer is set out in Part V of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE

Gram Capital has been appointed as the Independent Financial Adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal, the Scheme and the Option Offer.

The full text of the letter from Gram Capital is set out in Part VI of this Scheme Document.

REASONS FOR AND BENEFITS OF THE PROPOSAL AND THE OFFEROR'S INTENTION REGARDING THE GROUP

You are urged to read carefully the section headed "11. Reasons for and Benefits of the Scheme and the Proposal" and the section headed "14. Intentions of the Offeror" in the Explanatory Memorandum set out in Part VII of this Scheme Document.

INFORMATION ON THE COMPANY

The Company is a company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 2008. The Company is principally engaged in the development, manufacture and sales of raw materials and end products for a diversified range of HA, and is a leading provider of medical aesthetics products and services in the PRC and one of the world's largest producers of HA raw materials. The Group devotes to develop itself to be an integrated medical aesthetic solutions provider with HA as the core.

As at the Latest Practicable Date, the Company was solvent and was not unable to pay its debts as they fall due and would not become unable to do so immediately after the Latest Practicable Date.

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in Hong Kong which is directly and wholly owned by Ms. Zhao, the chairman and an executive director of the Company. The Offeror was established for the purpose of the Proposal, the Scheme and the Option Offer and has not commenced any business activity since the date of incorporation.

INFORMATION ON THE OFFEROR CONCERT PARTIES

The Offeror is directly and wholly owned by Ms. Zhao. Accordingly, Ms. Zhao is acting in concert with the Offeror under the definition of "acting in concert" in the Takeovers Code. Ms. Zhao was the beneficial owner of 1,200,000 Shares as at the Latest Practicable Date. Ms. Zhao is also the chairman and an executive Director.

AIM First, a limited liability company incorporated in the British Virgin lslands, was the beneficial owner of 182,520,000 Shares as at the Latest Practicable Date. AIM First is directly and wholly owned by Ms. Zhao. Accordingly, AIM First is acting in concert with the Offeror under the definition of "acting in concert" in the Takeovers Code. AIM First is principally engaged in the business of investment holding.

Mr. Jin was the holder of 5,413,750 Shares and 6,950,000 Share Options as at the Latest Practicable Date, comprising 310,000 Share Options with an exercise price of HK$4.422 per Share and 6,640,000 Share Options with an exercise price of HK$16.652 per Share. Mr. Jin is the legal and beneficial owner of the entire issued share capital of Wealthy Delight which is the holder of the Warrant. Mr, Jin is also an executive Director. Accordingly, Mr. Jin and Wealthy Delight are acting in concert with the Offeror under the definition of "acting in concert" in the Takeovers Code.

As at the Latest Practicable Date, the Board comprised eight Directors, namely Ms. Zhao Yan, Mr. Jin, Mr. Gong Anmin, Ms. Wang Aihua, Mr. Yau Wai Yan, Ms. Zhan Lili, Mr. Li Junhong and Mr. Xue Zhaofeng. As at the Latest Practicable Date, Mr. Jin, Mr. Gong Anmin, Ms. Wang Aihua and Mr. Yau Wai Yan was beneficially interested in 5,413,750 Shares, 1,021,250 Shares (52,500 Shares of which were held by Mr. Gong Anmin's spouse), 242,188 Shares and 242,188 Shares, representing approximately 1.48%, 0.28%, 0.07% and 0.07% of the issued share capital of the Company respectively. Mr. Gong Anmin, Ms. Wang Aihua, Mr. Yau Wai Yan, Ms. Zhan Lili, Mr. Li Junhong and Mr. Xue Zhaofeng are also acting in concert with the Offeror under the definition of "acting in concert" in the Takeovers Code.

WITHDRAWAL OF LISTING OF SHARES

As part of the Proposal and upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules immediately following the Scheme becoming effective.

The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. A detailed timetable of the Proposal and the Scheme has been included in Part III of this Scheme Document.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Scheme and the Proposal (nor any person who is subsequently acting in concert with it) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

Shareholders and potential investors should exercise caution when dealing in the Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

COURT MEETING AND EGM

Court Meeting

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

Scheme Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote their Scheme Shares in favour of the Scheme or against it.

The Scheme is conditional upon, amongst other things, approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares present and voting in person or by proxy at the Court Meeting. In addition, the Scheme must be approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voting either in person or by proxy at the Court Meeting; provided that the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

In accordance with the Companies Law, the “75% in value” requirement as described above will be met if the total value of Scheme Shares being voted by the Scheme Shareholders present and voting either in person or by proxy in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement as described above will be met if the number of Scheme Shareholders present and voting either in person or by proxy at the Court Meeting in favour of the Scheme exceeds the number of Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the Scheme. For the purpose of the Takeovers Code, only the number of Scheme Shares from an Independent Shareholder being so voted will count towards the "75% in value" requirement as Shareholders who are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 3:00 p.m. (Hong Kong time) on Monday, 16 October 2017 at Ballroom C, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong.

EGM

The EGM will be held immediately following the adjournment or conclusion of the Court Meeting.

All Shareholders will be entitled to attend the EGM and vote on (i) the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the ordinary resolution to approve the surrender and cancellation of the Zhao Shares and increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and the Zhao Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares and the Zhao Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares and Zhao Shares cancelled as a result of the Proposal, credited as fully paid, for issuance to the Offeror, and to authorise any one of the Directors to apply to the Stock Exchange for the withdrawal of the listing of the Shares.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by Shareholders as being entitled to do so, present and voting in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more than 50% of the votes are cast in favour of the ordinary resolution by the Shareholders as being entitled to do so, present and voting either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolution. Alternatively, such Shareholder may vote some of their Shares in favour of the special resolution and/or the ordinary resolution and any of the balance of their Shares against the special resolution and/or the ordinary resolution (and vice versa).

Each of Ms. Zhao and AIM First has undertaken that if the Scheme is approved at the Court Meeting, they will cast the votes in respect of those Shares held by them in favour of the resolutions to be proposed at the EGM.

Notice of the EGM is set out in Appendix V to this Scheme Document. The EGM will be held at 3:30p.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Monday, 16 October 2017 at Ballroom C, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong.

Assuming that the Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on or before Monday, 30 October 2017 (Cayman Islands time). Further announcements will be made giving details of the results of the Court Meeting and the EGM and, if all the resolutions are passed at those meetings, the results of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Scheme Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Stock Exchange.

Your attention is drawn to "20. Court Meeting and EGM" in the Explanatory Memorandum set out in Part VII of this Scheme Document.

OVERSEAS SCHEME SHAREHOLDERS AND OPTIONHOLDERS

Your attention is drawn to the section headed "17. Overseas Scheme Shareholders and Optionholders" in the Explanatory Memorandum set out in Part VII of this Scheme Document.

ACTIONS TO BE TAKEN

Your attention is drawn to "Part II — Actions to be taken" of this Scheme Document and the section headed "23. Summary of actions to be taken" in the Explanatory Memorandum set out in Part VII of this Scheme Document.

RECOMMENDATION

Ms. Zhao has a material interest in the Proposal and the Scheme and has not participated in any vote of the Board in relation to the Proposal and the Scheme. The Directors (excluding members of the Independent Board Committee) believe that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Shareholders as a whole.

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed "18. Registration and Payment" in the Explanatory Memorandum set out in Part VII of this Scheme Document.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed "19. Taxation" in the Explanatory Memorandum set out in Part VII of this Scheme Document.

It is emphasized that none of the Offeror, the Company and Huatai Financial nor any of their respective directors or associates or any other person involved in the Scheme accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme. All Scheme Shareholders are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from Gram Capital set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Memorandum set out in Part VII of this Scheme Document, the Appendices to this Scheme Document, the terms of the Scheme set out in Appendix III to this Scheme Document, the notice of Court Meeting set out in Appendix IV to this Scheme Document and the notice of the EGM set out in Appendix V to this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners.

Yours faithfully,
For and on behalf of the Board of
Bloomage BioTechnology Corporation Limited
Gong Anmin
Director

Bloomage BioTechnology Corporation Limited
華熙生物科技有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock code: 00963)

Members of the Independent Board Committee:
Mr. Yau Wai Yan
Ms. Zhan Lili
Mr. Li Junhong
Mr. Xue Zhaofeng

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

15 September 2017

To the Independent Shareholders and Optionholders

Dear Sir/Madam,

(1) PROPOSAL FOR THE PRIVATISATION OF BLOOMAGE BIOTECHNOLOGY CORPORATION LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE COMPANIES LAW) AND (2) PROPOSED WITHDRAWAL OF LISTING

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Independent Shareholders and Optionholders in respect of the Proposal, the Scheme and the Option Offer, respectively, details of which are set out in "Part IV — Letter from the Board" and "Part VII — Explanatory Memorandum" of this Scheme Document. Terms defined in this Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

Gram Capital, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal, the Scheme and the Option Offer. The details of its advice and recommendations and principal factors taken into consideration in arriving at its recommendations are set out in "Part VI — Letter from Gram Capital" of this Scheme Document.

In the letter from Gram Capital set out in Part VI of this Scheme Document, Gram Capital states that it considers the terms of the Proposal, the Scheme and the Option Offer to be fair and reasonable and recommends the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Scheme, and the Optionholders to accept the Option Offer.

The full text of the letter from Gram Capital is set out in Part VI of this Scheme Document.

The Independent Board Committee, having considered the terms of the Proposal, the Scheme and the Option Offer, and having taken into account the opinion of Gram Capital, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Scheme and the Option Offer are fair and reasonable as far as the Independent Shareholders and the Optionholders are concerned.

Accordingly, the Independent Board Committee recommends:

(a) the Independent Shareholders to vote in favour of the Scheme at the Court Meeting;

(b) the Independent Shareholders to vote in favour of the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and the ordinary resolution to approve the surrender and cancellation of the Zhao Shares and increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and Zhao Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares and Zhao Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares and Zhao Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror at the EGM; and

(c) the Optionholders to accept the Option Offer.

The Independent Board Committee draws the attention of the Independent Shareholders to (i) the letter from the Board set out in Part IV of the Scheme Document; (ii) the letter from Gram Capital, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, set out in Part VI of this Scheme Document; and (iii) the Explanatory Memorandum set out in Part VII of this Scheme Document.

Yours faithfully,

YAU Wai Yan	**ZHAN Lili**	**LI Junhong**	**XUE Zhaofeng**
Non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

Independent Board Committee

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee in respect of the Proposal, the Scheme and the Option Offer for the purpose of inclusion in this Scheme Document.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

15 September 2017

To: The independent board committee of Bloomage BioTechnology Corporation Limited

Dear Sirs,

(I) PROPOSED PRIVATISATION OF BLOOMAGE BIOTECHNOLOGY CORPORATION LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE COMPANIES LAW) AND (II) PROPOSED WITHDRAWAL OF LISTING

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Proposal, the Scheme and the Option Offer, details of which are set out in the Scheme Document dated 15 September 2017 jointly issued by the Company and the Offeror to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context requires otherwise.

On 15 June 2017, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

As at the Latest Practicable Date, the Company has 4,692,000 outstanding Share Options with an exercise price of HK$4.422 per Share and 9,329,200 outstanding Share Options with an exercise price of HK$16.652 per Share. The Offeror will make (or procure to be made on its behalf) an appropriate offer to the Optionholders to cancel every Share Option, vested and unvested, in accordance with Rule 13 of the Takeovers Code. The Option Offer will be conditional upon the

Scheme becoming effective. The Option Offer will be calculated on a "see-through" basis, pursuant to which each Optionholder will be entitled to receive a sum for each Share Option equivalent to the amount calculated by deducting the exercise price per Share payable on exercise of the relevant Share Option from the Cancellation Price per Scheme Share under the Scheme.

An Independent Board Committee, which comprises the non-executive Director, namely Mr. Yau Wai Yan and the independent non-executive Directors, namely Ms. Zhan Lili, Mr. Li Junhong and Mr. Xue Zhaofeng, has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting and to the Optionholders as to its views on acceptance of the Option Offer. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Proposal, the Scheme and the Option Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of Gram Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Scheme Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Scheme Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. Our opinion is based on the Directors' and the Offeror's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposal, the Scheme and the Option Offer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

The information contained in the Scheme Document relating to the Group has been supplied by the Company. The issue of the Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than those expressed by the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

The information contained in the Scheme Document relating to the Offeror has been supplied by the Offeror. The issue of the Scheme Document has been approved by the sole director of the Offeror, who accepts full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Group) and confirms, having made all reasonable enquiries, that to the best of her knowledge, opinions expressed in the Scheme Document (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Scheme Document, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposal, the Scheme and/or the Option Offer.

We have assumed that the Proposal, the Scheme and the Option Offer will be consummated in accordance with the terms and conditions set forth in the Scheme Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Proposal, the Scheme and the Option Offer, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Proposal, the Scheme and the Option Offer. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposal, the Scheme and the Option Offer, we have taken into consideration the following principal factors and reasons:

(1) **Background and terms of the Proposal, the Scheme and the Option Offer**

On 15 June 2017, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange. The expected withdrawal of the listing of the Shares on the Stock Exchange is expected to take place immediately following the effective date of the Scheme.

If the Proposal is approved and implemented, under the Scheme, the share capital of the Company will, on the effective date of the Scheme, be reduced by cancelling and extinguishing the Scheme Shares and the Zhao Shares. Upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled plus the number of the Zhao Shares surrendered and cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror. As part of the Proposal, and upon the Scheme having become effective, the Option Agreement shall also terminate pursuant to the terms of the Termination Agreement and the Termination Fee shall be payable by AIM First to Wealthy Delight.

The Scheme provides that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK$16.30 in cash for each Scheme Share so cancelled.

Under the Scheme, the total consideration payable for the Scheme Shares will be payable by the Offeror.

In addition, the Offeror will make (or procure to be made on its behalf) an appropriate offer to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Share Options, vested and unvested, in exchange for cash. The Option Offer will be conditional upon the Scheme becoming effective. The Option Offer will be calculated on a "see-through" basis, pursuant to which each Optionholder will be entitled to receive a sum for each Share Option equivalent to the amount calculated by deducting the exercise price per Share payable on exercise of the relevant Share Option from the Cancellation Price per Scheme Share under the Scheme.

On the basis of the Cancellation Price of HK$16.30 per Scheme Share and 181,901,334 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK$2,964.99 million. As at the Latest Practicable Date, the Share Options, the Convertible Bonds and the Warrants are outstanding. Except for the outstanding Share Options, the Convertible Bonds and the Warrants, there are no other outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

Assuming that all Optionholders (other than Mr. Jin) exercise their outstanding Share Options to become Scheme Shareholders before the Scheme Record Date, the amount of cash required for the Scheme is approximately HK$3,080.25 million and the amount of cash required for the Option Offer (in respect of the Jin Share Options only) is approximately HK$3.68 million.

Assuming that none of the outstanding Share Options is exercised or lapses before the Scheme Record Date, the amount of cash required for the Scheme is approximately HK$2,964.99 million and the amount of cash required for the Option Offer (in respect of all the outstanding Share Options including the Jin Share Options) is approximately HK$55.73 million.

The maximum amount of cash required for the Scheme and the Option Offer on the basis described above would be approximately HK$3,083.93 million.

(2) **Information on the Group**

The Company is a company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 2008. The Company is principally engaged in the development, manufacture and sales of raw materials and end products for a diversified range of HA, and is a leading provider of medical aesthetics products and services in the PRC and one of the world's largest producers of HA raw materials. The Group devotes to develop itself to be an integrated medical aesthetic solutions provider with HA as the core.

Set out below is a summary of the consolidated financial information on the Group for (i) each of the five years ended 31 December 2016 as extracted from the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**") and the annual reports of the Company for each of the four years ended 31 December 2015; and (ii) the six months ended 30 June 2017 with comparative figures as extracted from the interim results announcement of the Company for the six months ended 30 June 2017 (the "**2017 Interim Results**") and the interim report of the Company for the six months ended 30 June 2015:

	For the year ended 31 December 2016	For the year ended 31 December 2015	For the year ended 31 December 2014	For the year ended 31 December 2013	For the year ended 31 December 2012
	(audited)	*(audited)*	*(audited)*	*(audited)*	*(audited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	844,388	650,868	481,301	375,180	274,966
Year on year change (%)	*29.73*	*35.23*	*28.29*	*36.45*	
Gross profit	592,429	487,239	375,397	299,859	190,649
Year on year change (%)	*21.59*	*29.79*	*25.19*	*57.28*	
Profit for the year	228,100	190,395	162,066	94,397	89,270
Year on year change (%)	*19.80*	*17.48*	*71.69*	*5.74*	
Dividend per Share (HK$' cents)	3.1	2.7	2.5	1.9	2.0
Dividend pay-out ratio *(Note)*(%)	4.3	4.2	4.5	5.6	6.1

	For the six months ended 30 June 2017	For the six months ended 30 June 2016	For the six months ended 30 June 2015
	(unaudited)	*(unaudited)*	*(unaudited)*
	RMB'000	*RMB'000*	*RMB'000*
Revenue	390,470	418,341	312,002
Change (%)	*(6.66)*	*34.08*	
Gross profit	266,032	282,334	228,236
Change (%)	*(5.77)*	*23.65*	
Profit for the period	81,042	108,432	99,687
Change (%)	*(25.26)*	*8.77*	
Dividend per Share (HK$' cents)	Nil	Nil	Nil
Dividend pay-out ratio*(Note)*(%)	Nil	Nil	Nil

Note: Dividend pay-out ratio is calculated by dividend per Share over basic earnings per Share for the year.

As depicted from the above table, the Group's revenue, gross profit and profit has been improving from the year ended 31 December 2012 to the year ended 31 December 2016 ("**FY2016**"). The Group's revenue and gross profit for FY2016 increased by approximately 29.73% and 21.59% respectively as compared to the year ended 31 December 2015 ("**FY2015**"). Such increases also led to the increase in profit for FY2016. According to the 2016 Annual Report, the growth in revenue and net profit for FY2016 was mainly attributable to the rapid expansion of all the business segments and the smooth implementation of the Group's business transformation.

Despite the aforesaid improvement of the Group's financial performance, the dividend pay-out ratio was at a lower level during the three years ended 31 December 2016 as compared to the two years ended 31 December 2013. After decrease in each of the two years ended 31 December 2013, the dividend pay-out ratio remained at a similar level during the three years ended 31 December 2016.

In addition, we noted from the above table that the Group's revenue, gross profit and profit for the six months ended 30 June 2017 deteriorated as compared to the corresponding period in 2016. As advised by the Directors, the said deterioration was mainly due to (i) increasing competition; and (ii) increased administrative expenses mainly caused by increase in staff costs in respect of the performance incentive arrangement with a key employee of a subsidiary of the Group newly acquired in January 2017.

With reference to the 2016 Annual Report and as advised by the Directors, (i) with refinement and improvement in the laws and regulations of the medical aesthetics industry and the implementation of policy which allows medical doctors' multi-location practices, many large-scale medical institutions faced challenges from medium and small size medical clinics, and consumers' loyalty to large medical institutions was reduced. As such, the Group has to deal with more customers (i.e. the medium and small size medical clinics), which requires more marketing effort; (ii) with the launch of a wide range of HA injectable filler products and increasingly fierce competition in the market, as at the end of December 2016, China Food and Drug Administration granted medical device registration approvals for (a) a total of 17 HA injectable filler products under 13 brands (as advised by the Directors, the Group had 2 HA injectable filler products under 2 brands) as at the end of December 2016; and (b) a total of 13 HA injectable filler products under 10 brands (as advised by the Directors, the Group had 1 HA injectable filler products under 1 brand) as at the end of December 2015. This demonstrated the increased number of competitive products; and (iii) with intensive competition in the injectable filler industry, many brands increased their marketing efforts and adopted price cutting measures to fight for market shares, creating pressure on the sales performance of the Group's "BioHyalux", a HA injectable filler, to a certain extent. Severe competition is expected to remain in 2017, the Group will continue to be customer-oriented, integrate domestic and overseas resources and endeavour to reinforce its development strategy as a medical aesthetics solutions provider, doing its utmost to sustain the stable growth momentum of the Group.

We note from the website of Pharmaceutical Processing (www.pharmpro.com) that the global cosmetic surgery products generated USD7,824 million in 2015 (2016 figure is not available) and have the potential to reach USD13,934 million in 2021. The North American market accounts for about 45 percent in the global injectable and devices category, followed by the European market. The Asian market, especially the Chinese market, is growing significantly in recent years (according to the website of Pharmaceutical Processing; Pharmaceutical Processing is a brand under Advantage Business Media, which has provided industry professionals since 1984 with news and information on cutting-edge technologies and services for the pharmaceutical, biopharmaceutical, nutraceutical, and medical device markets). Taking into account the long operation history of Pharmaceutical Processing, we consider the news and information provided by Pharmaceutical Processing as a proper reference.

According to a website operated by ASKCI Consulting Co., Ltd. ("**ASKCI**", ASKCI provides industrial and economical big data and its shares are listed on National Equities Exchange and Quotations of China (Stock code: 838497)) (www.askci.com), the PRC medical aesthetics market will grow 15.2% annually from 2016 and the market size will reach RMB110 billion in 2020 with a total number of 13.5 million cases of medical aesthetics surgeries. We also note that information/data as provided by ASKCI was referred to by several initial public offering prospectuses in the PRC and certain PRC government agencies. Accordingly, we consider the information/data provided by ASKCI as a proper reference.

According to an article published under Pharma Business Week, the global hyaluronic acid raw material market is expected to increase at a significant growth rate during 2016-2020. The global hyaluronic acid raw material market is supported by various growth drivers, such as increase in the global healthcare products market, rising medical aesthetic procedures worldwide, increasing global obese population, aging population, etc. Yet, the market faces certain challenges, such as, less knowledge on long term effectiveness, side-effects of oral dose of HA, topical use of HA, etc. (According to the website of NewsRx, LLC, Pharma Business Week is published by the business intelligence and data analytics platform named BUTTER under NewsRx, LLC. BUTTER builds upon NewsRx's weekly newsletters and leverages its proprietary database of over 13 million articles focused on emerging research, patents, trademarks, company announcements, and public company performance. Over the past 20 years, NewsRx, LLC has continued to develop artificial intelligence technology for text generation, business intelligence, healthcare/pharma research, energy research, and fintech.). Taking into account the experience of News RX, LLC in, among other things, healthcare/pharma research, we consider the information provided by Pharma Business Week (being a journal published by the business intelligence and data analytics platform under NewsRx, LLC) as a proper reference.

The above market information demonstrates a positive outlook of the industry which the Group engages in. Nevertheless, there is increasing competition in such industry as aforementioned.

(3) **Information on the Offeror**

With reference to the Letter from the Board, the Offeror is a company incorporated in Hong Kong which is directly and wholly owned by Ms. Zhao, the chairman and an executive director of the Company. The Offeror was established for the purpose of the Proposal, the Scheme and the Option Offer and has not commenced any business activity since the date of incorporation.

(4) **Intentions of the Offeror in relation to the Group**

To provide Independent Shareholders with information on the intentions of the Offeror, set out below is the Offeror's intention in relation to the Group as extracted from "Part VII — Explanatory memorandum" of the Scheme Document (the "**Explanatory Memo**"):

Following the implementation of the Proposal, the Scheme and the Option Offer, the Offeror intends that the Group will continue to operate its business in its current state in the short term. As at the Latest Practicable Date, the Offeror did not have any intention to (i) make any changes to the existing business of the Group (including any material redeployment of its fixed assets); or (ii) make any changes to the continued employment of the employees of the Group, as a result of the Proposal, the Scheme or the Option Offer. However, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group's business and operations, to explore opportunities arising from time to time for acquisitions, disposals and other structuring possibilities, and that the Company will continue to explore such opportunities as they arise from time to time, subject to compliance with any relevant rules and regulations.

(5) **Reasons for and benefits of the Scheme and the Proposal**

According to the Explanatory Memo, the Proposal, the Scheme and the Option Offer are intended to provide the Scheme Shareholders and the Optionholders with an opportunity to realise their investment in the Company for cash at an attractive premium without having to suffer any illiquidity discount. The Cancellation Price of HK$16.30 represents a premium of (i) approximately 23.39%, 24.43%, 30.30% and 35.16% over each of the 10/30/60/120 trading days average closing prices of the Shares, respectively, up to and including the Last Trading Day; and (ii) approximately 12.20%, 11.44%, 10.52% and 18.29% over each of the 10/30/60/120 trading days average closing prices of the Shares, respectively, up to and including the Latest Practicable Date. The Cancellation Price also represents a premium of approximately 268.61% over the exercise price per Share of HK$4.422 under the Share Option Scheme.

Detailed reasons for the Scheme and the Proposal are set out under the section headed "11. REASONS FOR AND BENEFITS OF THE SCHEME AND THE PROPOSAL" of the Explanatory Memo.

(6) **The Cancellation Price**

Cancellation Price comparison

The Cancellation Price of HK$16.30 per Scheme Share represents:

(i) a premium of approximately 12.57% over the closing price of HK$14.48 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a premium of approximately 13.99% over the closing price of HK$14.30 per Share as quoted on the Stock Exchange on the Last Trading Day (the "**LTD Premium**");

(iii) a premium of approximately 23.39% over the average closing price of approximately HK$13.21 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

(iv) a premium of approximately 24.43% over the average closing price of approximately HK$13.10 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day (the "**30-days Premium**");

(v) a premium of approximately 30.30% over the average closing price of approximately HK$12.51 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(vi) a premium of approximately 35.16% over the average closing price of approximately HK$12.06 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

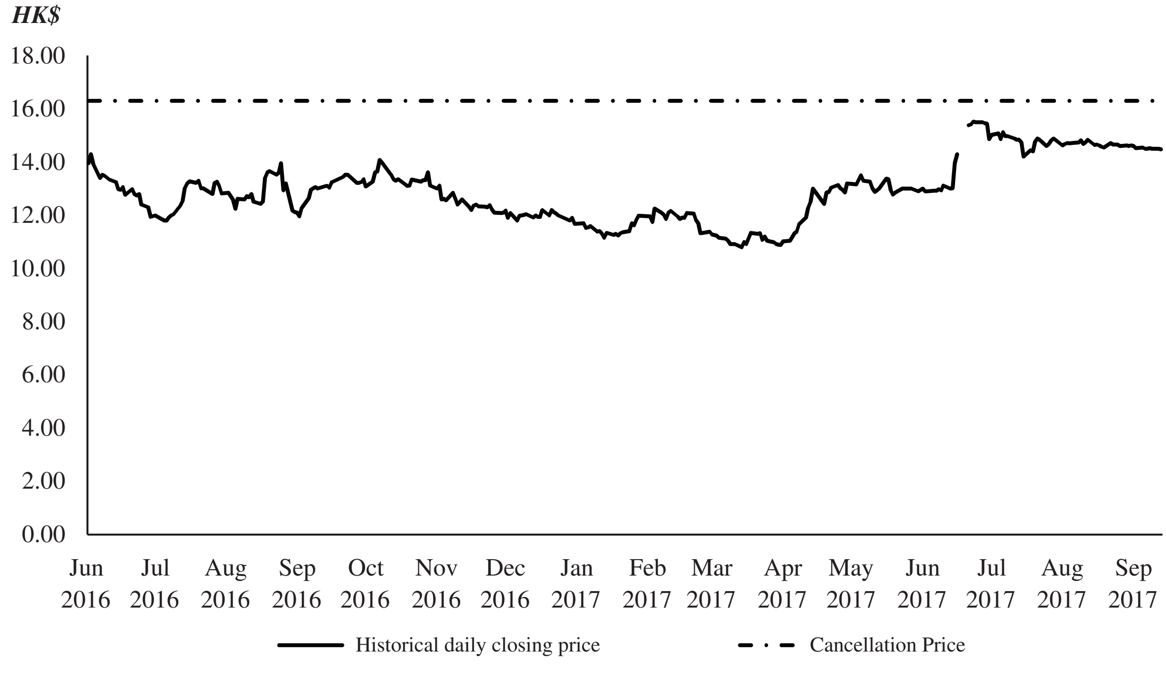
(vii) a premium of approximately 231.30% over the audited consolidated net asset value per Share of approximately HK$4.92 as at 31 December 2016; and

(viii) a premium of approximately 215.28% over the unaudited consolidated net asset value per Share of approximately HK$5.17 as at 30 June 2017.

Historical price performance of the Shares

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 1 June 2016 up to the Latest Practicable Date (the "**Review Period**"), being the latest approximate one-year period up to the Latest Practicable Date, to illustrate the general trend and level of movement of the closing prices of the Shares.

Historical daily closing price per Share



Source: the Stock Exchange's website

Note: Trading in Shares was halted in the afternoon session on 15 June 2017, and from 16 June 2017 to 19 June 2017.

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK$10.80 per Share recorded on 13 March 2017 and HK$15.52 per Share recorded on 22 June 2017. The Cancellation Price represents a premium of approximately 50.93% and 5.03% respectively over the lowest closing price and the highest closing price of the Shares during the Review Period. The Cancellation Price is above the closing prices of the Shares during the entire Review Period.

Furthermore, we have reviewed the Share prices from 2013 to 2017. Set out below are the closing prices of the Shares and Hang Seng Index ("**HSI**") at each of the month end during 2013 to 2017:

Date	Closing price *(HK$)*	Date	Closing price *(HK$)*	Date	Closing price *(HK$)*	Date	Closing price *(HK$)*	Date	Closing price *(HK$)*
31 Jan 2013	4.56	30 Jan 2014	20.95	30 Jan 2015	12.90	29 Jan 2016	17.68	27 Jan 2017	11.98
28 Feb 2013	5.99	28 Feb 2014	21.85	27 Feb 2015	11.32	29 Feb 2016	15.94	28 Feb 2017	11.28
28 Mar 2013	6.58	31 Mar 2014	20.05	31 Mar 2015	15.10	31 Mar 2016	16.98	31 Mar 2017	11.02
30 Apr 2013	7.60	30 Apr 2014	20.85	30 Apr 2015	18.00	29 Apr 2016	15.26	28 Apr 2017	13.20
31 May 2013	10.00	30 May 2014	22.00	29 May 2015	17.86	31 May 2016	14.20	31 May 2017	13.00
28 Jun 2013	9.91	30 Jun 2014	20.25	30 Jun 2015	13.68	30 Jun 2016	12.00	30 Jun 2017	15.02
31 Jul 2013	9.89	31 Jul 2014	19.28	31 Jul 2015	14.00	29 Jul 2016	12.82	31 Jul 2017	14.62
30 Aug 2013	12.90	29 Aug 2014	14.24	31 Aug 2015	12.42	31 Aug 2016	12.10	31 Aug 2017	14.60
30 Sep 2013	16.12	30 Sep 2014	13.30	30 Sep 2015	11.72	30 Sep 2016	13.08	12 September 2017*	14.48
31 Oct 2013	16.28	31 Oct 2014	12.36	30 Oct 2015	14.10	31 Oct 2016	13.00		
29 Nov 2013	17.18	28 Nov 2014	13.38	30 Nov 2015	17.72	30 Nov 2016	12.18		
31 Dec 2013	17.20	31 Dec 2014	12.80	31 Dec 2015	19.20	30 Dec 2016	11.68		

Date	HSI	Date	HSI	Date	HSI	Date	HSI	Date	HSI
31 Jan 2013	23,729.53	30 Jan 2014	22,035.42	30 Jan 2015	24,507.05	29 Jan 2016	19,683.11	27 Jan 2017	23,360.78
28 Feb 2013	23,020.27	28 Feb 2014	22,836.96	27 Feb 2015	24,823.29	29 Feb 2016	19,111.93	28 Feb 2017	23,740.73
28 Mar 2013	22,299.63	31 Mar 2014	22,151.06	31 Mar 2015	24,900.89	31 Mar 2016	20,776.70	31 Mar 2017	24,111.59
30 Apr 2013	22,737.01	30 Apr 2014	22,133.97	30 Apr 2015	28,133.00	29 Apr 2016	21,067.05	28 Apr 2017	24,615.13
31 May 2013	22,392.16	30 May 2014	23,081.65	29 May 2015	27,424.19	31 May 2016	20,815.09	31 May 2017	25,660.65
28 Jun 2013	20,803.29	30 Jun 2014	23,190.72	30 Jun 2015	26,250.03	30 Jun 2016	20,794.37	30 Jun 2017	25,764.58
31 Jul 2013	21,883.66	31 Jul 2014	24,756.85	31 Jul 2015	24,636.28	29 Jul 2016	21,891.37	31 Jul 2017	27,323.99
30 Aug 2013	21,731.37	29 Aug 2014	24,742.06	31 Aug 2015	21,670.58	31 Aug 2016	22,976.88	31 Aug 2017	27,970.30
30 Sep 2013	22,859.86	30 Sep 2014	22,932.98	30 Sep 2015	20,846.30	30 Sep 2016	23,297.15	12 September 2017*	27,972.24
31 Oct 2013	23,206.37	31 Oct 2014	23,998.06	30 Oct 2015	22,640.04	31 Oct 2016	22,934.54		
29 Nov 2013	23,881.29	28 Nov 2014	23,987.45	30 Nov 2015	21,996.42	30 Nov 2016	22,789.77		
31 Dec 2013	23,306.39	31 Dec 2014	23,605.04	31 Dec 2015	21,914.40	30 Dec 2016	22,000.56		

* *Latest Practicable Date*

As depicted from the above tables, we notice an upward trend of the Share prices from January 2013 to May 2014. Thereafter, the Share prices retreated to HK$11.32 as at 27 February 2015. There was fluctuation in the Share prices during March 2015 to March 2016. As advised by the Directors, save as and except for the issue of convertible bonds and new Shares to Ora Investment Pte. Ltd. as announced by the Company on 5 November 2015 which might lead to subsequent rise of Share price, the Directors are not aware of any specific reason which caused such fluctuation. Subsequently, there is no significant and persistent upward trend in the Share prices up to the Latest Practicable Date.

We also noted from the above tables that except for the upward trend of the Share prices from January 2013 to May 2014, the movement of the Share prices from 2013 to 2017 was generally consistent with the movement of the HSI.

Historical trading liquidity of the Shares

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

Month	**No. of trading days in each month**	**Average daily trading volume (the "Average Volume")**	**% of the Average Volume to total number of issued Shares held by the public as at Latest Practicable Date** *(Note 2)*	**% of the Average Volume to total number of issued Shares as at Latest Practicable Date** *(Note 3)*
		Number of Shares	%	%
2016				
June	21	465,639	0.27	0.13
July	20	690,842	0.39	0.19
August	22	882,582	0.50	0.24
September	21	1,642,992	0.94	0.45
October	19	647,482	0.37	0.18
November	22	267,705	0.15	0.07
December	20	327,330	0.19	0.09
2017				
January	19	448,396	0.26	0.12
February	20	491,339	0.28	0.13
March	23	901,393	0.52	0.25
April	17	936,432	0.54	0.26
May	20	319,597	0.18	0.09
June	20	1,628,914	0.93	0.45
July	21	540,440	0.31	0.15
August	22	353,380	0.20	0.10
September (up to and including the Latest Practicable Date)	8	451,607	0.26	0.12

Source: the Stock Exchange's website

Notes:

1. Trading in Shares was halted in the afternoon session on 15 June 2017, and from 16 June 2017 to 19 June 2017.

2. Based on 174,981,958 Shares held by the public as at the Latest Practicable Date.

3. Based on 365,621,334 Shares in issue as at the Latest Practicable Date.

We note from the above table that the average daily trading volume in the Shares had been thin (below 1% of the total number of issued Shares held by the public as at the Latest Practicable Date) during the Review Period. The percentage of the Average Volume to total number of issued Shares as at the Latest Practicable Date was below 0.5% during the Review Period. In light of the fact that the Shares are illiquid, disposal of large block of Shares held by the Shareholders in the open market may trigger price slump of the Shares.

Despite that the closing prices of the Shares had rebounded after the date of the Joint Announcement, the closing price of the Shares as at the Latest Practicable Date was still below the Cancellation Price. Accordingly, we are of the view that Independent Shareholders (especially those with relatively sizeable shareholdings) may not be able to realise their investments in the Shares at a price higher than the Cancellation Price of the Scheme Shares, in particular when they are going to dispose of their entire holdings at a fixed cash price without disturbing the market price. We, therefore, consider that the Scheme provides an exit alternative with the Cancellation Price being fair and reasonable (as concluded in the latter section of this letter) for the Independent Shareholders who would like to realise their investments in the Shares.

Comparison with other comparable companies

We note that the trading multiples analysis, such as price to earnings ratio ("**PER**") which measures a company's share price relative to its earnings per share and price to book ratio ("**PBR**") which compares the market value of a company with its book value, are commonly adopted valuation method in the market. It is a common perception that higher PER/PBR indicates higher pricing, and vice versa. PBR analysis is a commonly used business valuation method for capital-intensive business or businesses with plenty of assets on the books. Given the business nature of the Group (i.e. development, manufacture and sales of raw materials and end products for a diversified range of HA) which has manufacturing base and equipment (i.e. capital-intensive), we consider that the PBR analysis to be an applicable valuation method for our analysis. For this reason, to further assess the fairness and reasonableness of the Cancellation Price, we have performed the trading multiple analysis as below. We have researched for Hong Kong listed companies which are engaged in similar lines of business as the Group (the "**Market Comparable(s)**"), being provision of non-surgical & surgical medical aesthetic services, beauty services and products and/or manufacturing and distribution of raw materials for medical aesthetic, and generate their majority of revenue from such businesses. Based on the aforesaid selection criteria, the Market Comparables are exhaustive.

The following table sets out the PER and PBR of the Market Comparables based on their closing price as at the Latest Practicable Date and their latest published financial information, and the implied PER and PBR of the Company based on the Cancellation Price and its latest published financial information:

Company name (Stock Code)	**Principal business**	**Year end date**	**PER (Times)** *(Note 1)*	**PBR (Times)** *(Note 2)*	**Market capitalisation (Approximate HK$' million)**
Natural Beauty Bio-Technology Ltd. (157)	Manufacture and selling of skin care, beauty and aromatherapeutic products and provision of skin treatments, beauty and spa services and skin care consulting and beauty training.	31 December 2016	9.04	2.22	1,341
Modern Beauty Salon Holdings Ltd. (919)	Provision of beauty and wellness services and sales of skincare and wellness products.	31 March 2017	9.52	2.58	317
Water Oasis Group Ltd. (1161)	Distribution of skincare products in Hong Kong, Macau, Taiwan, Singapore and the PRC and the operation of beauty salons, spa and medical beauty centres in Hong Kong and the PRC.	30 September 2016	24.71	2.41	718
Perfect Shape Beauty Technology Ltd. (1830)	Provision of slimming and beauty services and the sales of slimming and beauty products.	31 March 2017	10.40	2.09	950
Union Medical Healthcare Ltd. (2138)	Provision of medical, quasi-medical and traditional beauty services, the sale of skincare and beauty products and investment holding.	31 March 2017	12.41	3.20	2,491

Company name (Stock Code)	Principal business	Year end date	PER (Times) *(Note 1)*	PBR (Times) *(Note 2)*	Market capitalisation (Approximate HK$' million)
Shanghai Haohai Biological Technology Co., Ltd. (6826)	Manufacture and sale of biologicals, medical hyaluronate, ophthalmology products, research and development of biological engineering, pharmaceutical and ophthalmology products and the provision of related services.	31 December 2016	17.24	1.81	6,050
Sau San Tong Holdings Ltd. (8200)	Provision of beauty and slimming services from slimming centres, distribution sales of cosmetic and skin care products, sale of other health and beauty products and investment in securities.	31 March 2017	14.25	0.40	372
Medicskin Holdings Ltd. (8307)	Provision of medical skin care services.	31 March 2017	74.30	2.85	235
Miricor Enterprises Holdings Ltd. (8358)	Provide medical aesthetic service in Hong Kong and operate two medical aesthetic centres, offer non-surgical medical aesthetic services and skin care products.	31 March 2017	9,355.93	6.09	552
Maximum			**9,355.93**	**6.09**	
Maximum (excluding outliers)			**24.71**	**N/A**	
Minimum			**9.04**	**0.40**	
Average			**1,058.64**	**2.63**	
Average (excluding outliers)			**13.94**	**N/A**	
The Company		**31 December 2016**	**22.72** *(Note 3)*	**3.16** *(Note 4)*	**5,960** *(Note 5)*

Notes:

1. The PERs were calculated based on their respective closing price per share as at the Latest Practicable Date, their respective number of issued shares as at the Latest Practicable Date and their latest full year profit as per their respective latest published annual results.

2. The PBRs were calculated based on their respective closing price per share as at the Latest Practicable Date, their respective number of issued shares as at the Latest Practicable Date and their latest net assets value as per their respective latest published annual results or interim results (as the case may be).

3. The implied PER was calculated based on the Cancellation Price and the latest full year profit of the Group for the year ended 31 December 2016 as extracted from the 2016 Annual Report over the total number of issued Shares as at the Latest Practicable Date.

4. The implied PBR was calculated based on the Cancellation Price and the latest net assets value of the Group as at 30 June 2017 as extracted from the 2017 Interim Results over the total number of issued Shares as at the Latest Practicable Date.

5. The market capitalisation of the Company is calculated based on the Cancellation Price.

We noticed from the above table that,

(i) the PERs of the Market Comparables ranged from approximately 9.04 times to 9,355.93 times or approximately 9.04 times to 24.71 times excluding the outliers (being Medicskin Holdings Ltd. (Stock code: 8307) and Miricor Enterprises Holdings Limited (Stock code: 8358));

(ii) the average PER of the Market Comparables (excluding outliers) is approximately 13.94 times;

(iii) the PBRs of the Market Comparables ranged from approximately 0.40 times to 6.09 times; and

(iv) the average PBR of the Market Comparables is approximately 2.63 times.

Given that the implied PER and PBR of the Company based on the Cancellation Price are approximately 22.72 times and 3.16 times respectively, (i) the PER of the Company is within the range of the Market Comparables (excluding outliers) and higher than the average of the Market Comparables (excluding outliers); and (ii) the PBR of the Company is within the range of the Market Comparables and higher than the average of the Market Comparables. Having considered the above and other factors as summarised below, we consider that the Cancellation Price is fair and reasonable.

Comparison with other privatisation

To further assess the fairness and reasonableness of the Cancellation Price, we have searched over the internet for privatisation by way of scheme of arrangement, from 19 June 2016 to the Latest Practicable Date announced by listed companies in Hong Kong and only identified, to the best of our knowledge and endeavour, the below disclosed privatisation cases (the "**Privatisation Cases**"), which are exhaustive as far as we are aware of, for comparison.

Company name	Stock code	Description	Initial announcement	Premium of cancellation price over the closing price prior to the commencement of the offer period — Last trading day %	30-days share price average %
Future Land Development Holdings Ltd.	1030	Property development, property investment and property management business in the PRC.	18 July 2017	17.44	19.09
China Assets (Holdings) Ltd.	170	Engaged in the investment holding in Hong Kong and Mainland China.	3 July 2017	61.52	76.62
China Metal International Holdings Inc.	319	Design, development, manufacture and sale of customized metal castings for use in various industries; provision of moulding, machining and coating services.	29 May 2017	27.54	25.94
Belle International Holdings Ltd.	1880	Manufacture, distribution and retail of shoes and footwear products, and sale of sportswear and apparel products	28 April 2017	19.54	21.47
TCC International Holdings Ltd.	1136	Import and distribution of cement, manufacture and distribution of cement, clinker, concrete and other cement related products, production and distribution of ready-mixed concrete.	20 April 2017	38.46	51.26
Intime Retail (Gourp) Company Ltd.	1833	Operation and management of department stores and shopping malls in the PRC.	10 January 2017	42.25	51.77

Company name	Stock code	Description	Initial announcement	Premium of cancellation price over the closing price prior to the commencement of the offer period: Last trading day %	Premium of cancellation price over the closing price prior to the commencement of the offer period: 30-days share price average %
Chinalco Mining Corporation International	3668	Acquisition, investment, development and operation of non-ferrous and non-aluminum mineral resources and projects outside the PRC.	23 September 2016	32.38	33.65
Xingfa Aluminium Holdings Ltd.	98	Manufacture and sale of aluminium profiles.	22 September 2016	24.58	35.04
Peak Sport Products Co. Ltd.	1968	Manufacture and distribution of sports products including footwear, apparel and accessories.	26 July 2016	10.64	29.35
Nirvana Asia Ltd.	1438	Provide bereavement care services	8 July 2016	36.99	37.61
			Maximum	**61.52**	**76.62**
			Minimum	**10.64**	**19.09**
			Average	**31.13**	**38.18**
The Company	**963**			**13.99**	**24.43**

We note that both of the LTD Premium and the 30-days Premium are within the ranges of those of the Privatization Cases but at the lower end and below the average of the Privatization Cases. We consider the fact that the LTD Premium and the 30-days Premium being lower than the average of the Privatization Cases does not indicate that the LTD Premium and the 30-days Premium are exceptional in the market, given they are within the market ranges as aforesaid. As such, we consider the fact that the LTD Premium and the 30-days Premium being within the ranges of those of the Privatization Cases to be one of the factors in our analysis of the Cancellation Price.

In light of the above analysis/findings, in particular:

(i) the Cancellation Price is above the closing prices of the Shares during the whole Review Period;

(ii) the average daily trading volume in the Shares has been thin (below 1% of the total number of issued Shares held by the public as at the Latest Practicable Date) during the Review Period;

(iii) the PER of the Company is within the range of the Market Comparables (excluding outliers) and higher than the average of the Market Comparables (excluding outliers);

(iv) the PBR of the Company is within the range of the Market Comparables and higher than the average of the Market Comparables; and

(v) both of the LTD Premium and the 30-days Premium are within their respective range of the above Privatization Cases,

we consider that the Cancellation Price is fair and reasonable.

(7) **The Option Offer**

The Offeror will make (or procure to be made on its behalf) an appropriate offer to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Share Options, vested and unvested, in exchange for cash. The Option Offer will be conditional upon the Scheme becoming effective.

The Option Offer will be calculated on a "see-through" basis, pursuant to which each Optionholder will be entitled to receive a sum for each Share Option equivalent to the amount calculated by deducting the exercise price per Share payable on exercise of the relevant Share Option from the Cancellation Price per Scheme Share under the Scheme. We consider that the consideration offered on a "see-through" basis under the Option Offer is fair and reasonable.

The Option Offer is conditional upon the Scheme becoming effective.

As at the Latest Practicable Date, details of the all vested and unvested Share Options, pursuant to the share option scheme of the Company adopted on 3 September 2008, were as follows:

Share Options of the Company *Exercise price (HK$)*	**"See-through" price** *(HK$)*	**Outstanding options**
4.422	11.878	4,692,000
16.652	0.00001	9,329,200

With reference to the Explanatory Memo, all Share Options will lapse on the Effective Date. Optionholders who do not (i) exercise their Share Options on or before the Latest Option Exercise Date; or (ii) accept the Option Offer in respect of their Share Options will receive neither the Cancellation Price nor the Option Offer Price. Therefore, Optionholders should be advised to accept the Option Offer.

Detailed terms of the Option Offer are set out under the section headed "9. SHARE OPTIONS AND THE OPTION OFFER" in the Explanatory Memo.

RECOMMENDATION

We noticed (a) the Group's improvement in revenue, gross profit and profit from the year ended 31 December 2012 to FY2016; and (b) the potential growth of the industry which the Group engaged in. Nevertheless, (i) the Group's revenue, gross profit and profit for the six months ended 30 June 2017 deteriorated as compared to the corresponding period in 2016; and (ii) there was no significant and persistent uprising trend of the Share prices after May 2014 and up to the Latest Practicable Date (the movement of the Share prices after May 2014 was generally consistent with the movement of the HSI). Besides, the closing prices of the Shares during the entire Review Period might reflect the market perception and expectation on the Group's financial performance (it is uncertain as to whether the Share prices will rise to a level over the Cancellation Price in the future) and the Cancellation Price represents premium over the closing prices of the Shares during the entire Review Period.

Having also considered the principal factors and reasons as discussed above, in particular:

(i) the Cancellation Price represents a premium of approximately 50.93% and 5.03% respectively over the lowest closing price and the highest closing price of the Shares during the Review Period (i.e. the premium range represented by the Cancellation Price over the historical closing price). The Cancellation Price is above the closing prices of the Shares during the entire Review Period;

(ii) disposal of large block of Shares held by the Independent Shareholders in the open market may trigger price slump of the Shares as a result of the thin trading volume of the Shares;

(iii) the trading multiples analysis as illustrated under the section headed "Comparison with other comparable companies" above (i.e. (a) the PER of the Company is within the range of the Market Comparables (excluding outliers) and higher than the average of the Market Comparables (excluding outliers); and (b) the PBR of the Company is within the range of the Market Comparables and higher than the average of the Market Comparables; and

(iv) both of the LTD Premium and the 30-days Premium are within their respective range of the above Privatization Cases,

we consider that the Scheme and the Proposal provide an opportunity to the Independent Shareholders, in particular those who hold large blocks of the Shares, to realise their investments in the Company and that the terms of the Scheme and the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve the Scheme and the Proposal.

Besides that, since (i) the Option Offer Price is offered for the Shares underlying each vested and unvested outstanding Share Option held as at the Option Offer Record Date in consideration for the cancellation of the relevant Share Options; and (ii) the consideration offered on a "see-through" basis under the Option Offer is fair and reasonable, we consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned.

Having also taken in to account that (a) all Share Options will lapse on the Effective Date; and (b) Optionholders who do not (i) exercise their Share Options on or before the Latest Option Exercise Date; or (ii) accept the Option Offer in respect of their Share Options will receive neither the Cancellation Price nor the Option Offer Price, we advise the Independent Board Committee to recommend the Optionholders to accept the Option Offer.

As different Shareholders/Optionholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders/Optionholders who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

This Explanatory Memorandum constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY THE CANCELLATION PRICE

1. INTRODUCTION

The Offeror and the Company jointly issued an announcement dated 19 June 2017, which stated that on 15 June 2017, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of the Scheme.

The Scheme involves the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange. Withdrawal of the listing of Shares on the Stock Exchange is expected to become effective from 4:00 p.m. on Wednesday, 1 November 2017.

The Offeror is making the Option Offer to the Optionholders to cancel every Share Option, vested and unvested, in accordance with Rule 13 of the Takeovers Code. The Option Offer will be conditional upon the Scheme becoming effective.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal, which is to be implemented by the Scheme, the surrender and cancellation of the Zhao Shares and issue to the Offeror of such number of new Shares as is equal to the number of the Zhao Shares surrendered and cancelled, the Termination and the withdrawal of the listing of the Shares on the Stock Exchange, as well as the Option Offer. This Explanatory Memorandum will also provide Shareholders and Optionholders with other relevant information in relation to the Scheme, the Proposal and the Option Offer, in particular to provide the intention of the Offeror with regard to the Company and the shareholding structure of the Company before and after the Scheme and the Proposal.

Particular attention of the Shareholders and the Optionholders is drawn to the following sections of this Scheme Document: (a) the letter from the Board set out in Part IV of this Scheme Document; (b) the letter from the Independent Board Committee set out in Part V of this Scheme Document; (c) the letter from Gram Capital set out in Part VI of this Scheme Document; and (d) the terms of the Scheme set out in Appendix III to this Scheme Document.

2. TERMS OF THE SCHEME AND THE PROPOSAL

The Proposal is to be implemented by way of the Scheme, the surrender and cancellation of the Zhao Shares and issue to the Offeror of such number of new Shares as is equal to the number of the Zhao Shares surrendered and cancelled, the Termination and the withdrawal of the listing of the Shares on the Stock Exchange, as well as the Option Offer.

Under the Scheme, the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder whose name appears on the register of members of the Company as at the Scheme Record Date will be entitled to receive the Cancellation Price. The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

The Zhao Shares

Ms. Zhao was the beneficial owner of the Zhao Shares as at the Latest Practicable Date. Upon the Scheme becoming effective, Ms. Zhao will surrender the Zhao Shares for cancellation and the Company will allot and issue to the Offeror such number of new Shares as is equal to the number of the Zhao Shares cancelled.

The Termination

On 22 May 2014, in order to incentivize Mr. Jin and encourage him to stay with the Company for a longer period and for Mr. Jin's continuous contribution to the Group, AIM First, Ms. Zhao (as warrantor for AIM First), Wealthy Delight and Mr. Jin (as warrantor for Wealthy Delight) entered into the Option Agreement pursuant to which, (i) AIM First granted a call option (the "**AIM First Call Option**") to Wealthy Delight exercisable from the date of the Option Agreement until 22 May 2019 (both days inclusive) to require AIM First to transfer an aggregate of 9,960,000 Shares, representing approximately 2.72% of the issued share capital of the Company as at the Latest Practicable Date (subject to adjustment upon any consolidation or subdivision of Shares during the term of the Option Agreement) (the "**Option Shares**") or any part thereof held by AIM First to Wealthy Delight at HK$5.8 per Share (subject to adjustment); and (ii) Wealthy Delight granted a call option to AIM First exercisable during the period commencing the date of completion of the transfer of the Option Shares until 22 May 2019 (both days inclusive) to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AIM First at HK$5.8 per Share (subject to adjustment upon any consolidation or subdivision of Shares during the term of the Option Agreement) on the condition that AIM First Call Option has been exercised by Wealthy Delight and Mr. Jin resigns as the chief executive officer of the Company due to personal reason(s). No other consideration was payable by either AIM First or Wealthy Delight pursuant to the Option Agreement. For details of the AIM First Call Option, please refer to the announcement of the Company dated 22 May 2014.

The AIM First Call Option has not been exercised by Wealthy Delight and on 16 June 2017, AIM First, Ms. Zhao (as warrantor for AIM First), Wealthy Delight and Mr. Jin (as warrantor for Wealthy Delight) entered into the Termination Agreement. Pursuant to the Termination Agreement, subject to and upon the Scheme becoming effective, the Option Agreement shall terminate and the Termination Fee of HK$104.58 million shall be payable by AIM First to Wealthy Delight as compensation upon the Scheme becoming effective. The Termination Fee has been calculated on a "see-through" basis, pursuant to which Wealthy Delight will be entitled to receive a sum for each Option Share equivalent to the amount calculated by deducting the transfer price of HK$5.8 per Share from the Cancellation Price per Scheme Share under the Scheme.

Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to a dividend (if any) declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company does not expect to declare any further dividend on or before the Effective Date.

As at the Latest Practicable Date, the authorised share capital of the Company was HK$10,000,000 divided into 1,000,000,000 Shares, and the Company had 365,621,334 Shares in issue, of which 1,200,000 Shares were held by Ms. Zhao and 182,520,000 Shares were held by AIM First as at the Latest Practicable Date. All of the Shares ranked pari passu in all respects as regards rights to capital, dividends and voting. As at the Latest Practicable Date, the Scheme Shareholders (being Shareholders other than Mr. Zhao and AIM First) were interested in 181,901,334 Shares, representing approximately 49.75% of the issued share capital of the Company.

As at the Latest Practicable Date, there were 14,021,200 outstanding Share Options granted under the Share Option Scheme, each relating to one Share, of which 4,692,000 outstanding Share Options had an exercise price of HK$4.422 per Share and 9,329,200 outstanding Share Options had an exercise price of HK$16.652 per Share. Mr. Jin held an aggregate of 6,950,000 Share Options, comprising 310,000 Share Options with an exercise price of HK$4.422 per Share and 6,640,000 Share Options with an exercise price of HK$16.652 per Share. Among the said Share Options, outstanding Share Options with respect to 11,688,900 new Shares have already vested as at the Latest Practicable Date, outstanding Share Options with respect to 672,300 new Shares are expected to vest on 30 October 2017 and outstanding Share Options with respect to 1,660,000 new Shares are expected to vest on 23 December 2017. The exercise of the said outstanding Share Options granted under the Share Option Scheme (other than the Jin Share Options) in full would result in the issue of 7,071,200 new Shares, representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.90% of the issued share capital of the Company as enlarged by the issue of such new Shares.

In the event that any outstanding Share Option is vested and exercised prior to the Meeting Record Date, the relevant registered holder of the Share converted from the outstanding Share Option shall be entitled to attend and vote at the Court Meeting and the EGM in respect of the relevant Share. The latest time for Optionholders to exercise their vested and outstanding Share Options in order to become entitled to vote at the Court Meeting and the EGM is 3:30p.m. on Tuesday, 10 October 2017. In the event that any outstanding Share Option is vested and exercised prior to the Latest Option Exercise Date, the relevant holder of the Share converted from the Share Option will be subject to and eligible for the Scheme.

Any Optionholder whose Share Options remain unvested or whose Share Options have vested but have not been exercised as at the Meeting Record Date and/or the Latest Option Exercise Date (as the case may be) will not be entitled to attend and vote at the Court Meeting and the EGM in respect of such Share Option(s), and will not be eligible to participate in the Scheme but, subject to the terms of the Share Option Scheme and their grant, will still be eligible to participate in the Option Offer in respect of such Share Option(s), respectively.

As at the Latest Practicable Date, there were 16,600,000 outstanding unlisted warrants issued by the Company to Wealthy Delight which each entitles Wealthy Delight to subscribe for one Share at the exercise price of HK$16.652 per Share initially (subject to adjustment) during the relevant period.

As at the Latest Practicable Date, the Company had issued 4% convertible bonds in the aggregate principal amount of HK$465,000,000 due 2020 convertible into Shares at the initial conversion price of HK$17.20 per Share, subject to adjustments, to Ora Investment;

Except for the outstanding Share Options, the Convertible Bonds and the Warrants, there are no other outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

Details of the Option Offer made by the Offeror in respect of the Share Options are set out in the section headed "9. Share Options and the Option Offer" below, and in the Form of Option Offer Letter set out in Appendix VI to this Scheme Document.

After the Scheme becomes effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Company will be owned by the Offeror as to 50.08% assuming no Share Option(s) are exercised before the Scheme Record Date. The Scheme and the Proposal are conditional upon the fulfillment or waiver, as applicable, of the Conditions as described in the paragraph headed "4. Conditions of the Proposal and the Scheme" below. All the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Scheme and the Proposal will lapse. Further announcements on any changes regarding the timetable of the Scheme and the Proposal will be made as and when necessary.

If the Scheme and the Proposal do not become unconditional, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange.

Settlement of the Cancellation Price and the Option Offer Price will be implemented in full in accordance with the terms of the Scheme, the Proposal and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any Scheme Shareholder or Optionholder.

3. CANCELLATION CONSIDERATION

The Cancellation Price of HK$16.30 per Scheme Share represents:

- a premium of approximately 13.99% over the closing price of HK$14.30 per Share as quoted on the Stock Exchange on the Last Trading Day;

- a premium of approximately 23.39% over the average closing price of approximately HK$13.21 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

- a premium of approximately 24.43% over the average closing price of approximately HK$13.10 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

- a premium of approximately 30.30% over the average closing price of approximately HK$12.51 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

- a premium of approximately 35.16% over the average closing price of approximately HK$12.06 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

- a premium of approximately 231.30% over the audited consolidated net asset value per Share of approximately HK$4.92 as at 31 December 2016 (Note);

- a premium of approximately 215.28% over the unaudited consolidated net asset value per Share of approximately HK$5.17 as at 30 June 2017 (Note); and

- a premium of approximately 12.57% over the closing price of HK$14.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Note: The exchange rate adopted is RMB1.00 = HK$1.15 for illustration purpose only. Such conversion should not be construed as a representation that the currency could actually be converted into HK$ at the rate or at all.

4. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

(a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;

(b) the approval of the Scheme (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting, provided that the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders;

(c) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the passing of an ordinary resolution by the Shareholders at an extraordinary general meeting of the Company to approve the surrender and cancellation of the Zhao Shares and increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and the Zhao Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares and the Zhao Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares and Zhao Shares cancelled as a result of the Proposal, credited as fully paid, for issuance to the Offeror;

(d) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;

(e) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;

(f) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal and the Scheme having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;

(g) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal and the Scheme remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal and the Scheme or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;

(h) all necessary consents which may be required for the implementation of the Proposal and the Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Group;

(i) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme;

(j) since the date of the Joint Announcement there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal or the Scheme); and

(k) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets or undertakings of any member of the Group up to the date immediately preceding the effective date of the Scheme, in each case which is material and adverse in the context of the Group taken as a whole.

The Offeror reserves the right to waive Conditions (h), (i), (j) and/or (k) either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d), (e), (f) and (g) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Proposal or the Scheme if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal or the Scheme. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the conditions.

As at the Latest Practicable Date, none of the Conditions had been fulfilled or waived. In respect of Conditions (f) to (h), as at the Latest Practicable Date, the Offeror and the Company did not reasonably foresee any necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals required for the Proposal and the Scheme, save for the sanction of the Grand Court and the filing of the order of the Grand Court sanctioning the Scheme with the Registrar of Companies in the Cayman Islands.

All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse and the Option Offer will not be implemented.

Assuming that the above Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on or before Monday, 30 October 2017 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the EGM and, if the resolutions are passed at those meetings; (ii) the result of the Grand Court hearing of the petition to sanction of the Scheme and to confirm the capital reduction; (iii) the Scheme Record Date; (iv) the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange as further set out in "Part III — Expected Timetable" of this Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange. An announcement will be made in due course in such event.

Shareholders and potential investors should be aware that the implementation of the Proposal and the Scheme is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

5. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Grand Court directs.

Section 86 of the Companies Law provides that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company. The Grand Court has been requested to order the convening of a meeting of a class of members of the Company being the Scheme Shareholders.

6. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

(a) the Scheme is approved by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and

(b) the number of votes cast by the Independent Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

For the purpose of this vote, the Independent Shareholders comprise all the Shareholders as at the Meeting Record Date other than the Offeror and the Offeror Concert Parties and any other Shareholders who are interested in or involved in the Proposal, the Scheme and/or the Option Offer. Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 174,981,958 Scheme Shares. On that basis, and assuming no Share Option(s) are exercised before the Meeting Record Date, 10% of the votes attached to Scheme Shares held by all the Independent Shareholders referred to in paragraph (b) above therefore represented approximately 17,498,196 Shares as at the Latest Practicable Date. The latest time for Optionholders to exercise their vested and outstanding Share Options in order to become entitled to vote at the Court Meeting and the EGM is 3:30p.m. on Tuesday, 10 October 2017.

7. BINDING EFFECT OF THE SCHEME AND THE PROPOSAL

Upon the Scheme and the Proposal becoming effective, it will be binding on the Company and all Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the EGM.

8. SCHEME SHARES

On the assumption that no outstanding Share Options are exercised before the Scheme Record Date and that there will be no change in shareholdings of the Company until completion of the Proposal, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

	As at the Latest Practicable Date		Upon completion of the Proposal	
Shareholders	**Number of Shares**	**Approx. %**	**Number of Shares** Note 3	**Approx. %**
Offeror Note 1	—	—	183,101,334	50.08
Ms. Zhao Note 1	1,200,000	0.33	—	—
AIM First Note 2	182,520,000	49.92	182,520,000	49.92
Aggregate number of Shares of the Offeror, Ms. Zhao and AIM First	183,720,000	50.25	365,621,334	100.00
Directors				
Mr. Jin	5,413,750	1.48	—	—
Mr. Gong Anmin (Mr. Gong) Note 3	1,021,250	0.28	—	—
Ms. Wang Aihua	242,188	0.07	—	—
Mr. Yau Wai Yan	242,188	0.07	—	—
Aggregate number of Shares held by the Director Shareholders	6,919,376	1.89	—	—
Total number of Shares held by the Offeror Concert Parties	190,639,376	52.14	365,621,334	100.00
Total number of Shares of the Independent Shareholders	174,981,958	47.86	—	—
Aggregate number of Scheme Shares	181,901,334	49.75	—	—
Total	365,621,334	100.00	365,621,334	100.00

Notes:

1. The Offeror is wholly owned by Ms. Zhao, the chairman and an executive director of the Company. Upon the Scheme becoming effective, Ms. Zhao will surrender the Zhao Shares for cancellation and the Company will allot and issue to the Offeror such number of new Shares as is equal to the number of the Zhao Shares cancelled.

2. AIM First is directly and wholly owned by Ms. Zhao.

3. Amongst the 1,021,250 Shares, Mr. Gong legally and beneficially holds 968,750 Shares and his spouse legally and beneficially holds 52,500 Shares. Mr. Gong is deemed to be interested in all the Shares held by his spouse for the purpose of Part XV of the SFO.

4. Under the Scheme, the issued share capital of the Company will, on the effective date of the Scheme, be reduced by cancelling and extinguishing the Scheme Shares. Forthwith upon such reduction, the same number of Shares will be issued to the Offeror under the Scheme.

Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, on the assumption that no Share Option(s) are exercised before the Scheme Record Date and there is no other change in shareholding in the Company before completion of the Proposal, the Offeror will beneficially hold approximately 50.08% of the issued share capital of the Company, and AIM First will hold approximately 49.92% of the issued share capital of the Company, and accordingly the entire issued share capital of the Company will be held by the Offeror and AIM First.

As at the Latest Practicable Date, there were 365,621,334 Shares in issue and the Scheme Shareholders were interested in 181,901,334 Shares, representing approximately 49.75% of the issued share capital of the Company.

As at the Latest Practicable Date, the Offeror did not hold any Shares. As at the Latest Practicable Date, Ms. Zhao and AIM First legally and/or beneficially held in aggregate 183,720,000 Shares, representing approximately 50.25% of the issued share capital of the Company. The Shares legally and/or beneficially held by Ms. Zhao and AIM First will not form part of the Scheme Shares and will not be voted on the Scheme or the Court Meeting.

As at the Latest Practicable Date, except as disclosed in the section headed "9. Share Options and the Option Offer" in this Explanatory Memorandum and save for the Warrant and the Option Agreement, there were no options, warrants or convertible securities in respect of the Shares held by the Offeror or the Offeror Concert Parties or outstanding derivatives in respect of the Shares entered into by the Offeror or the Offeror Concert Parties as at the Latest Practicable Date, and save for the Share Options pursuant to which up to a maximum of 14,021,200 new Shares may be issued, the Convertible Bonds and the Warrants, the Company did not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into the Shares as at the Latest Practicable Date.

9. SHARE OPTIONS AND THE OPTION OFFER

The Company adopted the Share Option Scheme on 3 September 2008, pursuant to which, among others, Directors (including executive and non-executive Directors, including independent non-executive Directors) and employees of the Group are eligible for the grant of Share Options. As at the Latest Practicable Date, there were certain Share Options granted and outstanding, pursuant to which up to a maximum of 14,021,200 new Shares may be issued. 4,692,000 outstanding Share Options had an exercise price of HK$4.422 per Share and 9,329,200 outstanding Share Options had an exercise price of HK$16.652 per Share.

Among the abovementioned Share Options, outstanding Share Options with respect to 11,688,900 new Shares had already vested as at the Latest Practicable Date, outstanding Share Options with respect to 672,300 new Shares are expected to vest on 30 October 2017 and outstanding Share Options with respect to 1,660,000 new Shares are expected to vest on 23 December 2017. The exercise of the said outstanding Share Options granted under the Share Option Scheme (other than the Jin Share Options) in full would result in the issue of 7,071,200 new Shares, representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.90% of the issued share capital of the Company as enlarged by the issue of such new Shares.

On the assumption that all the 7,071,200 outstanding Share Options (being all the 14,021,200 outstanding Share Options minus the Jin Share Options) as at the Latest Practicable Date will be exercised before the Scheme Record Date, and that there will be no other change in the issued share capital of the Company until completion of the Proposal, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

	As at the Latest Practicable Date		Upon completion of the Proposal	
Shareholders	**Number of Shares**	**Approx. %**	**Number of Shares**	**Approx. %**
Offeror	—	—	190,172,534	51.03
Ms. Zhao	1,200,000	0.33	—	—
AIM First	182,520,000	49.92	182,520,000	48.97
Aggregate number of Shares of the Offeror, Ms. Zhao and AIM First	183,720,000	50.25	372,692,534	100.00
Directors				
Mr. Jin	5,413,750	1.48	—	—
Mr. Gong Anmin (Mr. Gong)	1,021,250	0.28	—	—
Ms. Wang Aihua	242,188	0.07	—	—
Mr. Yau Wai Yan	242,188	0.07	—	—
Aggregate number of Shares held by the Director Shareholders	6,919,376	1.89	—	—
Total number of Shares held by the Offeror Concert Parties	190,639,376	52.14	372,692,534	100.00
Total number of Shares of the Independent Shareholders	174,981,958	47.86	—	—
Aggregate number of Scheme Shares	181,901,334	49.75	—	—
Total	365,621,334	100.00	372,692,534	100.00

The Option Offer

Pursuant to the Option Offer made by the Offeror, the Option Offer Price is offered for the Shares underlying each vested and unvested outstanding Share Option held as at the Option Offer Record Date in consideration for the cancellation of the relevant Share Options.

The Option Offer Price of HK$11.878 per Share Option represents the "see-through" price for the outstanding Share Options with an exercise price of HK$4.422 per Share, which is equivalent to the amount calculated by deducting the exercise price per Share payable on exercise of the relevant Share Option from the Cancellation Price per Scheme Share under the Scheme. In respect of Share Options granted to the Optionholder with an exercise price of HK$16.652 per Share, the "see-through" price is zero and a cash offer of a nominal amount at the Option Offer Price of HK$0.00001 will be made.

The Option Offer is conditional upon the Scheme becoming effective.

Irrevocable Undertakings

The Ora Investment Undertaking

As at the Latest Practicable Date, Ora Investment is the holder of 16,145,834 Shares and the Convertible Bonds. On 17 June 2017, Ora Investment executed the Ora Investment Undertaking in favour of the Offeror and the Company pursuant to which Ora Investment irrevocably undertook to the Offeror and the Company that from the date of the Ora Investment Undertaking to the date on which the Proposal is completed or (as the case may be) to such time it is determined that the Proposal will not proceed, it will:

1. not exercise the rights attaching to any of the Convertible Bonds held by it to convert any of the Convertible Bonds into Shares;

2. not sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of the Convertible Bonds or any interest therein; and

3. not accept, or give any undertaking (whether conditional or unconditional) to accept, or otherwise agree to, any offer made or proposed to be made in respect of the Convertible Bonds by the Offeror or any other person or otherwise make any of the Convertible Bonds available for acceptance.

As such, no offer will be made for the Convertible Bonds. No consideration or other benefit or any agreement, arrangement or understanding in respect thereof was or will be given to Ora Investment.

Neither the Offeror nor any of the Offeror Concert Parties are connected with Ora Investment or GIC.

The Mr. Jin Undertaking

As at the Latest Practicable Date, Mr. Jin was the holder of the Jin Share Options and Wealthy Delight was the holder of the Warrants. On 16 June 2017, Mr. Jin and Wealthy Delight executed the Mr. Jin Undertaking in favour of the Offeror and the Company pursuant to which Mr. Jin (in the case of the Jin Share Options) and Wealthy Delight (in the case of the Warrants) irrevocably undertook to the Offeror and the Company that from the date of the Mr. Jin Undertaking to the date on which the Proposal is completed or (as the case may be) to such time it is determined that the Proposal will not proceed, he or it will:

1. not exercise the rights attaching to any of the Jin Share Options to subscribe for Shares;

2. not sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of the Jin Share Options or any interest therein;

3. accept the Option Offer in respect of all of the Jin Share Options;

4. not exercise the rights attaching to any of the Warrants to subscribe for Shares;

5. not sell, transfer, charge, encumber, create or grant any option or lien over or otherwise dispose of (or permit any such action to occur in respect of) all or any of the Warrants or any interest therein;

6. not tender any or all of the Warrants to the Offeror during the offer period and will not accept the offer to cancel any Warrant even if such offer is made to it or otherwise make any of the Warrants available for acceptance; and

7. surrender and cancel the Warrants upon the Scheme becoming unconditional.

As the Warrants exercise price is higher than the Cancellation Price, no compensation or any agreement, arrangement or understanding in respect thereof will be payable to Wealthy Delight. As such, no offer will be made for the Warrants.

Mr. Jin and Ms. Zhao are Directors and business partners of companies which are outside the Group. Save as aforesaid, there is no relationship (including financial, business, family or other relationship(s)) between them.

No agreement, arrangement or understanding has been entered into or discussed with Directors as to whether they would remain as directors of the Board upon the Scheme being effective.

Share Options exercised prior to the Meeting Record Date

In the event that any outstanding Share Option is vested and exercised prior to the Meeting Record Date, the relevant registered holder of the Shares issued upon exercise of the relevant Share Options shall be entitled to attend and vote at the Court Meeting and/or the EGM (as the case may be) in respect of the relevant Shares. In the event that any outstanding Share Option is vested and exercised prior to the Latest Option Exercise Date, the relevant holder of the Shares issued upon exercise of the relevant Share Options shall be subject to and eligible for the Scheme. Optionholders will not be entitled to exercise the Share Options after the Latest Option Exercise Date.

Share Options not exercised prior to the Meeting Record Date and/or the Latest Option Exercise Date

Any holder of outstanding Share Option(s) whose Share Option remains unvested or whose Share Option has vested but has not been exercised as at the Meeting Record Date and/or the Latest Option Exercise Date (as the case may be) will not be entitled to attend and vote at the Court Meeting and the EGM in respect of such Share Option, and will not be eligible to participate in the Scheme but, subject to the terms of the Share Option Scheme and their grant, will still be eligible to participate in the Option Offer in respect of such Share Option if they remain Optionholders as at the Option Offer Record Date.

Payment of Option Offer Price

Each holder of outstanding Share Option(s) as at the Option Offer Record Date who accepts the Option Offer and lodges a duly completed Form of Acceptance by the prescribed deadline will be entitled to receive the Option Offer Price as set out in their respective Option Offer Letters that are sent to each Optionholder individually. The Option Offer Price of HK$11.878 per Share Option represents the "see-through" price for the outstanding Share Options with an exercise price of HK$4.422 per Share, which is equivalent to the amount calculated by deducting the exercise price per Share payable on exercise of the relevant Share Option from the Cancellation Price per Scheme Share under the Scheme. In respect of Share Options with an exercise price of HK$16.652 per Share, the "see-through" price is zero and a cash offer of a nominal amount at the Option Offer Price of HK$0.00001 will be made.

The cheques for payment of the Option Offer Price under the Option Offer will be despatched within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of a valid acceptance. Please refer to the expected timetable as set out in Part III of this Scheme Document for details.

All payments in respect of the Option Offer Price will be made in Hong Kong dollars. Settlement of the Option Offer Price to which Optionholders are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled against any such Optionholder.

Option Offer Letter

The Option Offer Letter setting out the terms and conditions of the Option Offer is being despatched separately to Optionholders and is substantially in the form set out in Appendix VI — Form of Option Offer Letter.

Lapse of Share Options

All Share Options will lapse on the Effective Date. Optionholders who do not (i) exercise their Share Options on or before the Latest Option Exercise Date; or (ii) accept the Option Offer in respect of their Share Options on or before 4:00 p.m. on Monday, 13 November 2017 will receive neither the Cancellation Price nor the Option Offer Price.

10. TOTAL CONSIDERATION

Assuming that all Optionholders (other than Mr. Jin) exercise their outstanding Share Options to become Scheme Shareholders before the Scheme Record Date, the amount of cash required for the Scheme is approximately HK$3,080.25 million and the amount of cash required for the Option Offer (in respect of the Jin Share Options only) is approximately HK$3.68 million.

Assuming that none of the outstanding Share Options is exercised or lapses before the Scheme Record Date, the amount of cash required for the Scheme is approximately HK$2,964.99 million, and the amount of cash required for the Option Offer (in respect of all the outstanding Share Options including the Jin Share Options) is approximately HK$55.73 million, which is equal to the aggregate of (1) the see-through price of HK$11.878 per Share Option multiplied by 4,692,000 outstanding Share Options with an exercise price of HK$4.422 per Share and (2) the see-through price of HK$0.00001 per Share Option multiplied by 9,329,200 outstanding Share Options with an exercise price of HK$16.652 per Share.

The maximum amount of cash required for the Scheme and the Option Offer on the basis described above would be approximately HK$3,083.93 million. The Offeror intends to finance the cash required for the Scheme and the Option Offer by available loan facilities. Huatai Financial, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Scheme and the Option Offer.

11. REASONS FOR AND BENEFITS OF THE SCHEME AND THE PROPOSAL

Although the medical aesthetics market in the PRC is still enjoying a moderate growth, market competition becomes increasingly intensive. On one hand, advancing and maturing technologies have brought more similar products into the hyaluronic acid (also known as hyaluronan, hyaluronic acid sodium, abbreviated as “HA”) market in the PRC, where smuggled and counterfeit goods with much lower prices are not uncommon due to lack of market regulations and inefficient surveillance. On the other hand, international brands have been increasing budget and efforts on marketing in the PRC and have adopted aggressive price-cutting strategy to gain market share. These factors are imposing pressure on the Company’s sales and margin performance.

In order to maintain our leadership in such competitive landscape, the Company plans to further diversify from a traditional raw material supplier into an integrated aesthetic solutions provider through a series of long-term growth strategies. Such strategies may be capital-intensive, involve certain execution risks, affect the Company’s short-term growth profile and may result in divergence between the Offeror’s views on the Company’s potential long-term value and investors’ views on the

Company's share price. The Offeror envisages plans including (i) more investments in R&D, devices and new product development to enrich product portfolio for targeting different market segments and to enhance synergies and consumer loyalty with multiple product combination; and (ii) expansion into higher value end product with branding through mergers and acquisitions to further integrate domestic and overseas resources, Following the implementation of the Proposal, the Scheme and the Option Offer, the Offeror and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

Since its listing in 2008, the Company's share price performance has not been satisfactory. As one of the world's largest producers of raw materials of HA, the Company values its reputation. The depressed valuation on the Company also limited its financing capability and hindered fund raising opportunities in the secondary market. The Offeror considers that the depressed share price has had an adverse impact on the Company's reputation with customers, and therefore hindered the fund raising capability for expanding its business, and also on employee morale. Employee share option incentive schemes are also less effective in retaining and recruiting staff. After privatisation the Company may have the option to adopt a more flexible approach to motivate its staff.

The liquidity of Shares has also been at a low level over a long period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 716,265 Shares per day, representing only approximately 0.20% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

The Proposal, the Scheme and the Option Offer are intended to provide the Scheme Shareholders and the Optionholders with an opportunity to realise their investment in the Company for cash at an attractive premium without having to suffer any illiquidity discount. The Cancellation Price of HK$16.30 represents a premium of approximately 23.39%, 24.43%, 30.30% and 35.16% over each of the 10/30/60/120 trading days average closing prices of the Shares, respectively, up to and including the Last Trading Day. The Cancellation Price also represents a premium of approximately 268.61% over the exercise price per Share of HK$4.422 under the Share Option Scheme.

In addition, the listing of Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses; if these costs and expenses are eliminated, the funds saved could be used for the Company's business operations.

12. INFORMATION ON THE COMPANY

The Company is a company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 2008. The Company is principally engaged in the development, manufacture and sales of raw materials and end products for a diversified range of HA, and is a leading provider of medical aesthetics products and services in the PRC and one of the world's largest producers of HA raw materials. The Group devotes to develop itself to be an integrated medical aesthetic solutions provider with HA as the core.

As at the Latest Practicable Date, the Company was solvent and was not unable to pay its debts as they fall due and would not become unable to do so immediately after the Latest Practicable Date.

13. INFORMATION ON THE OFFEROR AND THE OFFEROR CONCERT PARTIES

Offeror

The Offeror is a company incorporated in Hong Kong which is directly and wholly owned by Ms. Zhao, the chairman and an executive director of the Company. The Offeror was established for the purpose of the Proposal, the Scheme and the Option Offer and has not commenced any business activity since the date of incorporation.

Offeror Concert Parties

The Offeror is directly and wholly owned by Ms. Zhao. Accordingly, Ms. Zhao is acting in concert with the Offeror under the definition of “acting in concert” in the Takeovers Code. Ms. Zhao was the beneficial owner of 1,200,000 Shares as at the Latest Practicable Date. Ms. Zhao, is also the chairman and an executive Director.

AIM First, a limited liability company incorporated in the British Virgin lslands, was the beneficial owner of 182,520,000 Shares as at the Latest Practicable Date. AIM First is directly and wholly owned by Ms. Zhao. Accordingly, AIM First is acting in concert with the Offeror under the definition of “acting in concert” in the Takeovers Code. AIM First is principally engaged in the business of investment holding.

Mr. Jin was the holder of 5,413,750 Shares and 6,950,000 Share Options as at the Latest Practicable Date, comprising 310,000 Share Options with an exercise price of HK$4.422 per Share and 6,640,000 Share Options with an exercise price of HK$16.652 per Share. Mr. Jin is the legal and beneficial owner of the entire issued share capital of Wealthy Delight which is the holder of the Warrant. Mr, Jin is also an executive Director. Accordingly, Mr. Jin and Wealthy Delight are acting in concert with the Offeror under the definition of “acting in concert” in the Takeovers Code.

As at the Latest Practicable Date, the Board comprised eight Directors, namely Ms. Zhao Yan, Mr. Jin Xuekun, Mr. Gong Anmin, Ms. Wang Aihua, Mr. Yau Wai Yan, Ms. Zhan Lili, Mr. Li Junhong and Mr. Xue Zhaofeng. As at the Latest Practicable Date, Mr. Jin, Mr. Gong Anmin, Ms. Wang Aihua and Mr. Yau Wai Yan was beneficially interested in 5,413,750 Shares, 1,021,250 Shares (52,500 Shares of which were held by Mr. Gong Anmin’s spouse), 242,188 Shares and 242,188 Shares, representing approximately 1.48%, 0.28%, 0.07% and 0.07% of the issued share capital of the Company respectively. Mr. Gong Anmin, Ms. Wang Aihua, Mr. Yau Wai Yan, Ms. Zhan Lili, Mr. Li Junhong and Mr. Xue Zhaofeng are also acting in concert with the Offeror under the definition of “acting in concert” in the Takeovers Code.

14. INTENTIONS OF THE OFFEROR

Following the implementation of the Proposal, the Scheme and the Option Offer, the Offeror intends that the Group will continue to operate its business in its current state in the short term. As at the Latest Practicable Date, the Offeror did not have any intention to (i) make any changes to the existing business of the Group (including any material redeployment of its fixed assets); or (ii) make any changes to the continued employment of the employees of the Group, as a result of the Proposal, the Scheme or the Option Offer. However, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group's business and operations, to explore opportunities arising from time to time for acquisitions, disposals and other structuring possibilities, and that the Company will continue to explore such opportunities as they arise from time to time, subject to compliance with any relevant rules and regulations.

The Board will cooperate with and provide support to the Offeror as regards the Offeror's intention regarding the Group and will continue to act in the best interests of the Group and the Shareholders as a whole.

15. WITHDRAWAL OF LISTING OF SHARES

As part of the Proposal and upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15 (2) of the Listing Rules immediately following the Scheme becoming effective.

The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. A detailed timetable of the Scheme has been included in "Part III — Expected Timetable" in this Scheme Document.

16. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Scheme and the Proposal (nor any person who is subsequently acting in concert with it) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

17. OVERSEAS SCHEME SHAREHOLDERS AND OPTIONHOLDERS

The making and implementation of the Scheme to Scheme Shareholders and the Option Offer to Optionholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and Optionholders are located. Such Scheme Shareholders and Optionholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and Optionholders wishing to take any action in relation to the Scheme and the Option Offer respectively to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any acceptance by the Scheme Shareholders and the Optionholders will be deemed to constitute a representation and warranty from such persons to the Offeror and the Company and their respective advisers that those laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

In the event that the despatch of this Scheme Document to overseas Shareholders or overseas Optionholders is prohibited by any relevant law or regulation or may only be effected after compliance with conditions or requirements that the Directors regard as unduly onerous or burdensome (or otherwise not in the best interests of the Company or the Shareholders), subject to a waiver being granted by the Executive as described below, this Scheme Document will not be despatched to such overseas Shareholders or such overseas Optionholders. For that purpose, the Company will apply for any waivers as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code at such time. Any such waiver will only be granted if the Executive is satisfied that it would be unduly burdensome to despatch the Scheme Document to such overseas Shareholders or such overseas Optionholders. In granting the waiver, the Executive will be concerned to see that all material information in this Scheme Document is made available to such overseas Shareholders and overseas Optionholders, as the case may be.

In the event that there are overseas Shareholders as at the Scheme Record Date, the Company may apply for the above mentioned waivers required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code. As at the Latest Practicable Date, to the Company's best knowledge, there were 17 Shareholders whose addresses as shown in the register of members of the Company were situated in the PRC (the "**PRC Shareholders**"), one Shareholder whose address as shown in the register of members of the Company was situated in the Cayman Islands (the "**Cayman Shareholder**") and one Shareholder whose address as shown in the register of members of the Company was situated in Taiwan (the "**Taiwan Shareholder**"). The Company has made an enquiry with its legal advisers in the PRC (the "**PRC Legal Advisers**"), its legal advisers in the Cayman Islands (the "**Cayman Legal Advisers**") and its legal advisers in Taiwan (the "**Taiwan Legal Advisers**") as to whether there is any legal restriction and requirement of the relevant body or stock exchange under the laws of the PRC, the Cayman Islands and Taiwan with respect to extending the Scheme and despatching the Scheme Document to the PRC Shareholders, the Cayman Shareholder and the Taiwan Shareholder, respectively. The PRC Legal Advisers, the Cayman Legal Advisers and the Taiwan Legal Advisers advised that there is no restriction or requirement (including but not limited to registration requirement) under the laws or regulations of the PRC, the Cayman Islands or Taiwan (as the case may be) for extending the Scheme and despatching the Scheme Document to the PRC Shareholders, the Cayman Shareholder or the Taiwan Shareholder (as the case may be). Therefore, the Scheme will be extended to the PRC Shareholders, the Cayman Shareholder and the Taiwan Shareholder and the Company will not apply for the above mentioned waivers required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code in respect of extending the Scheme and despatching the Scheme Document to the PRC Shareholders, the Cayman Shareholder and the Taiwan Shareholder.

Scheme Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to their respective positions.

18. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Monday, 30 October 2017, it is proposed that the register of members of the Company will be closed from Monday, 23 October 2017 (or such other date as the Shareholders may be notified by way of an announcement) onwards in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Shareholders should ensure that the transfers of their Shares are lodged with the Hong Kong branch share registrar of the Company for registration in their names or in the names of their nominees before 4:30p.m. on Friday, 20 October 2017. The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, which is located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Payment of the Cancellation Price to Scheme Shareholders

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Scheme Record Date. On the basis that the Scheme becomes effective on or about Monday, 30 October 2017 (Cayman Islands time), cheques for payment of the Cancellation Price will be paid for by the Offeror as soon as possible but in any event within 7 Business Days following the Scheme having become effective and accordingly, the cheques are expected to be despatched on or before Wednesday, 8 November 2017. In the absence of any specific instructions to the contrary received in writing by Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, cheques will be sent by ordinary post addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company and Huatai Financial will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and place all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

Before the expiry of six years from the Effective Date, the Offeror shall make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on or about Monday, 30 October 2017 (Cayman Islands time).

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Scheme Shareholder.

Payment of Option Offer Price to Optionholders

On the basis that the latest time to accept the Option Offer and closing date of the Option Offer fall on 4:00 p.m., Monday, 13 November 2017, cheques for payment of the Option Offer Price payable under the Option Offer are expected to be despatched on or before Wednesday, 22 November 2017. Cheques will be sent by posting the same by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company, Huatai Financial or any of them will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheques which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date, make payments therefrom to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Option Offer and shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Settlement of the consideration to which the Optionholders are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Optionholder.

19. TAXATION

Hong Kong stamp duty and tax consequences

As the Scheme and the Proposal do not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the Option Offer and the payment of the cash consideration for the cancellation of the Share Options does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance upon the acceptance of the Option Offer or the payment of the Option Offer Price under the Option Offer.

The Scheme Shareholders and the Optionholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme, the Proposal or the Option Offer and, in particular, whether the receipt of the Cancellation Price or of the Option Offer Price under the Option Offer would make such Scheme Shareholder or Optionholder liable to taxation in Hong Kong or in other jurisdictions.

It is emphasized that none of the Offeror, the Company and Huatai Financial or any of their respective directors, officers or associates or any other person involved in the Scheme, the Proposal or the Option Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Scheme or the Option Offer.

20. COURT MEETING AND EGM

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting. The Scheme will be subject to the approval by the Scheme Shareholders and the Independent Shareholders (as the case may be) at the Court Meeting in the manner referred to in the paragraphs headed "4. Conditions of the Proposal and the Scheme" and "6. Additional Requirements as Imposed by Rule 2.10 of the Takeovers Code" in this Explanatory Memorandum.

The EGM will be held after the adjournment or conclusion of the Court Meeting for the purpose of considering and if thought fit passing (i) the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the ordinary resolution to approve the surrender and cancellation of the Zhao Shares and increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and the Zhao Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares and the Zhao Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares and Zhao Shares cancelled as a result of the Proposal, credited as fully paid, for issuance to the Offeror, and to authorise any one of the Directors to apply to the Stock Exchange for the withdrawal of the listing of the Shares.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement.

Court Meeting

Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, the Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote their Scheme Shares in favour of the Scheme or against it.

In accordance with the direction from the Grand Court, HKSCC Nominees Limited shall be permitted to vote once for and once against the Scheme in accordance with instructions received by it from the Investor Participants and other CCASS Participants. For the purpose of calculating the "majority in number", HKSCC Nominees Limited may be counted as a multi-headed Shareholder voting once "for" and once "against" the Scheme. The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

The Scheme is conditional upon, among other things, (A) approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Shares present and voting in person or by proxy at the Court Meeting, and (B) approval by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voting either in person or by proxy at the Court Meeting provided that (i) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Shares held by the Independent Shareholders that are voting either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or by proxy at Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by all the Independent Shareholders.

In accordance with the Companies Law, the "75% in value" requirement as described above will be met if the total value of Scheme Shares being voted by the Scheme Shareholders present and voting either in person or by proxy in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting. In accordance with the Companies Law, the "majority in number" requirement as described above will be met if the number of Scheme Shareholders present and voting either in person or by proxy at the Court Meeting in favour of the Scheme exceeds the number of Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the Scheme.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 3:00 p.m. (Hong Kong time) on Monday, 16 October 2017 at Ballroom C, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong.

EGM

All the Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to, among other things, (i) the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the ordinary resolution to approve the surrender and cancellation of the Zhao Shares and increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and the Zhao Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares and the Zhao Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares and Zhao Shares cancelled as a result of the Proposal, credited as fully paid, for issuance to the Offeror, and to authorise any one of the Directors to apply to the Stock Exchange for the withdrawal of the listing of the Shares.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by the Shareholders as being entitled to do so, present and voting in person or by proxy at the EGM, are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more than 50% of the votes are cast in favour of the ordinary resolution by the Shareholders as being entitled to do so, present and voting either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolution. Alternatively, such Shareholder may vote some of their Shares in favour of the special resolution and/or the ordinary resolution and any or all of the balance of their Shares against the special resolution and/or the ordinary resolution (and vice versa).

Each of Ms. Zhao and AIM First has undertaken that if the Scheme is approved at the Court Meeting, they will cast the votes in respect of those Shares held by them in favour of the resolutions to be proposed at the EGM.

At the EGM, the special and the ordinary resolutions will be put to the vote by way of poll as required under Rule 13.39(4) of the Listing Rules.

Notice of the EGM is set out in Appendix V to this Scheme Document. The EGM will be held at 3:30p.m. (Hong Kong time) (or immediately after the conclusion or adjournment of the Court Meeting convened on the same day and place) on Monday, 16 October 2017 at Ballroom C, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong.

Assuming that the Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on or before Monday, 30 October 2017 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court

Meeting and the EGM and, if all the resolutions are passed at those meetings; (ii) the result of the hearing of the petition for the sanction of the Scheme by the Grand Court; (iii) the Scheme Record Date; (iv) the Effective Date; and (v) the date of withdrawal of the listing of the Shares on the Stock Exchange as further set out in "Part III — Expected Timetable" of this Scheme Document.

21. BENEFICIAL OWNERS

Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, among other things, the following reasons:

(a) to enable the Beneficial Owners to become Shareholders so that they can attend the Court Meeting in the capacity as members of the Company or be represented by proxies to be appointed by them and to be included for the purpose of calculating the majority in number of Shareholders as required under Section 86 of the Companies Law in their capacity as members of the Company;

(b) to enable the Company to properly classify members of the Company as Scheme Shareholders for the purposes of Section 86 of the Companies Law; and

(c) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective.

No person shall be recognised by the Company as holding any Shares upon any trust. In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of such Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such person(s) if they wish to vote in respect of the Scheme. Beneficial Owners should contact their broker, custodian, nominee or such other relevant person in advance of the deadline(s) in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which Shares of the

Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

22. GENERAL

Huatai Financial has been appointed as the financial adviser to the Offeror in connection with the Proposal and the Option Offer.

The Directors (excluding members of the Independent Board Committee) believe that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Shareholders as a whole. The non-executive Directors forming the Independent Board Committee, namely Mr. Yau Wai Yan, Ms. Zhan Lili, Mr. Li Junhong and Mr. Xue Zhaofeng have provided their views and recommendations in the letter from the Independent Board Committee in Part V of this Scheme Document.

Ms. Zhao, being a Director and who has a material interest in the Proposal and the Scheme, has abstained from voting in respect of the board resolutions of the Company in relation to the Proposal and the Scheme.

In light of the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document and the recommendation of Gram Capital as set out in Part VI of this Scheme Document, Rule 2.3 of the Takeovers Code is not applicable.

As at the Latest Practicable Date, no person who owned or controlled Shares, Share Option(s), the Convertible Bonds, the Warrants or convertible securities, warrants, options or derivatives in respect of Shares had irrevocably committed themselves to the Offeror to vote their Share(s) in favour of or against the resolutions in respect of the Scheme at the Court Meeting. Each of Ms. Zhao and AIM First has undertaken that if the Scheme is approved at the Court Meeting, they will cast the votes in respect of those Shares held by them in favour of the resolutions to be proposed at the EGM.

Associates of the Offeror or the Company, including shareholders holding 5% or more of the relevant securities are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Takeovers Code.

23. SUMMARY OF ACTIONS TO BE TAKEN

Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners. Subsequent purchasers of Scheme Shares will need to obtain a proxy from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and the Shareholders are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 3:00 p.m. (Hong Kong time) on Saturday, 14 October 2017, and the **white** form of proxy for use at the EGM should be lodged not later than 3:30p.m. (Hong Kong time) on Saturday, 14 October 2017. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude the Scheme Shareholders and the Shareholders from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of such Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Scheme Shareholders, Independent Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 11 October 2017 to Monday, 16 October 2017 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Tuesday, 10 October 2017.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Actions to be Taken by Holders through trust or CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by them in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or such other relevant person in advance of the latest time(s) for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

Petition hearing in the Grand Court

Prior to the despatch of this Scheme Document, the Company obtained directions from the Grand Court for the convening of the Court Meeting to consider the Scheme and other procedural matters regarding the Scheme.

In accordance with sections 14, 15 and 86 of the Companies Law, if the resolutions are approved at the Court Meeting and the EGM, the Company must then make a further application to the Grand Court to confirm the resolution reducing the share capital of the Company and to sanction the Scheme. The Company and the Offeror cannot complete the Scheme and the Proposal without obtaining these approvals. In this regard, the Company has filed a petition with the Grand Court seeking these approvals which will be heard on Friday, 27 October 2017 (Cayman Islands time).

In determining whether to exercise its discretion and sanction the Scheme, the Grand Court will determine, among other things, whether the votes cast at the Court Meeting fairly represented the decision of the Scheme Shareholders.

If the Grand Court sanctions the Scheme and if all of the other conditions to the Scheme are satisfied or (to the extent allowed by law) waived, the Company intends to deliver the court order sanctioning the Scheme with the Registrar of Companies in the Cayman Islands on Monday, 30 October 2017 or as otherwise directed by the Grand Court for registration, at which time the order sanctioning the Scheme will become effective.

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING) SHOULD NOTE THAT THEY WILL BE ENTITLED TO APPEAR AT THE GRAND COURT HEARING EXPECTED TO BE HELD ON FRIDAY, 27 OCTOBER 2017 (CAYMAN ISLANDS TIME) AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.

Optionholders

The Option Offer Letter is being sent to each Optionholder separately. Optionholders should refer to those letters, the form of which is set out in Appendix VI to this Scheme Document. Any holder of outstanding Share Option(s) as at the Option Offer Record Date who wishes to accept the Option Offer must complete and return the duly completed and executed Form of Acceptance by 4:00 p.m. on Monday, 13 November 2017 (or such later date and time as may be notified to the Optionholders by the Offeror or Huatai Financial), to the Offeror, at c/o Bloomage BioTechnology Corporation Limited, Room 501, Hutchison House, No. 10 Harcourt Road, Central, Hong Kong, for the attention of the board of directors of the Offeror and marked "Bloomage BioTechnology Corporation Limited — Option Offer". No acknowledgement of receipt of any Form of Acceptance or any other document will be given.

Optionholders should also note the instructions and other terms and conditions of the Option Offer printed on the Option Offer Letter and the Form of Acceptance.

24. RECOMMENDATIONS

Your attention is drawn to the following:

(a) the letter from the Board set out in Part IV of this Scheme Document;

(b) the letter from the Independent Board committee set out in Part V of this Scheme Document; and

(c) the letter from Gram Capital set out in Part VI of this Scheme Document.

25. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum.

Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, Huatai Financial or any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

1. FINANCIAL SUMMARY

The following summary financial information for each of the financial years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2017 is extracted from the consolidated financial statements of the Company as set forth in the annual reports of the Company for the years ended 31 December 2015 and 2016 and the unaudited consolidated results as set forth in the interim results announcement of the Company dated 15 August 2017, respectively.

The auditor's reports issued by KPMG in respect of the Group's audited consolidated financial statements for each of the financial years ended 31 December 2014, 2015 and 2016 did not contain any qualifications.

There was no item which was exceptional because of size, nature or incidence that was recorded in the financial statements of the Group for each of the financial years ended 31 December 2014, 2015 and 2016.

	Six months ended 30 June 2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Results				
Revenue	390,470	844,388	650,868	481,301
Profit from the operation	118,024	313,752	254,627	207,738
Finance costs	(23,892)	(45,383)	(16,727)	(9,617)
Profit before taxation	105,922	288,823	237,925	198,121
Income tax	(24,880)	(60,723)	(47,530)	(36,055)
Profit for the year/period	81,042	228,100	190,395	162,066
Basic earnings per share (RMB)	0.223	0.630	0.565	0.488
Diluted earnings per share (RMB)	0.220	0.620	0.553	0.473
Assets and liabilities				
Non-current assets	1,155,427	1,039,249	923,655	449,047
Current assets	1,285,881	1,380,025	1,275,516	516,397
Current liabilities	(173,305)	(328,339)	(624,100)	(160,654)
Total assets less current liabilities	2,268,003	2,090,935	1,575,071	804,790
Non-current liabilities	(626,585)	(538,689)	(383,114)	(52,283)
Net assets	1,641,418	1,552,246	1,191,957	752,507
Capital and reserves				
Share capital	3,236	3,219	3,117	2,969
Reserves	1,638,125	1,548,970	1,188,787	749,487
Total equity attributable to equity shareholders of the Company	1,641,361	1,552,189	1,191,904	752,456
Non-controlling interests	57	57	53	51
Total equity	1,641,418	1,552,246	1,191,957	752,507

2. UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The following financial information has been derived from the unaudited consolidated results of the Group for the six months ended 30 June 2017 as extracted from the interim results announcement of the Company for the six months ended 30 June 2017:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2017-unaudited

		Six months ended 30 June	
		2017	**2016**
	Note	*RMB'000*	*RMB'000*
Revenue	4	390,470	418,341
Cost of sales		(124,438)	(136,007)
Gross profit		266,032	282,334
Other revenue	5	17,072	13,266
Distribution costs		(70,103)	(66,868)
Administrative expenses		(90,400)	(73,499)
Other operating expenses, net		(4,577)	(7,793)
Profit from operations		118,024	147,440
Finance costs	6(a)	(23,892)	(24,065)
Share of profits less losses of associates		11,838	13,041
Share of loss of a joint venture		(48)	(99)
Profit before taxation	6	105,922	136,317
Income tax	7	(24,880)	(27,885)
Profit for the period		81,042	108,432
Other comprehensive income for the period (after tax adjustments):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign subsidiaries		(13,855)	(1,396)
Share of other comprehensive income of equity-accounted investees		13,851	9,496
Other comprehensive income for the period		(4)	8,100
Total comprehensive income for the period		81,038	116,532

	Note	Six months ended 30 June 2017 *RMB'000*	2016 *RMB'000*
Profit attributable to:			
Equity shareholders of the Company		81,043	108,433
Non-controlling interests		(1)	(1)
Profit for the period		81,042	108,432
Total comprehensive income attributable to:			
Equity shareholders of the Company		81,038	116,533
Non-controlling interests		—	(1)
Total comprehensive income for the period		81,038	116,532
Earnings per share (RMB)			
Basic	8(a)	0.223	0.300
Diluted	8(b)	0.220	0.295

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2017-unaudited

	Note	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Non-current assets			
Property, plant and equipment, net	10	360,334	331,994
Construction in progress		7,497	16,768
Intangible assets		205,701	199,492
Lease prepayments		57,111	57,852
Interest in a joint venture		29,444	17,862
Interest in associates		304,331	278,642
Deferred tax assets		10,848	10,864
Goodwill	9	72,010	—
Other non-current assets		108,151	125,775
Total non-current assets		1,155,427	1,039,249
Current assets			
Inventories		174,996	178,702
Trade and other receivables	11	363,862	324,436
Restricted cash	12	—	230,000
Cash and cash equivalents	12	747,023	646,887
Total current assets		1,285,881	1,380,025
Current liabilities			
Bank loans	13	21,447	220,000
Trade and other payables	14	123,021	77,018
Current portion of preferred shares	15	13,458	12,461
Income tax payable		15,379	18,860
Total current liabilities		173,305	328,339
Net current assets		1,112,576	1,051,686
Total assets less current liabilities		2,268,003	2,090,935

	Note	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Non-current liabilities			
Bank loans		231,173	128,860
Preferred shares	15	25,424	35,398
Convertible bonds		356,501	360,948
Deferred income		12,736	13,483
Deferred tax liability		751	—
Total non-current liabilities		626,585	538,689
NET ASSETS		1,641,418	1,552,246
CAPITAL AND RESERVES			
Share capital	16(c)	3,236	3,219
Reserves		1,638,125	1,548,970
Total equity attributable to equity shareholders of the Company		1,641,361	1,552,189
Non-controlling interests		57	57
TOTAL EQUITY		1,641,418	1,552,246

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2017-unaudited

		Attributable to equity shareholders of the Company								
		Share capital	Share premium	Statutory reserve	Exchange reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016		3,117	263,036	82,133	2,504	187,983	653,131	1,191,904	53	1,191,957
Changes in equity for the six months ended 30 June 2016:										
Profit for the period		—	—	—	—	—	108,433	108,433	(1)	108,432
Other comprehensive income		—	—	—	8,100	—	—	8,100	—	8,100
Total comprehensive income for the period		—	—	—	8,100	—	108,433	116,533	(1)	116,532
Appropriation to statutory reserves		—	—	22,745	—	—	(22,745)	—	—	—
Dividends for the year ended 31 December 2015	16(b)	—	—	—	—	—	(8,350)	(8,350)	—	(8,350)
Equity settled share-based transaction	6(b)	—	—	—	—	11,338	—	11,338	—	11,338
Shares issued on the exercise of share options granted under share option scheme	16(c)	8	4,174	—	—	(960)	—	3,222	—	3,222
Issuance of shares to directors and employees at discount	16(c)	82	99,865	—	—	(1,576)	—	98,371	—	98,371
		90	104,039	22,745	—	8,802	(31,095)	104,581	—	104,581
Balance at 30 June 2016		3,207	367,075	104,878	10,604	196,785	730,469	1,413,018	52	1,413,070

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Statutory reserve	Exchange reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 July 2016	3,207	367,075	104,878	10,604	196,785	730,469	1,413,018	52	1,413,070
Changes in equity for the six months ended 31 December 2016:									
Profit for the period	—	—	—	—	—	119,668	119,668	—	119,668
Other comprehensive income	—	—	—	1,157	—	—	1,157	5	1,162
Total comprehensive income for the period	—	—	—	1,157	—	119,668	120,825	5	120,830
Equity settled share-based transactions	—	—	—	—	11,514	—	11,514	—	11,514
Shares issued on the exercise of share options granted under share option scheme	12	8,173	—	—	(1,353)	—	6,832	—	6,832
	12	8,173	—	—	10,161	—	18,346	—	18,346
Balance at 31 December 2016	3,219	375,248	104,878	11,761	206,946	850,137	1,552,189	57	1,552,246

		Attributable to equity shareholders of the Company								
		Share capital	Share premium	Statutory reserve	Exchange reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017		3,219	375,248	104,878	11,761	206,946	850,137	1,552,189	57	1,552,246
Changes in equity for the six months ended 30 June 2017:										
Profit for the period		—	—	—	—	—	81,043	81,043	(1)	81,042
Other comprehensive income		—	—	—	(5)	—	—	(5)	1	(4)
Total comprehensive income for the period		—	—	—	(5)	—	81,043	81,038	—	81,038
Appropriation to statutory reserves		—	—	2,610	—	—	(2,610)	—	—	—
Dividends for the year ended 31 December 2016	16(b)	—	—	—	—	—	(9,968)	(9,968)	—	(9,968)
Equity settled share-based transaction	6(b)	—	—	—	—	10,508	—	10,508	—	10,508
Shares issued on the exercise of share options granted under share option scheme	16(c)	17	9,870	—	—	(2,293)	—	7,594	—	7,594
		17	9,870	2,610	—	8,215	(12,578)	8,134	—	8,134
Balance at 30 June 2017		3,236	385,118	107,488	11,756	215,161	918,602	1,641,361	57	1,641,418

NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

Bloomage BioTechnology Corporation Limited (the "**Company**", and together with its subsidiaries, the "**Group**") was incorporated in the Cayman Islands on 3 April 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 3 October 2008. The Group is principally engaged in the manufacture and sale of bio-chemical products (including hyaluronic acid ("**HA**") raw materials and end products) and trading of cosmetic products and medical devices through its principal subsidiaries in the People's Republic of China (the "**PRC**") (including Hong Kong) and France. The Group also invests in a number of associates and a joint venture engaging in design, development, manufacture and sale of cosmetic products.

2 BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("**IASB**").

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

The preparation of interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the IASB.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial information.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue consists of the following:

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Sales of self-produced products		
— HA raw materials	237,000	234,208
— HA and other end products	122,869	133,210
Revenue from trading of cosmetic products and devices	30,601	50,923
	390,470	418,341

(b) Segment reporting

Segment information disclosed in the interim financial information has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments.

The Group has presented two reporting segments for the six months ended 30 June 2017 and no operating segments have been aggregated to form the following reportable segment:

- production and sale of HA raw materials and HA and other end products: this segment manages and operates manufacturing plants and generates income from production and sale of HA raw materials and HA and other end products to external customers; and

- trading of cosmetic products and medical devices: this segment purchases cosmetic products and devices from external suppliers and sells them to external customers.

(i) ***Segment results, assets and liabilities***

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets with the exception of interest in associates and deferred tax assets. Segment liabilities include trade and other payables, deferred income, preferred shares and bank loans managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint venture.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation". To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales, if any, and the Group's share of the joint venture's revenue), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales, if any, are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period.

	Production and sale of HA raw materials and HA and other end products		Trading of cosmetic products and medical devices		Total	
For the six months ended 30 June	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue	359,869	367,418	30,601	50,923	390,470	418,341
Reportable segment profit/(loss) (adjusted EBITDA)	160,168	185,729	(2,774)	4,454	157,394	190,183
Interest income from cash at bank	8,601	4,499	—	—	8,601	4,499
Interest expense	(6,782)	(3,930)	—	—	(6,782)	(3,930)
Depreciation and amortisation for the period	(18,533)	(21,438)	(11,230)	(10,946)	(29,763)	(32,384)
As at 30 June/31 December						
Reportable segment assets	1,684,425	1,267,668	298,159	299,509	1,982,584	1,567,177
(including investment in a joint venture)	—	—	29,444	16,994	29,444	16,994
Additions to non-current segment assets during the period	141,285	5,896	1,652	24	142,937	5,920
Reportable segment liabilities	162,838	157,362	11	1,307	162,849	158,669

(ii) ***Reconciliations of reportable segment revenues, profit or loss, assets and liabilities***

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue and consolidated revenue	390,470	418,341
Profit		
Reportable segment profit	157,394	190,183
Share of profits less losses of associates	11,838	13,041
Interest income	10,110	6,133
Depreciation and amortisation	(29,763)	(32,384)
Finance costs	(23,892)	(24,065)
Unallocated head office and corporate expenses	(19,765)	(16,591)
Consolidated profit before taxation	105,922	136,317

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	1,982,584	1,919,305
Interests in associates	304,331	278,642
Deferred tax assets	10,848	10,864
Unallocated head office and corporate assets	143,545	210,463
Consolidated total assets	2,441,308	2,419,274
Liabilities		
Reportable segment liabilities	162,849	356,254
Income tax payable	15,379	18,860
Bank loans (unallocated)	252,603	128,860
Convertible bonds	356,501	360,948
Other unallocated head office and corporate liabilities	12,558	2,106
Consolidated total liabilities	799,890	867,028

(iii) ***Geographic information***

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets with the exception of deferred tax assets ("specified non-current assets"). The geographical location of customers is based on the location at which the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, lease prepayments and construction in progress, the location of the operation to which they are allocated, in the case of intangible assets, goodwill and other non-current assets, and the location of operations, in the case of interest in associates and interest in a joint venture.

	Revenue from external customers Six months ended 30 June		**Specified non-current assets**	
			30 June	**31 December**
	2017	**2016**	**2017**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
China (including Hong Kong)	264,416	318,817	816,386	749,587
Americas	58,204	38,486	122	156
Asia	30,231	35,237	29,400	30,535
Europe	37,590	24,576	298,671	248,107
Other regions	29	1,225	—	—
	390,470	418,341	1,144,579	1,028,385

5 OTHER REVENUE

		Six months ended 30 June	
		2017	**2016**
	Note	*RMB'000*	*RMB'000*
Government grants	(a)	4,187	3,917
Interest income on cash at bank		4,472	6,133
Interest income on loans made to directors and employees		1,489	1,438
Interest income on available-for-sale financial assets		4,149	21
Rental income		802	684
Others		1,973	1,073
		17,072	13,266

(a) **Government grants**

The grants represented incentives and awards of RMB 4,187,000 (six months ended 30 June 2016: RMB 3,917,000) which were mainly in relation to the Group's technical achievement on the research and development of HA products and its expansion of business to overseas markets during the six months ended 30 June 2017.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) **Finance costs**

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Interest on bank borrowings	6,018	6,898
Dividends on preferred shares (Note 15)	3,484	3,930
Interest on convertible bonds	14,390	13,237
	23,892	24,065

(b) **Staff costs**

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Salaries, wages and other benefits	79,761	73,378
Expenses related to a performance incentive arrangement (note (i))	18,576	—
Contributions to defined contribution retirement plans	4,816	4,370
Equity settled share-based transaction expenses		
— share option scheme	941	2,070
— group share-based payment transaction settled by the controlling shareholder	9,567	9,268
	113,661	89,086

(i) Pursuant to the sale and purchase agreement for the acquisition of Revitacare (see Note 9), the Group will pay certain contingent amounts to the former owner, who became an employee of the Group after the acquisition, on the condition that she serves the Group for certain periods and Revitacare achieves certain revenue and profit targets during these periods. The arrangement in relation to such payment of contingent amounts has been accounted for as a performance incentive arrangement for the employee's future services. Under the performance incentive arrangement, there are three tranches and each tranche requires the employee to serve for a period from one year to three years and Revitacare to achieve certain revenue and profit targets during relevant periods. The expenses related to this performance incentive arrangement are charged into profit or loss over the relevant periods.

(c) **Other items**

		Six months ended 30 June	
		2017	**2016**
	Note	*RMB'000*	*RMB'000*
Amortisation			
— intangible assets		12,535	10,949
— lease prepayments		741	655
Depreciation		16,487	20,780
Net foreign exchange loss		2,982	4,776
Provision for impairment loss on trade receivables		604	829
Operating lease charges in respect of leased property, plant and equipment		4,350	4,656
Research and development costs	(i)	21,930	20,206

(i) Research and development costs for the six months ended 30 June 2017 included RMB13,028,000 (six months ended 30 June 2016: RMB8,092,000) relating to staff costs and depreciation and amortisation, which amounts were also included in the respective total amounts disclosed separately in Note 6(b) or above for each of these types of expenses.

7 INCOME TAX

Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Current tax - PRC income tax		
Provision for the period	25,087	28,811
(Over)/under-provision in respect of prior year	(171)	700
Deferred tax		
Origination and reversal of temporary differences	(36)	(1,626)
	24,880	27,885

(i) The statutory income tax rate is 25% for the subsidiaries of the Group established in the PRC (the "PRC subsidiaries"). Certain subsidiaries established in the PRC are entitled to a concession on the PRC income tax of 10% as they have satisfied certain conditions in the income tax law and was granted the qualification of advanced and new technology enterprise. As a result, the subsidiaries established in the PRC are subject to income tax rates ranging from 15% to 25% for the six months ended 30 June 2017 (six months ended 30 June 2016: 15% to 25%).

(ii) Pursuant to the PRC income tax law, non-resident enterprises are subject to PRC income tax at the rate of 10% on various types of passive income including dividends derived from sources in the PRC ("withholding tax"). Under the Sino-Hong Kong Double Tax Arrangement and the relevant regulations, the Group's Hong Kong subsidiaries holding the subsidiaries in the PRC are liable for withholding tax at the rate of 5% for dividend income derived from the PRC as the Hong Kong subsidiaries are the "beneficial owner" and hold 25% of equity interests or more of the subsidiaries in the PRC.

As at 30 June 2017, temporary differences relating to the undistributed profits of Bloomage Freda Biopharmaceutical Co., Ltd. ("Bloomage Biopharm"), Shandong Bloomage Biopharm Company Limited ("Shandong Bloomage Hyinc") and Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc") amounted to RMB1,021,269,000 (31 December 2016: RMB883,141,000). Deferred tax liabilities of RMB51,063,000 (31 December 2016: RMB44,157,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of Bloomage Biopharm, Shandong Bloomage Hyinc and Beijing Bloomage Hyinc and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

(iii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit attributable to equity shareholders of the Company of RMB81,043,000 (six months ended 30 June 2016: RMB108,433,000) and the weighted average of 363,746,000 ordinary shares (six months ended 30 June 2016: 361,423,000 ordinary shares) in issue during the interim period, calculated as follows:

(i) ***Weighted average number of ordinary shares (basic)***

	Six months ended 30 June	
	2017	**2016**
	'000	*'000*
Issued ordinary shares at 1 January	363,008	351,320
Effect of shares issued to directors and employees at discount	—	9,687
Effect of exercise of share options granted under share option scheme	738	416
Weighted average number of ordinary shares at 30 June (basic)	363,746	361,423

(b) **Diluted earnings per share**

The calculation of diluted earnings per share for the six months ended 30 June 2017 is based on the profit attributable to equity shareholders of the Company of RMB81,043,000 (six months ended 30 June 2016: RMB108,433,000) and the weighted average number of 367,961,000 ordinary shares (six months ended 30 June 2016: 367,753,000 ordinary shares), calculated as follows:

(i) ***Weighted average number of ordinary shares (diluted)***

	Six months ended 30 June	
	2017	**2016**
	'000	*'000*
Weighted average number of ordinary shares at 30 June (basic)	363,746	361,423
Effect of deemed issue of shares for nil consideration for the share options granted in 2012	4,215	6,330
Weighted average number of ordinary shares at 30 June (diluted)	367,961	367,753

Note: The convertible bonds are excluded from the calculation of diluted earnings per share for the six months ended 30 June 2017 and 2016, because its effect is anti-dilutive.

9 ACQUISITION OF A SUBSIDIARY

On 19 January 2017, the Group obtained control of Revitacare, a company incorporated in France, by acquiring the entire issued share capital of Revitacare.

The acquisition of Revitacare is supplement to the Group's current focus on the development of skin management business. Acquiring 100% of Revitacare enables the Group to obtain advanced technologies in skin management and new products to further diversify the Group's product line, and to expand the product portfolio and solutions to be provided by the Group.

For the period from 19 January 2017 to 30 June 2017, Revitacare contributed revenue of approximately RMB 18,326,000 and a profit of approximately RMB 6,925,000 to the Group's results.

(a) **Consideration transferred**

The consideration for the acquisition of Euro14,275,000 (equivalent to approximately RMB 104,305,000) was satisfied in cash.

(b) **Identifiable assets acquired and liabilities assumed**

The following summarises the recognised amount of assets acquired and liabilities assumed at the acquisition date:

	Fair value
	RMB'000
Property, plant and equipment	345
Intangible assets	21,986
Inventories	4,439
Trade and other receivables	6,401
Cash and cash equivalents	9,811
Other assets	105
Trade and other payables	(5,573)
Deferred tax liabilities	(760)
Other liabilities	(411)
Total identifiable net assets acquired	36,343

The provisional fair value of the identifiable assets acquired and liabilities assumed at the acquisition date was determined by the directors with reference to a valuation report issued by a third party valuation firm.

(c) **Goodwill**

Goodwill at the acquisition date arising from the acquisition has been recognised as follows:

	RMB'000
Total consideration	104,305
Fair value of net identifiable assets	(36,343)
Goodwill	67,962

The goodwill is attributable mainly to the skills and technical talent of Revitacare's workforce and the synergies expected to be achieved through integrating Revitacare into the Group's existing business. None of the goodwill recognised is expected to be deductible for tax purpose.

(d) **Acquisition-related costs**

The Group incurred acquisition related costs of approximately RMB 701,000 relating to external legal fees and due diligence costs. These amounts have been included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

(e) **Analysis of net cash outflow of the acquisition**

	RMB'000
Cash consideration paid	104,305
Less: cash and cash equivalents acquired	9,811
Net cash outflow	94,494

10 PROPERTY, PLANT AND EQUIPMENT, NET

(a) **Acquisitions and disposals**

During the six months ended 30 June 2017, the Group acquired items of property, plant and equipment of RMB 44,886,000 which include addition of RMB 345,000 through acquisition of a subsidiary (see Note 9). The Group disposed of property, plant and equipment with a net book value of RMB 23,000 during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB150,000).

(b) **Transfer from construction in progress**

During the six months ended 30 June 2017, construction in progress with a cost of RMB33,083,000 (six months ended 30 June 2016: RMB4,456,000) were completed and transferred to property, plant and equipment.

(c) As at 30 June 2017, property certificates of certain properties of the Group with an aggregate net book value of RMB 12,495,000 (31 December 2016: RMB 18,899,000) are yet to be obtained.

11 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date, is as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
Within 3 months	179,550	193,359
3 to 6 months	26,669	26,732
6 to 9 months	57,991	42,246
9 to 12 months	19,094	5,046
Over 1 year	18,823	20,776
	302,127	288,159
Less: allowance for doubtful debts	(15,101)	(14,497)
	287,026	273,662
Prepayments and other receivables	74,407	47,994
Other receivables due from related parties	2,429	2,780
	363,862	324,436

(i) Impairment of trade receivables and bills receivable

The movement in the allowance for doubtful debts during the period/year is as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
At 1 January	14,497	732
Impairment loss recognised	604	13,765
At 30 June/31 December	15,101	14,497

At 30 June 2017, the Group's trade receivables of RMB15,101,000 (31 December 2016: RMB14,497,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed these receivables were not expected to be recovered. Specific allowances for doubtful debts of RMB604,000 (six months ended 30 June 2016: RMB 1,561,000) were recognized during the six months ended 30 June 2017.

(ii) **Trade receivables and bills receivable that are not impaired**

The analysis of trade receivables and bills receivable, based on the current and overdue status, that are neither individually nor collectively considered to be impaired are as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
Current	162,892	177,360
1 to 3 months overdue	38,334	28,848
3 to 6 months overdue	59,176	56,870
6 months to 1 year overdue	23,910	7,485
More than 1 year overdue	2,714	3,099
	287,026	273,662

The credit term for trade receivables is generally 30 to 120 days. Bills receivable are generally due within 180 days from the date of billing.

Receivables that were neither past due nor impaired relate to a wide range of customers who do not have recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Group believes that no impairment allowance is necessary as there has not been any significant change in credit quality and these trade and other receivables were considered fully recoverable. The Group does not have any collateral over these balances.

Debtors with balances that are past due are requested to settle all outstanding balances before any further credit is granted.

12 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
Cash at bank and in hand	747,023	876,887
Less: restricted cash (i)	—	230,000
Cash and cash equivalents	747,023	646,887

(i) Restricted cash as at 31 December 2016 mainly represented deposits as a pledge of a bank loan. Such restriction has been released upon repayment of relevant bank loan during the six months ended 30 June 2017.

The Group's cash at bank are mainly placed with banks in the PRC, Hong Kong, Macau, Japan, France and United States. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

13 BANK LOANS

As at 31 December 2016, a bank loan of RMB220,000,000 was secured by a pledge over the Group's bank deposits of RMB 230,000,000. This bank loan was repaid in the first half of 2017. As at 30 June 2017, a bank loan of RMB17,000 is secured by the Group's vehicle.

14 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2017 *RMB'000*	**At 31 December 2016** *RMB'000*
Within 3 month	31,854	29,254
3 to 6 months	27	824
6 months to 1 year	324	440
Over 1 year	13	10
Trade creditors and bills payable	32,218	30,528
Payables for construction of plant and purchase of equipment	8,636	6,126
Receipts in advance	12,592	7,603
Value added tax payable	12,295	16,241
Preferred share dividends payable	12,461	—
Dividends payable to equity shareholders of the Company	9,968	—
Accrued expenses and other payables	34,851	16,520
	123,021	77,018

The ageing analysis of trade creditors and bills payable is as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
Due within 1 month or on demand	32,218	30,528

15 PREFERRED SHARES

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
At 1 January	47,859	51,471
Dividends during the period (Note 6(a))	3,484	3,930
Dividends of preferred shares declared	(12,461)	(11,538)
	38,882	43,863
Less: current portion of preferred shares	(13,458)	(12,461)
At 30 June	25,424	31,402

16 DIVIDENDS AND CAPITAL

(a) Dividends payable to equity shareholders attributable to the interim period

There has been no interim dividend declared attributable to the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

(b) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
2016 final dividends, approved during the interim period, of HK$3.1 cents per ordinary share (2015 final dividends: HK$2.7 cents per ordinary share)	9,968	8,350

(c) **Share capital**

	30 June 2017		31 December 2016	
	No. of shares '000	*HK$'000*	*No. of shares '000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.01 each	1,000,000	10,000	1,000,000	10,000

	30 June 2017		31 December 2016	
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*
Ordinary shares, issued and fully paid:				
At 1 January	363,007,834	3,219	351,319,834	3,117
Shares issued to employees and directors at discount (note)	—	—	9,687,500	82
Shares issued on exercise of share options granted under share option scheme	1,948,500	17	2,000,500	20
At 30 June/31 December	364,956,334	3,236	363,007,834	3,219

Note: On 4 November 2015, the board of directors of the Company approved the grant of 9,687,500 shares at a subscription price of HK$12.0 per share to certain directors and employees. The shares were granted with a lock up period of six months during which the shares are not transferable. Share based payment expense of RMB1,576,000 related to this share grant was charged to profit or loss immediately in the year ended 31 December 2015. The Company made loans with a total amount of HK$ 98,812,500 to relevant directors and employees for their subscription of the Company's shares. The subscription of shares by the relevant directors and employees was completed on 8 January 2016.

17 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2017 not provided for in the interim financial information are as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
Authorised and contracted for	7,088	787

18 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Significant related party transactions during the six months ended 30 June 2017 are as follows:

	Six months ended 30 June	
	2017	**2016**
	RMB'000	*RMB'000*
Sales of goods to related parties	2,988	1,739
Purchase of goods from related parties	11,953	92
Dividends on preferred shares paid	—	5,000
Lease of buildings and plant to related parties	546	684
Rental expense for lease of properties from a related party	3,499	3,736
Loans to key management personnel*	—	62,917
Loan to an associate	3,389	—

* The loans are repayable on demand and bear an interest rate of 2% per annum.

In the opinion of the directors of the Company, the above related party purchase and lease transactions were conducted in the ordinary and usual course of business and on normal commercial terms.

(b) Balances with related parties

As at the end of the reporting period, the Group had the following balances with related parties:

	At 30 June 2017	**At 31 December 2016**
	RMB'000	*RMB'000*
Trade and other receivables	4,008	3,679
Trade and other payables	2,111	—
Preferred shares, including current portion	38,882	47,859
Loan receivables from key management personnel	67,138	66,652
Other non-current assets	3,389	—

3. FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

The following financial information is extracted from the annual report of the Company for the year ended 31 December 2016.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016

		2016	2015
	Note	*RMB'000*	*RMB'000*
Revenue	4	844,388	650,868
Cost of sales		(251,959)	(163,629)
Gross profit		592,429	487,239
Other revenue	5	26,752	15,799
Distribution costs		(128,744)	(107,070)
Administrative expenses		(175,753)	(141,910)
Other operating (expenses)/income, net		(932)	569
Profit from the operation		313,752	254,627
Finance costs	6(a)	(45,383)	(16,727)
Share of profits less losses of associates		20,481	91
Share of loss of a joint venture		(27)	(66)
Profit before taxation	6	288,823	237,925
Income tax	7	(60,723)	(47,530)
Profit for the year		228,100	190,395
Other comprehensive income for the year (after tax adjustments):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		(1,737)	(23)
Share of other comprehensive income of equity-accounted investees		10,999	5,841
Other comprehensive income for the year		9,262	5,818
Total comprehensive income for the year		237,362	196,213

	Note	2016 RMB'000	2015 RMB'000
Profit attributable to:			
Equity shareholders of the Company		228,101	190,393
Non-controlling interests		(1)	2
Profit for the year		228,100	190,395
Total comprehensive income attributable to:			
Equity shareholders of the Company		237,358	196,211
Non-controlling interests		4	2
Total comprehensive income for the year		237,362	196,213
Earnings per share (RMB)			
Basic	10(a)	0.630	0.565
Diluted	10(b)	0.620	0.553

Consolidated Statement of Financial Position
at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment, net	11	331,994	362,731
Construction in progress	12	16,768	5,383
Intangible assets	13	199,492	208,093
Lease prepayments	14	57,852	59,161
Interest in associates	16	278,642	240,949
Interest in a joint venture	17	17,862	—
Deferred tax assets	28(b)	10,864	11,615
Other non-current assets	18	125,775	35,723
Total non-current assets		1,039,249	923,655
Current assets			
Inventories	19	178,702	117,592
Trade and other receivables	20	324,436	251,874
Restricted cash	21	230,000	255,000
Cash and cash equivalents	21	646,887	651,050
Total current assets		1,380,025	1,275,516
Current liabilities			
Bank loans	23	220,000	472,873
Trade and other payables	24	77,018	117,801
Current portion of preferred shares	25	12,461	11,538
Income tax payable	28(a)	18,860	21,888
Total current liabilities		328,339	624,100
Net current assets		1,051,686	651,416
Total assets less current liabilities		2,090,935	1,575,071

	Note	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Bank loans	23	128,860	—
Preferred shares	25	35,398	39,933
Convertible bonds	26	360,948	326,938
Deferred income	29	13,483	16,243
Total non-current liabilities		538,689	383,114
NET ASSETS		1,552,246	1,191,957
CAPITAL AND RESERVES			
Share capital	30(c)	3,219	3,117
Reserves	30(d)	1,548,970	1,188,787
Total equity attributable to equity shareholders of the Company		1,552,189	1,191,904
Non-controlling interests		57	53
TOTAL EQUITY		1,552,246	1,191,957

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

		Attributable to equity shareholders of the Company								
		Share capital	**Share premium**	**Statutory reserve**	**Exchange reserve**	**Other reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			30(d) (i)	*30(d) (ii)*	*30(d) (iii)*	*30(d) (iv)*				
Balance at 1 January 2015		2,969	97,308	61,192	(3,314)	104,044	490,257	752,456	51	752,507
Changes in equity for 2015:										
Profit for the year		—	—	—	—	—	190,393	190,393	2	190,395
Other comprehensive income		—	—	—	5,818	—	—	5,818	—	5,818
Total comprehensive income for the year		—	—	—	5,818	—	190,393	196,211	2	196,213
Equity settled share-based transactions		—	—	—	—	26,538	—	26,538	—	26,538
Appropriation to statutory reserve		—	—	20,941	—	—	(20,941)	—	—	—
Shares issued on the exercise of share options granted under share option scheme		17	9,581	—	—	(2,226)	—	7,372	—	7,372
Equity component of convertible bonds		—	—	—	—	59,627	—	59,627	—	59,627
Issuance of new shares		131	156,147	—	—	—	—	156,278	—	156,278
Dividends for the year ended 31 December 2014	30(b)	—	—	—	—	—	(6,578)	(6,578)	—	(6,578)
		148	165,728	20,941	—	83,939	(27,519)	243,237	—	243,237
Balance at 31 December 2015		3,117	263,036	82,133	2,504	187,983	653,131	1,191,904	53	1,191,957

		Attributable to equity shareholders of the Company								
	Note	Share capital RMB'000	Share premium RMB'000 30(d) (i)	Statutory reserve RMB'000 30(d) (ii)	Exchange reserve RMB'000 30(d) (iii)	Other reserve RMB'000 30(d) (iv)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		3,117	263,036	82,133	2,504	187,983	653,131	1,191,904	53	1,191,957
Changes in equity for 2016										
Profit for the year		—	—	—	—	—	228,101	228,101	(1)	228,100
Other comprehensive income		—	—	—	9,257	—	—	9,257	5	9,262
Total comprehensive income for the year		—	—	—	9,257	—	228,101	237,358	4	237,362
Appropriation to statutory reserve		—	—	22,745	—	—	(22,745)	—	—	—
Dividends for the year ended 31 December 2015	30(b)	—	—	—	—	—	(8,350)	(8,350)	—	(8,350)
Equity settled share-based transactions		—	—	—	—	22,852	—	22,852	—	22,852
Shares issued on the exercise of share options granted under share option scheme		20	12,347	—	—	(2,313)	—	10,054	—	10,054
Issuance of shares to directors and employees at discount		82	99,865	—	—	(1,576)	—	98,371	—	98,371
		102	112,212	22,745	—	18,963	(31,095)	122,927	—	122,927
Balance at 31 December 2016		3,219	375,248	104,878	11,761	206,946	850,137	1,552,189	57	1,552,246

Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations	21(b)	243,454	193,245
PRC income tax paid		(63,000)	(39,268)
Interest received on cash at bank		2,680	5,184
Net cash generated from operating activities		183,134	159,161
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress and intangible assets		(33,578)	(266,974)
Government grants received		—	7,750
Payments for acquisition of interest in associates and a joint venture		(30,356)	(230,083)
Loans paid by employees		1,152	—
Decrease/(increase) in restricted cash		25,000	(239,197)
Proceeds from disposal of available-for-sale financial assets		—	80,000
Investment income received from available-for-sale financial assets		1,499	2,494
Deposits made in relation to certain proposed acquisitions		—	(35,723)
Net cash used in investing activities		(36,283)	(681,733)
Financing activities			
Proceeds from exercise of share options		10,054	7,372
Proceeds from issuance of convertible bonds, net of issuing expenses		—	379,817
Proceeds from issuance of shares to directors and employees		14,755	—
Proceeds from issuance of new shares, net of issuing expenses		—	156,278
Proceeds from bank loans		348,860	454,362
Repayment of bank loans		(488,880)	—
Interests paid		(25,959)	(5,304)
Dividends paid on preferred shares		(11,538)	(10,683)
Dividends paid to equity shareholders of the Company		(8,350)	(6,578)
Net cash (used in)/generated from financing activities		(161,058)	975,264
Net (decrease)/increase in cash and cash equivalents		(14,207)	452,692
Cash and cash equivalents at 1 January		651,050	187,840
Effect of foreign exchange rate changes		10,044	10,518
Cash and cash equivalents at 31 December	21(a)	646,887	651,050

Notes to the Financial Statements

1 CORPORATE INFORMATION

Bloomage BioTechnology Corporation Limited (the "Company", and together with its subsidiaries, the "Group") was incorporated in the Cayman Islands on 3 April 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 October 2008. The Group is principally engaged in the manufacture and sale of bio-chemical products (including hyaluronic acid ("HA") raw materials and end products) and trading of cosmetic products and medical devices through its principal subsidiaries Bloomage Freda Biopharmaceutical Co., Ltd. ("Bloomage Biopharm"), Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc"), Shandong Bloomage Hyinc Biopharm Company Limited ("Shandong Bloomage Hyinc") and Fumax Investment Limited and investment holding in associates and a joint venture engaging in design, development, manufacturing and sales of cosmetic products.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and the Group's interest in associates and a joint venture.

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis except that available-for-sale financial assets are stated at their fair values (see Note 2(f)).

The preparation of these consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on these consolidated financial statements and major sources of estimation uncertainty are discussed in Note 3.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company's principal subsidiaries operating in the PRC. The Company's functional currency is Hong Kong dollar ("HKD").

(c) **Changes in accounting policies**

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) **Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(j)).

(e) **Associates and joint ventures**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and the joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see Note 2(j)).

(f) **Available-for-sale financial assets**

The investments in securities, other than investments in subsidiaries, which do not fall into any other categories are classified as available-for-sale financial assets. These investments are initially stated at fair value, which is their transaction price. Cost includes attributable transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Investment income from these investments is recognised in profit or loss in accordance with the policy set out in Note 2(v) (v). When these investments are derecognised or impaired (see Note 2(j)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) **Property, plant and equipment and construction in progress**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the statement of financial position at cost less impairment losses (see Note 2(j)). Cost comprises the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(x)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	5-10 years
Motor vehicles	5 years
Office equipment and others	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) **Intangible assets**

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Technology know-how	10-20 years
Software	2-10 years
Exclusive distribution right	10 years

Both the period and method of amortisation are reviewed annually.

(i) **Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) ***Classification of assets leased to the Group***

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) ***Assets acquired under finance leases***

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) ***Operating lease charges***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments (see Note 14) represent cost of land use rights paid to the government authority. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 2(j)). Amortisation is charged to profit or loss on a straight-line basis over the lease period of land use rights.

(j) **Impairment of assets**

(i) ***Impairment of investments in securities and trade and other receivables***

Investments in securities and trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see Note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(j) (ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(j) (ii).

— For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity assets are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) ***Impairment of other assets***

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— intangible assets;

— lease prepayments; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell (if measurable), or value in use (if determinable).

— *Reversals of impairment loss*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) ***Interim financial reporting and impairment***

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(j) (i) and (ii)).

(k) **Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) **Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interests method, less allowance for impairment of doubtful debts (see Note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) **Convertible bonds**

Convertible bonds that can be converted into equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserve until either the bond is converted or redeemed.

If the bond is converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the other reserve is released directly to retained earnings.

(n) **Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) **Preferred share capital**

Preferred share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preferred share capital classified as equity are recognised as distributions within equity.

Preferred share capital is classified as a liability if it is redeemable on a specific date or at the option of the holder of the preferred shares, or if dividend payments are not discretionary. The liability is recognised in accordance with the Group's policy for interest-bearing borrowings set out in Note 2(n) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

(p) **Trade and other payables**

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) **Warrants**

The issue of warrants will be settled by the exchange of fixed amount of cash for a fixed number of the Company's own equity instruments.

The fair value of warrants on the date of issue is recognised in warrant reserve, or other reserve when this is related to share-based payments to directors and employees (see Note 2(s) (ii)). The warrant reserve will be transferred to share capital and share premium upon exercise of the warrants, where the warrants remain unexercised at the expiry date, the amount previously recognised in warrant reserve will be released to the retained earnings.

(r) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) **Employee benefits**

(i) ***Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC and Hong Kong are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) ***Share-based payments***

The fair value of shares, share options (including those settled by the controlling shareholder) and warrants (net of net proceeds received from the issues of shares, share options and warrants) granted to directors and employees is recognised as an employee cost with a corresponding increase in other reserve within equity. The fair value of shares is measured at grant date market price taking into account the effect of the restriction, if any, on transferring. The fair value of share options and warrants is measured at grant date using Dividend Adjusted Black-Scholes Options Pricing model, taking into account the terms and conditions upon which the options and warrants were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares, options and warrants, the total estimated fair value of the shares, options and warrants is spread over the vesting period, taking into account the probability that the shares, options and warrants will vest.

During the vesting period, the number of shares, share options (including those settled by the controlling shareholder) and warrants that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review with a corresponding adjustment to other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of shares, options and warrants that vest (with a corresponding adjustment to other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in other reserve until either the options and warrants are exercised and shares are issued (when it is transferred to the share premium account) or the options and warrants expire (when it is released directly to retained earnings).

(iii) ***Termination benefits***

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(t) **Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exception, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) ***Sales of goods***

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) ***Government grants***

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(iii) ***Rental income from operating lease***

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) ***Interest income***

Interest income is recognised as it accrues using the effective interest method.

(v) ***Investment income on available-for-sale financial assets***

Investment income on available-for-sale financial assets is recognised when the holder's right to receive payment is established.

(w) **Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) **Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third entity.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these consolidated financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing these consolidated financial statements. The significant accounting policies are set forth in Note 2. Note 27 contains information about the assumptions and their risk factors relating to fair value of shares, share options and warrants granted to the directors and employees. In addition, the Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

(a) **Impairment for non-current assets**

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36, *Impairment of assets*. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less cost to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price, amount of operating costs and discount rate. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(b) **Impairment for bad and doubtful debts**

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) **Depreciation**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into the account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) **Withholding tax**

Withholding tax is recognised on profits of Bloomage Biopharm and other PRC established subsidiaries which are to be distributed to their overseas holding companies in the foreseeable future. Note 28(c) contains information on the unrecognised deferred tax liabilities relating to the undistributed profits of the PRC established subsidiaries as the Company controls the dividend policy of the PRC established subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future. Any significant change in the dividend policy of the PRC established subsidiaries would result in adjustment in the amount of withholding tax charged to profit or loss for the period and deferred tax liabilities recognised as at the end of the reporting period.

(e) **Impairment of interest in the associates**

In determining whether an interest in the associates is impaired or the event previously causing impairment no longer exists, the Group has to exercise judgement in the area of impairment of assets relevant to the associates (the "Relevant Assets"), particularly in assessing: (1) whether an event has occurred that may affect the value of Relevant Assets or such event affecting the value of Relevant Assets have not been in existence; (2) whether the carrying value of Relevant Assets can be supported by the net present value of future cash flows which are estimated based upon the continued use of the Relevant Assets or de-recognition; (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate and (4) dividend policy of the associates.

4 REVENUE AND SEGMENT REPORTING

(a) **Revenue**

Revenue represents the sales value of goods sold, net of value-added tax.

	2016	**2015**
	RMB'000	*RMB'000*
Sales of self-produced products:		
— HA raw materials	458,015	396,932
— HA end products	294,786	243,360
Revenue from trading of cosmetic products and medical devices	91,587	10,576
	844,388	650,868

The Group's customer base is diversified and includes no customer (2015: no customer) with whom transactions have exceeded 10% of the Group's revenues. Details of concentrations of credit risk arising from the largest customer and the five largest customers are set out in Note 31(a).

(b) **Segment reporting**

Segment information disclosed in the financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments.

The Group completed an update of its long-term business strategy in 2016. This strategic update along with the establishment of a separate business line for trading of cosmetic products and devices led to a reassessment of the operating segments. As a result, the Group revised the reportable segments to better align with the current management of the businesses. The Group presented two reportable segments before 2016, namely domestic customers and overseas customers, for which business were mainly derived from the production and sale of bio-chemical products. The Group has presented the following two reportable segments for the year ended 31 December 2016. The corresponding segment information for the comparative period presented in the financial report has been restated to reflect the new reporting segment presentation. No operating segments have been aggregated to form the following reportable segments.

- production and sale of HA raw materials and end products: this segment manages and operates manufacturing plants and generates income from production and sale of HA raw materials and end products to external customers; and

- trading of cosmetic products and medical devices: this segment purchases cosmetic products and devices from external suppliers and sells them to external customers.

(i) ***Segment results, assets and liabilities***

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets with the exception of interest in associates and deferred tax assets. Segment liabilities include trade and other payables, deferred income, preferred shares and bank loans managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint venture.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation". To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales, if any, and the Group's share of the joint venture's revenue), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales, if any, are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 are set out below.

	Production and sale of HA raw materials and end products		**Trading of cosmetic products and medical devices**		**Total**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue	752,801	640,292	91,587	10,576	844,388	650,868
Reportable segment profit/(loss) (adjusted EBITDA)	397,541	341,520	17,963	(1,817)	415,504	339,703
Interest income	9,842	7,340	—	—	9,842	7,340
Interest expense	(7,927)	(8,525)	—	—	(7,927)	(8,525)
Depreciation and amortisation for the year	(37,561)	(31,996)	(22,406)	(9,558)	(59,967)	(41,554)
Reportable segment assets (including investment in a joint venture)	1,624,399	1,134,256	294,906	241,053	1,919,305	1,375,309
Additions to non-current segment assets during the year	8,075	6,752	17,862	—	25,937	6,752
Reportable segment liabilities	355,224	165,640	1,030	391	356,254	166,031

(ii) ***Reconciliations of reportable segment revenues, profit or loss, assets and liabilities***

	2016	**2015**
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue and consolidated revenue	844,388	650,868
Profit		
Reportable segment profit	415,504	339,703
Share of profits less losses of associates	20,481	91
Interest income	14,695	7,678
Depreciation and amortisation	(59,967)	(41,554)
Finance costs	(45,383)	(16,727)
Unallocated head office and corporate expenses	(56,507)	(51,266)
Consolidated profit before taxation	288,823	237,925

	2016	**2015**
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	1,919,305	1,375,309
Interests in associates	278,642	240,949
Deferred tax assets	10,864	11,615
Unallocated head office and corporate assets	210,463	571,298
Consolidated total assets	2,419,274	2,199,171
Liabilities		
Reportable segment liabilities	356,254	166,031
Income tax payable	18,860	21,888
Bank loans (unallocated)	128,860	472,873
Convertible bonds	360,948	326,938
Other unallocated head office and corporate liabilities	2,106	19,484
Consolidated total liabilities	867,028	1,007,214

(iii) ***Geographic information***

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets with the exception of deferred tax assets ("specified non-current assets"). The geographical location of customers is based on the location at which the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, lease prepayments and construction in progress, the location of the operation to which they are allocated, in the case of intangible assets and other non-current assets, and the location of operations, in the case of interest in associates and interest in a joint venture.

	Revenues from external customers		**Specified non-current assets**	
	2016	**2015**	**2016**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
China (including Hong Kong)	665,102	540,728	749,587	670,883
Americas	82,703	50,465	156	208
Asia	60,340	31,492	30,535	18,748
Europe	36,165	26,350	248,107	222,201
Other regions	78	1,833	—	—
	844,388	650,868	1,028,385	912,040

5 OTHER REVENUE

		2016	**2015**
	Note	*RMB'000*	*RMB'000*
Government grants	(a)	9,244	4,447
Interest income on cash at bank		10,312	5,184
Interest income on loans made to directors and employees		2,884	—
Investment income on available-for-sale financial assets		1,499	2,494
Rental income		1,515	2,141
Others		1,298	1,533
		26,752	15,799

(a) **Government grants**

The grants represent incentives and awards of RMB9,244,000 which are mainly in relation to the Group's technical achievement on the research and development of HA products and its expansion of business to overseas markets during the year ended 31 December 2016 (2015: incentives and awards of RMB4,447,000 mainly in relation to the Group's technical achievement on the research and development of HA products).

There are no unfulfilled conditions and other contingencies attached to the receipt of these government grants. There is no assurance that the Group will receive government grants in the future in respect of any of the Group's research and development and other activities.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) **Finance costs**

	2016	**2015**
	RMB'000	*RMB'000*
Interest on bank loans	9,805	5,304
Dividends on preferred shares (Note 25)	7,926	8,525
Interest on convertible bonds (Note 26)	27,652	2,898
	45,383	16,727

(b) **Staff costs**

	2016	**2015**
	RMB'000	*RMB'000*
Salaries, wages and other benefits	139,160	99,464
Contributions to defined contribution retirement plan	8,760	6,875
Equity-settled share-based payment expenses		
— share option scheme (Note 27(i))	3,642	6,972
— share-based payment transaction settled by the controlling shareholder (Note 27(iii))	19,210	17,990
— shares granted to employees at discount (Note 27(iv))	—	1,576
	170,772	132,877

Pursuant to the relevant labour rules and regulations in the PRC, the subsidiaries of the Group established in the PRC (the "PRC subsidiaries") participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby the PRC subsidiaries are required to make contributions to the Schemes at 18%~20% (2015: 18%~20%) of the eligible employees' salaries during the year. The local government authorities are responsible for the entire retirement plan obligation payable to retired employees.

The employees of the Company who are stationed in Hong Kong participates in the Mandatory Provident Fund Scheme ("MPF Scheme"), whereby the Company is required to contribute to the MPF Scheme at 5% of the employee's basic salaries.

For those forfeited contributions under the Schemes and MPF Scheme, the amounts could not be used by the Group to reduce the existing level of contributions.

The Group has no other obligation for the payment of pension benefits beyond the contributions described above.

(c) **Other items**

		2016	**2015**
	Note	*RMB'000*	*RMB'000*
Amortisation			
— intangible assets		22,888	9,905
— lease prepayments		1,309	1,309
Auditors' remuneration		1,850	1,770
Depreciation		35,770	30,340
Net foreign exchange gain		(3,860)	(1,455)
Net loss on disposal of property, plant and equipment		1,098	8
Provision for impairment loss on trade receivables		13,765	732
Operating lease charges in respect of leased property, plant and equipment		8,700	6,407
Cost of inventories	(i)	251,959	163,629
Research and development costs	(ii)	34,624	29,803

(i) Cost of inventories for the year ended 31 December 2016 included RMB68,608,000 (2015: RMB53,388,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

(ii) Research and development costs for the year ended 31 December 2016 included RMB18,033,000 (2015: RMB12,319,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX

(a) **Taxation in the consolidated statement of profit or loss and other comprehensive income represents:**

	2016	2015
	RMB'000	*RMB'000*
Current tax — PRC income tax		
Provision for the year (Note 28(a))	59,272	47,974
Under/(over)-provision in respect of prior year (Note 28(a))	700	(212)
Deferred tax		
Origination and reversal of temporary differences (Note 28(b))	(3,309)	(232)
Effect of change in tax rate* (Note 28(b))	4,060	—
	60,723	47,530

* Pursuant to the notice [Guo Ke Huo Zi (2016) No. 187] issued by the Department of Science & Technology of Shandong Province, Finance Bureau of Shandong Province, National Taxation Bureau of Shandong Province and Local Taxation Bureau of Shandong Province on 30 December 2016, Shangdong Bloomage Hyinc was granted the qualification of advanced and new technology enterprise and enjoyed a tax concession of 10% for the three years from 1 January 2016 to 31 December 2018. As a result, the applicable PRC income tax rate of Shangdong Hyinc changed from 25% in 2015 to 15% in 2016.

(b) **Reconciliation between actual tax expense and accounting profit at applicable tax rates:**

		2016	2015
	Note	*RMB'000*	*RMB'000*
Profit before taxation		288,823	237,925
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned		89,754	72,848
Tax effect of tax concession	(i)	(36,690)	(29,639)
Tax effect of non-deductible expenses		3,535	4,605
Tax effect of unused tax losses not recognised (Note 28(d))		76	1,092
Utilisation of previous years' unrecognised tax losses		(712)	(1,164)
Under/(over) provision in respect of prior year		700	(212)
Effect of change in tax rate		4,060	—
Income tax		60,723	47,530

(i) The statutory income tax rate is 25% for the PRC subsidiaries. Certain subsidiaries established in the PRC are entitled to a concession on the PRC income tax of 10% as they have satisfied certain conditions in the income tax law and was granted the qualification of advanced and new technology enterprise. As a result, the PRC subsidiaries are subject to income tax rates ranging from 15% to 25% for the year ended 31 December 2016 (2015: 15% to 25%).

(ii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2016 (2015: Nil).

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance, and part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2016						
	Fees	**Basic salaries, allowances and other benefits in kind**	**Discretionary bonuses**	**Contributions to retirement benefit schemes**	**Subtotal**	**Equity-settled share- based payments (note)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman							
Zhao Yan	130	—	—	—	130	—	130
Executive directors							
Jin Xuekun	531	4,758	1,001	63	6,353	22,280	28,633
Liu Aihua (resigned on 26 August 2016)	113	479	380	79	1,051	—	1,051
Wang Aihua	173	451	270	48	942	—	942
Gong Anmin (appointed on 26 August 2016)	61	1,688	523	48	2,320	—	2,320
Non-executive directors							
Guo Jiajun (resigned on 18 January 2016)	4	—	—	—	4	—	4
Yau Waiyan (appointed on 18 January 2016)	83	795	323	16	1,217	62	1,279
Independent non-executive directors							
Zhan Lili	130	—	—	—	130	—	130
Li Junhong	130	—	—	—	130	—	130
Hai Wen (resigned on 18 January 2016)	—	—	—	—	—	—	—
Xue Zhaofeng (appointed on 18 January 2016)	124	—	—	—	124	—	124
	1,479	8,171	2,497	254	12,401	22,342	34,743

	2015						
	Fees	Basic salaries, allowances and other benefits in kind	Discretionary bonuses	Contributions to retirement benefit schemes	Subtotal	Equity-settled share- based payments (note)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman							
Zhao Yan	122	—	—	—	122	—	122
Executive directors							
Jin Xuekun	499	3,788	—	59	4,346	23,966	28,312
Liu Aihua	163	412	—	9	584	—	584
Wang Aihua	163	402	—	44	609	39	648
Non-executive directors							
Guo Jiajun (resigned on 18 January 2016)	81	—	—	—	81	—	81
Yau Waiyan (appointed on 18 January 2016)	—	717	60	15	792	39	831
Independent non-executive directors							
Zhan Lili	122	—	—	—	122	—	122
Li Junhong	122	—	—	—	122	—	122
Hai Wen (resigned on 18 January 2016)	—	—	—	—	—	—	—
Xue Zhaofeng (appointed on 18 January 2016	—	—	—	—	—	—	—
	1,272	5,319	60	127	6,778	24,044	30,822

Note:

These represent the estimated value of shares, share options and warrants granted to the directors. The value of these shares, share options and warrants granted to directors is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(s) (ii).

The details of these benefits in kind, including the principal terms and number of shares, options and warrants granted, are disclosed in Note 27.

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

Save for Mr. Hai Wen, the independent non-executive director of the Company, who has waived his emoluments for the period from the date of his appointment in February 2014 to the data of his resignation in January 2016, no other director waived or agreed to waive any emoluments during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, two of them (2015: one) are directors of the Company whose emoluments is disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2015: four) individuals of the Group are as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	3,358	4,190
Bonus	866	100
Contributions to retirement benefit schemes	95	129
Equity settled share-based transaction expenses	—	307
	4,319	4,726

The emoluments of the three (2015: four) individuals with the highest emoluments are within the following bands:

	2016	**2015**
HKD1,000,001 ~ HKD1,500,000	2	2
HKD1,500,001 ~ HKD2,000,000	—	2
HKD2,000,001 ~ HKD2,500,000	1	—

No individual disclosed above received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the year ended 31 December 2016 of RMB228,101,000 (2015: RMB190,393,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2016 of 361,976,000 shares (2015: 336,907,000 ordinary shares), calculated as follows:

(i) ***Weighted average number of ordinary shares (basic)***

	2016	**2015**
	'000	*'000*
Issued ordinary shares at 1 January	351,320	333,124
Effect of shares issued to directors and employees at discount (Note 27(iv))	9,687	1,460
Effect of issuance of new shares	—	1,814
Effect of exercise of share options granted under share option scheme	969	509
Weighted average number of ordinary shares (basic) at 31 December	361,976	336,907

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB228,101,000 (2015: RMB190,393,000) and the weighted average number of ordinary shares of 367,686,000 shares (2015: 344,437,000 ordinary shares), calculated as follows:

(i) ***Weighted average number of ordinary shares (diluted)***

	2016	**2015**
	'000	*'000*
Weighted average number of ordinary shares at 31 December (basic)	361,976	336,907
Effect of deemed issue of shares for nil consideration for the share options granted in 2012 (Note 27)	5,710	7,530
Weighted average number of ordinary shares at 31 December (diluted)	367,686	344,437

Note: All other potential ordinary shares including convertible bonds, warrants and share options granted in 2013 have anti-dilutive effect to the basic earnings per share for the years ended 31 December 2016 and 2015.

11 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment and others *RMB'000*	Total *RMB'000*
Cost:					
At 1 January 2015	255,075	176,843	3,875	14,788	450,581
Additions	—	204	231	7,838	8,273
Transferred from construction in progress (Note 12)	—	9,175	—	9	9,184
Disposal	—	(9)	—	—	(9)
At 31 December 2015	255,075	186,213	4,106	22,635	468,029
At 1 January 2016	255,075	186,213	4,106	22,635	468,029
Additions	—	560	21	565	1,146
Transferred from construction in progress (Note 12)	1,778	3,202	—	5	4,985
Disposal	—	(865)	—	(1,268)	(2,133)
At 31 December 2016	256,853	189,110	4,127	21,937	472,027
Accumulated depreciation:					
At 1 January 2015	24,719	42,753	2,306	5,181	74,959
Charge for the year	11,307	15,531	514	2,988	30,340
Written back on disposal	—	(1)	—	—	(1)
At 31 December 2015	36,026	58,283	2,820	8,169	105,298
At 1 January 2016	36,026	58,283	2,820	8,169	105,298
Charge for the year	14,273	17,661	511	3,325	35,770
Written back on disposal	—	(116)	—	(919)	(1,035)
At 31 December 2016	50,299	75,828	3,331	10,575	140,033
Net book value:					
At 31 December 2015	219,049	127,930	1,286	14,466	362,731
At 31 December 2016	206,554	113,282	796	11,362	331,994

The Group's property, plant and equipment are mainly located in the PRC. As at 31 December 2016, property certificates of certain properties of the Group with an aggregate net book value of RMB18,050,000 (31 December 2015: RMB19,600,000) are yet to be obtained. Management expects that the related certificates will be obtained within one year.

(a) **Buildings and plant leased out under operating leases**

The Group leases out part of the buildings and plant to certain related parties (see Note 33(a)) under operating leases. The leases run for a period of one year. None of the leases includes contingent rentals. The Directors consider that these leases are temporary and the Group has the plan to occupy the leased portion of the buildings and plant as factories for the production of HA products or as administrative offices in the short run. Accordingly, the leased portion of the buildings and plant has been accounted for as property, plant and equipment in the consolidated financial statements.

12 CONSTRUCTION IN PROGRESS

	2016	**2015**
	RMB'000	*RMB'000*
At 1 January	5,383	412
Additions	16,370	14,155
Transferred to property, plant and equipment (Note 11)	(4,985)	(9,184)
At 31 December	16,768	5,383

13 INTANGIBLE ASSETS

	2016	**2015**
	RMB'000	*RMB'000*
Cost:		
At 1 January	219,171	2,046
Additions	1,137	204,592
Exchange adjustments	14,544	12,533
At 31 December	234,852	219,171
Accumulated amortisation:		
At 1 January	11,078	886
Charge for the year	22,888	9,905
Exchange adjustments	1,394	287
At 31 December	35,360	11,078
Net book value:		
At 31 December	199,492	208,093

Intangible assets mainly represent the exclusive distribution right acquired for the distribution of Laboratoires Vivacy SAS ("Vivacy")'s products in certain countries in the Asia-Pacific region.

The exclusive distribution right is fully allocated the cash generating unit ("CGU") of the Group's trading of Vivacy products. The management performed an impairment test on the CGU for the year ended 31 December 2016. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering the effective period of the exclusive distribution right. The cash flows are discounted using a discount rate of 16.2%. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

The carrying amount of the CGU does not exceed its recoverable amount. As a result, no impairment of Intangible assets is recognised for the year.

14 LEASE PREPAYMENTS

	2016	**2015**
	RMB'000	*RMB'000*
Cost:		
At 1 January and 31 December	65,442	65,443
Accumulated amortisation:		
At 1 January	6,281	4,973
Charge for the year	1,309	1,309
At 31 December	7,590	6,282
Net book value:		
At 31 December	57,852	59,161

Lease prepayments represent cost of land use rights in the PRC and are amortised on a straight-line basis over the lease period of 50 years.

15 INVESTMENTS IN SUBSIDIARIES

Details of the subsidiaries at 31 December 2016 are set out below:

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid-up capital	Effective percentage of equity attributable to the Company Direct	Indirect	Principal activities
Valuerank Holdings Limited ("Valuerank")	British Virgin Islands ("BVI")	United States Dollars ("USD")1	100%	—	Investment holding
Farstar Enterprises Limited ("Farstar")	BVI	USD100	100%	—	Investment holding
Tactful World Limited ("Tactful")	Hong Kong	1 share	—	100%	Investment holding and sales of HA raw materials
Fumax Investment Limited	Hong Kong	1 share	—	100%	Investment holding and trading of HA end products and cosmetic derices
Bloomage Biopharm (Note i)	PRC	RMB88,800,000	—	100%	Production and sale of bio-chemical products
Plumoon Company Limited	Japan	Japanese Yen ("JPY") 12,000,000	—	91%	Sales of bio-chemical products
Beijing Bloomage Hyinc*	PRC	RMB20,000,000	—	100%	Sales of bio-chemical products and medical instrument
Shandong Bloomage Hyinc*	PRC	RMB200,000,000	—	100%	Production and sale of bio-chemical products
Bloomage Freda Biopharm USA Inc.	United States	USD2,000	—	100%	Development, distribution and sales of bio-chemical products and medical instruments
Beijing Bloomage Hengmei Shang Mao Co., Ltd.**	PRC	RMB1,000,000	—	100%	Sales of beauty products

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid-up capital	Effective percentage of equity attributable to the Company Direct	Indirect	Principal activities
Bloomage Empery Beauty Holdings Limited ("Empery Beauty (BVI)")	BVI	USD1	100%	—	Investment holding
Bloomage Empery Beauty Investment Limited ("Empery Beauty (HK)")	Hong Kong	1 share	—	100%	Investment holding
Pando Group Limited ("Pando")	BVI	USD10,000	—	80%	Investment holding
Bloomage Meso Holdings Limited ("Meso (BVI)")	BVI	USD1	100%	—	Investment holding
Bloomage Meso Investment Limited ("Meso (HK)")	Hong Kong	1 share	—	100%	Investment holding
Bloomage Meso Holdings S.A. ("Meso Holdings")	Luxembourg	EUR31,000	—	100%	Investment holding

* Wholly foreign owned enterprises established under the PRC law.

** Limited liability company established under the PRC law.

Note i: Bloomage Biopharm was established on 3 January 2000 as a Sino-foreign equity joint venture company. Pursuant to a board resolution dated 30 May 2004, Bloomage Biopharm underwent a restructuring and transformed to a Sino-foreign co-operative joint venture company (the "Transformation"). The Transformation was approved by the Government of Shandong Province on 4 September 2004 and revised business licence was obtained by Bloomage Biopharm on 8 October 2004. In connection with the Transformation, the Group acquired the rights to the 25% equity interest in Bloomage Biopharm from its joint venture partner by issuing a financial instrument that was presented as a liability in the consolidated financial statements (see Note 25), and accordingly, the Group effectively held 100% equity interest in Bloomage Biopharm.

16 INTEREST IN ASSOCIATES

	2016	2015
	RMB'000	*RMB'000*
Interest in a material associate	248,107	222,201
Interest in immaterial associates	30,535	18,748
	278,642	240,949

(a) Interest in a material associate

The following list contains only the particulars of a material associate whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
V Plus S.A.	Incorporated	Luxembourg	1,560,000 ordinary shares of Euro 1 each	38.18%	—	38.18%	Design, development, manufacturing and sales of medical aesthetics devices

On 15 July 2015, the Group acquired 37.32% of the issued shares of V Plus S.A., an investment holding company with no substantial business activities other than its shareholding of its controlling subsidiaries including Vivacy which is principally engaged in the design, development, manufacturing and sales of medical aesthetics devices including dermal fillers and cosmetics.

On 22 December 2016, V Plus S.A. repurchased 35,000 shares from two shareholders. As a result, the effective interest held by the Group in V Plus S.A. increased from 37.32% to 38.18%. The excess of the deemed cost to acquire the additional 0.86% over the carrying amount of the underlying net asset of the associate in the amount of RMB12,899,000 have been recognised as goodwill which is included in the interest in the associate.

This material associate is accounted for using the equity method of accounting in the consolidated financial statements.

Summarised financial information of this material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2016	2015
	RMB'000	*RMB'000*
Gross amounts of this material associate		
Current assets	188,026	122,619
Non-current assets	315,336	330,121
Current liabilities	(79,271)	(35,639)
Non-current liabilities	(38,703)	(47,868)
Equity attributable to the shareholders of V Plus S.A.	346,618	330,500
Equity attributable to non-controlling interests	38,770	38,733
Revenue	292,865	83,234
Profit from continuing operations	66,631	7,416
Attributable to the shareholders of V Plus S.A.	60,898	6,638
Attributable to non-controlling interests	5,733	778
Post-tax profit or loss from discontinued operations	—	—
Other comprehensive income	15,393	17,545
Attributable to the shareholders of V Plus S.A.	14,251	15,705
Attributable to non-controlling interests	1,142	1,840
Total comprehensive income	82,024	24,961
Attributable to the shareholders of V Plus S.A.	75,149	22,343
Attributable to non-controlling interests	6,875	2,618
Dividend declared from the associate to the Group	5,375	—
Reconciled to the Group's interest in this material associate		
Gross amounts of equity attributable to the shareholders of V Plus S.A.	346,618	330,500
The Group's effective interest (%)	38.18%	37.32%
The Group's share of equity attributable to the shareholders of V Plus S.A.	132,339	123,343
Goodwill	116,428	100,532
Elimination of unrealised profit on V Plus S.A. group's sales to the Group	(660)	(1,674)
Carrying amount in the consolidated financial statements	248,107	222,201

(b) **Interest in immaterial associates**

Aggregate information of associates that are not individually material:

	2016	**2015**
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	30,535	18,748
Aggregate amounts of the Group's share of those associates		
Loss from continuing operations	(3,258)	(713)
Post-tax profit or loss from discontinued operations	—	—
Other comprehensive income	1,784	(20)
Total comprehensive income	(1,474)	(733)

17 INTEREST IN A JOINT VENTURE

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

			Proportion of ownership interest			
Name of joint venture	**Form of business structure**	**Place of incorporation and business**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Medybloom China Limited ("Medybloom")	Incorporated	Hong Kong	50%	—	50%	Registration, promotion and sales of medical aesthetics products

Medybloom, a joint venture of the Group established in 2015, is an unlisted corporate entity whose quoted market price is not available.

18 OTHER NON-CURRENT ASSETS

As at 31 December 2016, other non-current assets mainly represents loans of RMB83,990,000 (31 December 2015: nil) made by the Company to relevant directors and employees in connection with these directors and employees' subscription of the Company's shares (Note 27(iv) and Note 22), and deposits of RMB36,582,000 (31 December 2015: RMB35,723,000) made by the Group in 2015 in relation to the proposed acquisitions of equity interests in certain third-party target companies. During the year ended 31 December 2016, the Group re-negotiated with relevant parties to change these deposits as prepayments for future purchase of cosmetic products. The directors of the Company are of the opinion that the Group can fully recover these deposits.

19 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016	2015
	RMB'000	*RMB'000*
HA products:		
Raw materials and consumables	32,971	17,583
Work in progress	13,251	11,389
Finished goods	91,409	70,996
Cosmetic equipment for trading	41,071	17,624
	178,702	117,592

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016	2015
	RMB'000	*RMB'000*
Carrying amount of inventories sold	251,959	163,629

20 TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables from:		
— Third parties	244,059	147,964
— Related parties	899	948
	244,958	148,912
Less: allowance for doubtful debts	(14,497)	(732)
	230,461	148,180
Bills receivable	43,201	63,598
Prepayments and other receivables from:		
— Third parties	47,994	37,843
— Related parties	2,780	2,253
	324,436	251,874

All of the trade receivables and bills receivable of the Group are expected to be recovered within one year.

(i) **Ageing analysis**

As of the end of the reporting period, the ageing analysis of trade receivables and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follow:

	2016	**2015**
	RMB'000	*RMB'000*
Within 3 months	193,359	190,131
3 to 6 months	26,732	9,294
6 to 9 months	42,246	7,957
9 to 12 months	5,046	195
Over 1 year	6,279	4,201
	273,662	211,778

(ii) **Impairment of trade receivables and bills receivable**

The movement in the allowance for doubtful debts during the year is as follows:

	2016	**2015**
	RMB'000	*RMB'000*
At 1 January	732	—
Impairment loss recognised	13,765	732
At 31 December	14,497	732

At 31 December 2016, the Group's trade receivables of RMB14,497,000 (31 December 2015: RMB732,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB13,765,000 (2015: RMB732,000) were recognised during the year ended 31 December 2016.

(iii) **Trade receivables and bills receivable that are not impaired**

The analysis of trade receivables and bills receivable, based on the current and overdue status, that are neither individually nor collectively considered to be impaired are as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Current	177,360	180,634
1 to 3 months overdue	28,848	20,699
3 to 6 months overdue	56,870	7,676
6 months to 1 year overdue	7,485	2,203
More than 1 year overdue	3,099	566
	273,662	211,778

The credit term for trade receivables is generally 30 to 120 days. Bills receivable are generally due within 180 days from the date of billing. Further details on the Group's credit policy are set out in Note 31(a).

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Group believes that no impairment allowance is necessary as there has not been any significant change in credit quality and these receivables were considered fully recoverable. The Group has not held any collateral over these balances.

21 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) **Cash and cash equivalents comprise:**

	2016	**2015**
	RMB'000	*RMB'000*
Cash at bank and in hand	876,887	906,050
Less: restricted cash (i)	230,000	255,000
Cash and cash equivalents	646,887	651,050

(i) At 31 December 2016, restricted cash represents time deposits as a pledge of a bank loan (see Note 23).

All the Group's cash and cash equivalents were placed with banks in the PRC, Hong Kong, Japan and United States. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(b) **Reconciliation of profit before taxation to cash generated from operations:**

	2016	**2015**
	RMB'000	*RMB'000*
Profit before taxation	288,823	237,925
Adjustments for:		
Amortisation of intangible assets	22,888	9,905
Amortisation of lease prepayments	1,309	1,309
Depreciation	35,770	30,340
Dividends on preferred shares	7,926	8,525
Equity settled share-based payment expenses (Note 27)	22,852	26,538
Interest income on cash at bank	(10,312)	(5,184)
Interest income on loans made to directors and employees	(2,884)	—
Investment income received from available-for-sale financial assets	(1,499)	(2,494)
Share of profits less losses of associates	(20,481)	(91)
Share of loss of a joint venture	27	66
Net loss on disposal of property, plant and equipment	1,098	8
Interests on bank loans	9,805	5,304
Interests on convertible bonds	27,652	2,898
Changes in working capital:		
Increase in inventories	(61,110)	(62,510)
Increase in trade and other receivables	(63,030)	(81,642)
(Decrease)/increase in trade and other payables	(15,380)	22,348
Cash generated from operations	243,454	193,245

(c) **Significant non-cash transactions**

On 8 January 2016, the Company issued a total of 9,687,500 shares at a total consideration of HKD116,250,000 (equivalent to approximately RMB98,371,000) to relevant directors and employees (note 27(iv)). 85% of the total consideration being HKD98,813,000 (equivalent to approximately RMB83,616,000) was satisfied by relevant directors and employees through loans from the Company, and there was no cash impact for this part of share issue consideration and loans made to relevant directors and employees.

22 LOANS TO DIRECTORS

Loans to directors of the Group disclosed pursuant to section 383(1) (d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Loans made by the Company

Name of borrower	**Jin Xuekun**	**Wang Aihua**	**Gong Anmin**	**Yau Waiyan**
Relationship with the Company	Director of the Company	Director of the Company	Director of the Company	Director of the Company
Terms of the loan facilities				
— duration and repayment terms	Repayable on demand	Repayable on demand	Repayable on demand	Repayable on demand
— loan amount	HKD49,406,250.00	HKD2,470,317.60	HKD9,881,250.00	HKD2,470,317.60
— interest rate	2% per annum	2% per annum	2% per annum	2% per annum
— security	None	None	None	None
Balance of the loan				
— at 1 January 2015	Nil	Nil	Nil	Nil
— at 31 December 2015 and 1 January 2016	Nil	Nil	Nil	Nil
— at 31 December 2016	HKD49,406,250.00	HKD2,470,317.60	HKD9,881,250.00	HKD2,470,317.60
Maximum balance outstanding				
— during 2016	HKD49,406,250.00	HKD2,470,317.60	HKD9,881,250.00	HKD2,470,317.60
— during 2015	Nil	Nil	Nil	Nil

There were interests on these loans with an amount of HKD1,285,000 (equivalent to approximately RMB1,149,000) accruced and to be received as at 31 December 2016.

23 BANK LOANS

At 31 December 2016, the bank loans were repayable as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Within 1 year or on demand	220,000	472,873
After 2 year but within 5 years	128,860	—
	348,860	472,873

At 31 December 2016, the bank loans were secured as follows:

	2016	2015
	RMB'000	*RMB'000*
Bank loans - secured	220,000	472,873
Bank loans - unsecured	128,860	—
	348,860	472,873

As at 31 December 2016, the Group's borrowing of RMB220,000,000 is secured by a pledge over the Group's bank deposits of RMB230,000,000.

As at 31 December 2015, the Group's borrowing of RMB472,873,000 was secured by letters of guarantee issued by a PRC bank. The letters of guarantee issued by the PRC bank are in turn secured by the Group's restricted cash of RMB255,000,000, property, plant and equipment of RMB200,270,000 and lease prepayments of RMB59,161,000.

24 TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	30,528	35,091
Payables for construction of plant and purchase of equipment	6,126	21,504
Receipts in advance	7,603	15,721
Value added tax payable	16,241	12,852
Other payables due to related parties	—	1,563
Accrued expenses and other payables	16,520	31,070
	77,018	117,801

All of the trade and other payables of the Group are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Within 3 months	29,254	24,884
3 to 6 months	824	9,898
6 months to 1 year	440	186
Over 1year	10	123
	30,528	35,091

The maturity analysis of trade and bills payables is as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Due within 1 month or on demand	30,528	35,091

25 PREFERRED SHARES

	2016	**2015**
	RMB'000	*RMB'000*
At 1 January	51,471	53,629
Dividends during the year (Note 6(a))	7,926	8,525
Dividends of preferred shares declared	(11,538)	(10,683)
	47,859	51,471
Less: current portion of preferred shares	(12,461)	(11,538)
	35,398	39,933

In connection with the Transformation, Valuerank and Farstar acquired the rights to the 25% equity interest in Bloomage Biopharm from Shandong Freda Pharmaceutical Group (山東福瑞達醫藥集團公司, "SFP"), the then non-controlling interests holder of Bloomage Biopharm, by issuing a financial instrument with a preference over the Group in payment of dividends and redemption of the financial instrument upon termination of business in Bloomage Biopharm ("preferred shares") as consideration. Pursuant to the cooperative joint venture agreement signed between the Group and SFP on 30 May 2004 ("CJV"), the preferred shares were redeemable by Valuerank, subject to the consensus of SFP, at RMB2,694,000 as at 1 January 2005, or at any subsequent date on or before the earlier of the termination of business in Bloomage Biopharm or the expiry date of the CJV (i.e. 2 January 2015) with an annual increment of 8%. Dividends for the preferred shares of RMB5,344,000 for the year ended 31 December 2005, and thereafter with an annual increment of 8% until the preferred shares are redeemed, are payable by Bloomage Biopharm to SFP annually. The dividend payments are cumulative and not discretionary. The Transformation was approved by the Government of Shandong Province on 4 September 2004 and business licence was obtained by Bloomage Biopharm on 8 October 2004. The preferred shares were initially recognised as a financial liability at its fair value of RMB38,500,000 as at 8 October 2004, representing 25% of the fair value of Bloomage Biopharm as at 8 October 2004 derived from the present value of the future cash flows expected to be derived from Bloomage Biopharm. The financial liability was measured at amortised cost subsequently. Dividends for the preferred shares are accounted for using the effective interest method and recorded as finance costs in the consolidated statement of profit or loss and other comprehensive income.

Pursuant to a board resolution dated 29 March 2006, with the agreement from SFP, the expiry date of the CJV has been changed. According to the revised arrangement, the preferred shares were redeemable by Valuerank, subject to the consensus of SFP, at any subsequent date on or before the earlier of the termination of business in Bloomage Biopharm or the expiry of the CJV on 2 January 2020, while other terms of the preferred shares remained unchanged. The change of expiry date of the CJV to 2 January 2020 was approved by the Government of Shandong Province on 24 April 2006 and revised business licence was obtained by Bloomage Biopharm on 28 April 2006. There was no significant difference between the carrying amount of preferred shares and the fair value of the preferred shares arising from the change of expiry date to 2 January 2020.

(a) **Amount due to the holder of the preferred shares**

The present value of the amount due to the holder of the preferred shares of Bloomage Biopharm is repayable as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Within 1 year	12,461	11,538
After 1 year but within 5 years	35,398	39,933
	47,859	51,471

The above repayment schedules have been prepared on the basis that the preferred shares would be redeemed on the applicable expiry date of 2 January 2020 of the CJV and included the pre-determined annual dividend payments until the applicable expiry date of the CJV.

26 CONVERTIBLE BONDS

The movement of the carrying amount of the convertible bonds for the year ended 31 December 2016 is set out below:

	Liability component	Equity component	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2016	326,938	59,627	386,565
Interest charged during the year (Note 6(a))	27,652	—	27,652
Interest paid	(16,154)	—	(16,154)
Exchange adjustments	22,512	—	22,512
At 31 December 2016	360,948	59,627	420,575

On 20 November 2015, the Company issued convertible bonds in the aggregate principal amount of HKD465,000,000 to Ora Investment Pte. Ltd.. The convertible bonds bear interest rate at 4% per annum payable semi-annually. The maturity date of the convertible bonds is 20 November 2020. The convertible bonds are convertible into ordinary shares at the option of the holders of the convertible bonds at any time on or after the date of issue of the convertible bonds and up to the date falling seven days prior to the maturity date at a conversion price of HKD17.2 per share, subject to adjustments.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(i) Share option scheme

The Company has a share option scheme which was adopted on 3 September 2008 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at consideration of HKD1.0 to subscribe for shares of the Company.

For the options granted in 2012, 50% of the options vest after one year from the date of grant and are then exercisable within a period of four years and the remaining 50% of the options vest after two years from the date of grant and are then exercisable within a period of three years.

For the options granted in 2013, subject to the satisfaction of certain performance conditions, 25% of the options vest after one year from the date of grant and are then exercisable within a period of four years, 25% of the options vest after two years from the date of grant and are then exercisable within a period of three years, 25% of the options vest after three years from the date of grant and are then exercisable within a period of two years and the remaining 25% of the options vest after four years from the date of grant and are then exercisable within a period of one year.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) ***The terms and conditions of the grants are as follows:***

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
— on 24 December 2012	495,000	One year from the date of grant	5 years
— on 24 December 2012	495,000	Two years from the date of grant	5 years
— on 23 December 2013	1,660,000	One year from the Grant Date and revenue of the Group for the year ended 31 December 2013 is not less than 130% of that for the year ended 31 December 2012 (“FY 2012”)	5 years
— on 23 December 2013	1,660,000	Two years from the Grant Date and revenue of the Group for the year ended 31 December 2014 is not less than 169% of that for FY 2012	5 years
— on 23 December 2013	1,660,000	Three years from the Grant Date and revenue of the Group for the year ended 31 December 2015 is not less than 211.25% of that for FY 2012	5 years
— on 23 December 2013	1,660,000	Four years from the Grant Date and revenue of the Group for the year ending 31 December 2016 is not less than 264.0625% of that for FY 2012	5 years

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to employees*:			
— on 24 December 2012	5,745,000	One year from the date of grant	5 years
— on 24 December 2012	5,745,000	Two years from the date of grant	5 years
— on 29 October 2013	780,200	One year from the date of grant and revenue of the Group for the year ended 31 December 2013 is not less than 130% of that for FY 2012	5 years
— on 29 October 2013	780,200	Two years from the date of grant and revenue of the Group for the year ended 31 December 2014 is not less than 169% of that for FY 2012	5 years
— on 29 October 2013	780,200	Three years from the date of grant and revenue of the Group for the year ended 31 December 2015 is not less than 211.25% of that for FY 2012	5 years
— on 29 October 2013	780,200	Four years from the date of grant and revenue of the Group for the year ending 31 December 2016 is not less than 264.0625% of that for FY 2012	5 years
Total share options granted	22,240,800		

* The options granted to employees on 29 October 2013 include 99,600 options granted to an employee who was appointed as non-executive director on 18 January 2016.

(b) ***The number and weighted average exercise prices of share options are as follows:***

	2016		2015	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	HKD10.745	19,266,000	HKD10.137	21,316,000
Exercised during the year	HKD4.422	(2,000,500)	HKD4.422	(2,050,000)
Forfeited during the year	HKD16.652	(199,200)	—	—
Outstanding at the end of the year	HKD11.417	17,066,300	HKD10.745	19,266,000
Exercisable at the end of the year	HKD10.522	14,626,100	HKD8.685	14,286,000

The options outstanding at 31 December 2016 had an exercise price of HKD4.422 or HKD16.652 (2015: HKD4.422 or HKD16.652) and a weighted average remaining contractual life of 1.4 years (2015: 2.4 years).

(c) ***Fair value of share options and assumptions***

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Dividend Adjusted Black-Scholes Options Pricing model ("Black-Scholes Model"). The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into Black-Scholes Model.

	Share options granted in 2013	Share options granted in 2012
Fair value at measurement date	HKD2.51 to 3.79	HKD1.30 to 1.37
Share price	HKD15.80 and 17.22	HKD4.3
Exercise price	HKD16.652	HKD4.422
Expected volatility	32.5%	55%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	3 to 4.5 years	3.25 years
Expected dividends	3%	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.446% to 1.153%	0.108% and 0.156%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service condition and non-market performance condition. These conditions have not been taken into account in the fair value measurement of the services received at the date of grant. There were no market conditions associated with the share option grants.

(ii) **Warrants granted to a director**

On 29 October 2013, upon the re-designation of Mr. Jin Xuekun ("Mr. Jin") as an executive director from an independent non-executive director and the appointment of Mr. Jin as chief executive officer of the Company, the Company entered into the warrant subscription agreement (the "Warrant Subscription Agreement") with Wealthy Delight Group Limited (as Subscriber), a company the entire issued share capital of which is legally and beneficially owned by Mr. Jin, and Mr. Jin (as guarantor of the Subscriber to guarantee the performance by the Subscriber of its obligations under the Warrant Subscription Agreement), pursuant to which the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 16,600,000 warrants (the "Warrants") at the issue price of HKD0.01 per Warrant (the "Warrant Subscription"). Each of the Warrants carries the right to subscribe for one warrant share at the exercise price of HKD16.652 per warrant share initially (subject to adjustment) during the period from the date of the first anniversary of the completion of the Warrant Subscription to the date before the fifth anniversary of the warrant completion date in four equal installments.

On 23 December 2013, the shareholders of the Company approved the Warrant Subscription in an extraordinary general meeting. As there were no explicit or implicit vesting conditions attached to the Warrants, the Warrants were treated as granted and vested on 23 December 2013 and relevant share-based payment expenses of the Warrants granted of RMB46,822,000 were charged to profit or loss immediately in 2013.

Relevant details of the Warrants are listed below.

(a) ***The terms and conditions of the grants are as follows:***

Date of grant	Number of instruments	Vesting conditions	Exercisable period	Contractual life of warrants
23 December 2013	4,150,000	None	From 27 December 2014 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2015 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2016 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2017 to 26 December 2018	5 years
	16,600,000			

(b) ***The number and exercise price of the Warrants are as follows:***

	2016		2015	
	Exercise price	Number of warrants	Exercise price	Number of warrants
Outstanding at the end of the year	HKD16.652	16,600,000	HKD16.652	16,600,000
Exercisable at the end of the year	HKD16.652	12,450,000	HKD16.652	8,300,000

The Warrants outstanding as at 31 December 2016 had an exercise price of HKD16.652 (2015: HKD16.652) and a weighted average remaining contractual life of 2 years (2015: 3 years).

(c) ***Fair value of Warrants and assumptions***

In 2013, the fair value of services received in return for the Warrants granted was measured by reference to the fair value of the Warrants. The estimate of the fair value of the Warrants was measured based on the Black-Scholes Model. The contractual life of the Warrants was used as an input into this model. Expectations of early exercise were incorporated into Black-Scholes Model.

Fair value at measurement date	HKD3.26 to 3.79
Share price	HKD17.22
Exercise price	HKD16.652
Expected volatility	32.5%
Warrant life (expressed as weighted average life used in the modelling under Black-Scholes Model)	3 to 4.5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.635% to 1.153%

The expected volatility was based on the historical volatility (calculated based on the weighted average remaining life of the Warrants), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were no service or performance conditions associated with the Warrants.

(iii) **Group share-based payment transaction settled by the controlling shareholder**

On 22 May 2014, AIM First Investments Limited ("AFI", the controlling shareholder of the Company), Ms. Zhao Yan (as warrantor for AFI), Wealthy Delight Group Limited ("Wealthy Delight") and Mr. Jin (as warrantor for Wealthy Delight) entered into an option agreement (the "Option Agreement"). Pursuant to the Option Agreement, AFI granted a call option (the "AFI Call Option") to Wealthy Delight for the purchase of 9,960,000 shares of the Company (the "Option Shares") held by AFI. The AFI Call Option is exercisable from 22 May 2014 to 22 May 2019 at HKD5.80 per share (the "Transfer Price"). Also, pursuant to the same Option Agreement, Wealthy Delight granted a call option to AFI to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AFI at the Transfer Price on the condition that AFI Call Option has been exercised by Wealthy Delight and Mr. Jin resigns as the chief executive officer of the Company due to personal reasons. The call option granted by Wealthy Delight to AFI is exercisable from the completion date of the transfer of the relevant Option Shares under the AFI Call Option to 22 May 2019. The Transfer Price and/or the number of the Option Shares are subject to adjustment upon any consolidation or subdivision of shares of the Company during the term of the Option Agreement. The arrangements under the Option Agreement are to provide incentive to Mr. Jin to remain as the chief executive officer of the Company.

This transaction is accounted for as a group share-based payment transaction settled by the controlling shareholder and AFI Call Option is treated as vesting in a five-year period, i.e. the fair value of this share-based payment transaction of HKD110,656,000 is amortised over the 5 years using the straight-line method. During the year ended 31 December 2016, expenses related to this group share-based payment transaction of RMB19,210,000 (2015: RMB17,990,000) have been recognised in profit or loss.

(a) ***Fair value of share options and assumptions***

The fair value of services received in return for the AFI Call Option is measured by reference to the fair value of share options granted. The estimate of the fair value of the AFI Call Option is measured based on Black-Scholes Model. The contractual life of the AFI Call Option is used as an input into this model.

Fair value at measurement date	HKD11.11
Share price	HKD18.96
Exercise price	HKD5.80
Expected volatility	35.0%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	1.195%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

The AFI Call Option was granted under service condition. The service condition has not been taken into account in the fair value measurement of the services received at the date of grant. There were no market conditions associated with the AFI Call Option.

(iv) **Shares granted to directors and employees at discount**

On 4 November 2015, the board of directors of the Company approved the grant of 9,687,500 shares at a subscription price of HKD12.0 per share to certain directors and employees. The shares were granted with a lockup period of six months during which the shares are not transferable. The relevant directors and employees accepted the grant on the same date. As there were no explicit or implicit vesting conditions attached to the shares, the shares were treated as granted and vested on 4 November 2015 and relevant share-based payment expenses of the shares granted of RMB1,576,000, which were calculated by deducting the proceeds received from the relevant directors and employees from the fair value of shares adjusted for the effect of share transfer restriction, were charged to profit or loss immediately in 2015. The subscription of the shares of the Company by relevant directors and employees was completed on 8 January 2016.

(a) ***Fair value of the shares and assumptions***

The fair value of services received in return for the shares granted is measured at grant date market price of the shares adjusted for the effect of share transfer restriction (net of the proceeds received from the relevant directors and employees).

Market price of share	HKD13.86
The effect of share transfer restriction	HKD1.66
Fair value of share adjusted for the effect of share transfer restriction	HKD12.20

The effect of share transfer restriction is measured by reference to the fair value of a put option that relevant directors and employees would have purchased in order to hedge the drop in share price during the lockup period. The estimate of its fair value is measured based on Black-Scholes Model. Key assumptions used in the valuation of the fair value are:

Market price of share	HKD13.86
Exercise price of the put option	HKD13.86
Expected volatility	40.0%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	0.5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.084%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) **Current taxation in the consolidated statement of financial position represents:**

	2016	**2015**
	RMB'000	*RMB'000*
Balance of PRC income tax relating to prior years	21,888	13,394
Provision for PRC income tax for the year (Note 7(a))	59,272	47,974
Under/(over)-provision in respect of prior year	700	(212)
PRC income tax paid	(63,000)	(39,268)
	18,860	21,888

(b) **Deferred tax assets and liabilities recognised:**

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	**Government grant**	**Property, plant and equipment**	**Bad debt provision**	**Unrealised profits on intra-group transactions**	**Total**
At 1 January 2015	8,663	—	—	2,720	11,383
Charged/(credited) to profit or loss	1,487	(1,444)	109	80	232
At 31 December 2015	10,150	(1,444)	109	2,800	11,615
At 1 January 2016	10,150	(1,444)	109	2,800	11,615
(Credited)/charged to profit or loss	(4,600)	1,444	2,067	338	(751)
At 31 December 2016	5,550	—	2,176	3,138	10,864

Reconciliation to the consolidated statement of financial position

	2016	**2015**
	RMB'000	*RMB'000*
Deferred tax assets recognised in the consolidated statement of financial position	10,864	11,615

(c) **Deferred tax liabilities not recognised:**

Pursuant to the PRC income tax law, non-resident enterprises are subject to PRC income tax at the rate of 10% on various types of passive income including dividends derived from sources in the PRC ("withholding tax"). Under the Sino-Hong Kong Double Tax Arrangement and the relevant regulations, the Group's Hong Kong subsidiaries holding the subsidiaries in the PRC are liable for withholding tax at the rate of 5% for dividend income derived from the PRC as the Hong Kong subsidiaries are the "beneficial owner" and hold 25% of equity interests or more of the subsidiaries in the PRC.

As at 31 December 2016, temporary differences relating to the undistributed profits of certain PRC subsidiaries amounted to RMB883,141,000 (31 December 2015: RMB604,267,000). Deferred tax liabilities of RMB44,157,000 (31 December 2015: RMB30,213,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of certain PRC subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

(d) **Deferred tax assets not recognised:**

In accordance with the accounting policy set out in Note 2(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB2,977,000 (31 December 2015: RMB8,466,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses will expire on or before 31 December 2021.

29 DEFERRED INCOME

Deferred income represents government grants received to compensate the Group's cost of construction in respect of the HA production facilities which will subsequently be deducted from the carrying amount of assets, and unfulfilled conditional government grants received to compensate the Group for expenses incurred which will subsequently be recognised as revenue in profit or loss in the same periods in which the expenses are incurred.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital	**Share premium**	**Contributed surplus**	**Exchange reserve**	**Other reserve**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	30(c)	*30(d)(i)*	*(i) below*	*30(d)(iii)*	*30(d)(iv)*		
Balance at 1 January 2015	2,969	97,308	36,966	(9,828)	82,834	(102,693)	107,556
Changes in equity for 2015							
Loss for the year	—	—	—	—	—	(56,244)	(56,244)
Other comprehensive income	—	—	—	12,297	—	—	12,297
Total comprehensive income for the year	—	—	—	12,297	—	(56,244)	(43,947)
Equity settled share-based transactions	—	—	—	—	26,538	—	26,538
Share issued on the exercise of share options granted under share option scheme	17	9,581	—	—	(2,226)	—	7,372
Equity component of convertible bonds	—	—	—	—	59,627	—	59,627
Issuance of new shares	131	156,147	—	—	—	—	156,278
Dividends for the year ended 31 December 2014	—	—	—	—	—	(6,578)	(6,578)
Balance at 31 December 2015	3,117	263,036	36,966	2,469	166,773	(165,515)	306,846

	Share capital	Share premium	Contributed surplus	Exchange reserve	Other reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	30(c)	*30(d) (i)*	*(i) below*	*30(d) (iii)*	*30(d) (iv)*		
Changes in equity for 2016:							
Loss for the year	—	—	—	—	—	(91,680)	(91,680)
Other comprehensive income	—	—	—	20,604	6	—	20,610
Total comprehensive income for the year	—	—	—	20,604	6	(91,680)	(71,070)
Equity settled share-based transactions	—	—	—	—	22,745	—	22,745
Share issued on the exercise of share options granted under share option scheme	20	12,347	—	—	(2,313)	—	10,054
Issuance of shares to directors and employees at discount	82	99,865	—	—	(1,576)	—	98,371
Dividends for the year ended 31 December 2015	—	—	—	—	—	(8,350)	(8,350)
Balance at 31 December 2016	3,219	375,248	36,966	23,073	185,635	(265,545)	358,596

(i) Contributed surplus represents the excess of fair value of the shares of the Company determined based on the basis of consolidated net assets of Valuerank and Farstar as at 10 April 2008, the date of the acquisition of shares of Valuerank and Farstar by the Company from AFI and Newgrand Holdings Limited ("Newgrand") over the nominal value of the shares issued by the Company in exchange thereof. Under the Companies Law of Cayman Islands, the contributed surplus account of Company is distributable to the equity shareholders of the Company.

(b) **Dividends**

(i) ***Dividends payable to equity shareholders of the Company attributable to the year***

	2016	**2015**
	RMB'000	*RMB'000*
Final dividends proposed after the end of the reporting period of HKD3.1 cents per ordinary share (2015: HKD2.7 cents per ordinary share)	10,070	8,350

The final dividends proposed after the end of the reporting period have not been recognised as a liability at the end of the reporting period.

(ii) ***Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year***

	2016	**2015**
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of HKD2.7 cents per ordinary share (2015: HKD2.5 cents per ordinary share)	8,350	6,578

(c) **Share capital**

(i) ***Authorised and issued share capital***

	2016		**2015**	
	No. of shares	*HKD'000*	*No. of shares*	*HKD'000*
Authorised:				
Ordinary shares of HKD0.01 each	1,000,000,000	10,000	1,000,000,000	10,000
Issued and fully paid:				
At 1 January	351,319,834	3,117	333,124,000	2,969
New shares issued (note)	9,687,500	82	16,145,834	131
Shares issued on exercise of share options granted under share option scheme	2,000,500	20	2,050,000	17
At 31 December	363,007,834	3,219	351,319,834	3,117

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Note:

On 4 November 2015, the board of directors of the Company approved the grant of 9,687,500 shares at a subscription price of HKD12.0 per share to certain directors and employees. The shares were granted with a lock up period of six months during which the shares are not transferable. Share based payment expense of RMB1,576,000 related to this share grant was charged to profit or loss immediately in the year ended 31 December 2015. The Company made loans with a total amount of HKD98,812,500 to relevant directors and employees for their subscription of the Company's shares. The subscription of shares by the relevant directors and employees was completed on 8 January 2016.

(ii) ***Terms of unexpired and unexercised share options and warrants at the end of the reporting period:***

Exercise period	Exercise price	2016 Number of options/ warrants	2015 Number of options/ warrants
25 December 2013 to 24 December 2017	HKD4.422	1,065,500	3,066,000
25 December 2014 to 24 December 2017	HKD4.422	6,240,000	6,240,000
30 October 2014 to 29 October 2018	HKD16.652	780,200	830,000
30 October 2015 to 29 October 2018	HKD16.652	780,200	830,000
30 October 2016 to 29 October 2018	HKD16.652	780,200	830,000
30 October 2017 to 29 October 2018	HKD16.652	780,200	830,000
23 December 2014 to 22 December 2018	HKD16.652	1,660,000	1,660,000
23 December 2015 to 22 December 2018	HKD16.652	1,660,000	1,660,000
23 December 2016 to 22 December 2018	HKD16.652	1,660,000	1,660,000
23 December 2017 to 22 December 2018	HKD16.652	1,660,000	1,660,000
27 December 2014 to 26 December 2018	HKD16.652	4,150,000	4,150,000
27 December 2015 to 26 December 2018	HKD16.652	4,150,000	4,150,000
27 December 2016 to 26 December 2018	HKD16.652	4,150,000	4,150,000
27 December 2017 to 26 December 2018	HKD16.652	4,150,000	4,150,000
		33,666,300	35,866,000

Each option/warrant entitles the holder to subscribe for one ordinary share in the Company. Further details of these options/warrants are set out in Note 27 to the financial statements.

(d) **Nature and purposes of reserves**

(i) ***Share premium***

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of Cayman Islands, the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) ***Statutory reserve***

In accordance with the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The transfers of these reserves are at discretion of the directors of the PRC subsidiaries. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iii) ***Exchange reserve***

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(iv) ***Other reserve***

Other reserve as at 31 December 2016 mainly includes:

i) the difference between the historical carrying value of the 25% equity interest right of Bloomage Biopharm then held by SFP and the fair value of financial liability initially recognised (see Note 25);

ii) capitalization of reserve arising from transfer of retained earnings. Pursuant to board resolutions of Bloomage Biopharm passed on 24 August 2005, 23 November 2007 and 12 January 2008, retained earnings/statutory reserve of Bloomage Biopharm in the amount of RMB3,000,000, RMB12,000,000 and RMB38,800,000 was capitalized and transferred to other reserve;

iii) waiver of amounts due to related parties. On 10 July 2008, AFI and Valuerank entered into an agreement to waive repayment of consideration of acquiring Bloomage Biopharm by Valuerank for an amount of RMB3,150,000. On 25 July 2008, Freda International Inc. and Farstar entered into an agreement to waive repayment of consideration of acquiring Bloomage Biopharm by Farstar for an amount of RMB1,575,000. The waiver of amounts due to AFI and Freda International Inc. of RMB4,725,000 was credited to other reserve of the Group;

iv) reserve on equity-settled share-based transactions is the portion of the grant date fair value of unexercised share options and warrants and unissued shares granted to the directors and the employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(s) (ii); and

v) the equity component of the convertible bonds issued in 2015 (see note 26).

(e) **Distributability of reserves**

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB355,377,000 (31 December 2015: RMB303,729,000), excluding the share capital as disclosed in Note 30. After the end of the reporting period, the directors proposed a final dividend of HKD3.1 cents per ordinary share (2015: HKD2.7 cents per ordinary share), amounting to HKD11,257,000 (equivalent to RMB10,070,000) (2015: HKD9,770,000 (equivalent to RMB8,350,000)). This dividend has not been recognised as a liability at the end of the reporting period.

(f) **Capital management**

The Group's objective of managing capital is to optimize the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, the Group may issue new shares and adjust the capital expenditure plan. The Group monitors capital on the basis of debt-to-capital ratio, which is calculated by dividing long term liability by the total equity and long term liability, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets.

The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and to maintain the debt-to-capital ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2016, the debt-to-capital ratio of the Group was 26% (31 December 2015: 24%), and the liability-to-asset ratio of the Group was 36% (31 December 2015: 46%).

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) **Credit risk**

The Group's credit risk is primarily attributable to cash at bank and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Substantially all of the Group's cash at bank are deposited in the reputable banks, which the management assess the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 120 days from the date of billing. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 11% (2015: 0%) and 30% (2015: 17%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The Group does not provide any guarantees which would expose the Group to credit risk.

(b) **Liquidity risk**

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

	As at 31 December 2016				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	348,860	364,469	228,393	3,608	132,468
Convertible bonds	360,948	482,494	16,638	16,638	449,218
Trade and other payables	77,018	77,018	77,018	—	—
Preferred shares	47,859	64,700	12,461	13,458	38,781
	834,685	988,681	334,510	33,704	620,467

	As at 31 December 2015				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	472,873	472,873	472,873	—	—
Convertible bonds	326,938	467,492	15,583	15,583	436,326
Trade and other payables	117,801	117,801	117,801	—	—
Preferred shares	51,471	76,238	11,538	12,461	52,239
	969,083	1,134,404	617,795	28,044	488,565

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from interest-bearing borrowings.

(i) ***Interest rate profile***

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2016		2015	
	Interest rate		Interest rate	
	%	*RMB'000*	%	*RMB'000*
Fixed rate borrowing				
Convertible bonds	8%	360,948	8%	326,938
Bank loans	4.35%	220,000	N/A	—
Total		580,948		326,938
Variable rate borrowing				
Bank loans	2.80%	128,860	2.52%-2.60%	472,873
Total borrowings		709,808		799,811
Fixed rate borrowings as a percentage of total borrowings		81.85%		40.88%

(ii) ***Sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the end of the reporting period. For variable-rate borrowings, the analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year.

At 31 December 2016, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained earnings by RMB322,000 (2015: RMB1,182,000).

(d) **Currency risk**

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through The People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be based on market supply and demand with reference to a basket of currencies or subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

(i) ***Exposure to currency risk***

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded. The Group did not hedge its foreign currency exposure during the year.

	2016 Exposure to foreign currencies (expressed in RMB)			
	RMB	**USD**	**JPY**	**Euros**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand and at bank	4	171,682	9,975	9,145
Trade and other receivables	—	18,035	—	7,280
Trade and other payables	—	(207)	—	(2)
Bank loans	—	—	—	—
Net exposure arising from recognised assets and liabilities	4	189,510	9,975	16,423

	2015 Exposure to foreign currencies (expressed in RMB)			
	RMB	**USD**	**JPY**	**Euros**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand and at bank	4	546,483	4,453	4,393
Trade and other receivables	—	29,639	1,013	—
Trade and other payables	—	(966)	(1,382)	—
Bank loans	—	(229,640)	—	(243,233)
Net exposure arising from recognised assets and liabilities	4	345,516	4,084	(238,840)

(ii) ***Sensitivity analysis***

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained earnings	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained earnings
		RMB'000		*RMB'000*
USD	5%	8,505	5%	18,647
	(5%)	(8,505)	(5%)	(18,647)
JPY	5%	423	5%	174
	(5%)	(423)	(5%)	(174)
Euros	5%	730	5%	(10,007)
	(5%)	(730)	(5%)	10,007

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rate had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including intercompany payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

(e) **Fair value measurement**

There are no financial instruments measured at fair value as at 31 December 2016.

In respect of cash and cash equivalents, restricted cash, trade and other receivables, secured bank loan, trade and other payables and convertible bonds, the carrying amounts approximate fair value due to the relatively short term or the effective interest rates are approximate to the market interest rates.

Upon initial recognition, the estimated fair value amount of preferred shares has been determined by using market information and valuation methodology considered appropriate by the Group. However, considerable judgement is required to interpret market data to develop the estimate of fair value. Accordingly, the estimate presented herein is not necessarily indicative of the amount that the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amount. Due to the limitation of developing estimates, the fair value amount of preferred shares cannot be measured reliably, and therefore the fair value information of preferred shares as at 31 December 2016 has not been disclosed.

32 COMMITMENTS

(a) As at 31 December 2016, the Group had capital commitments for construction of property, plant and equipment as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Authorised and contracted for	787	8,000
Authorised but not contracted for	—	—
	787	8,000

(b) As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Within 1 year	8,402	1,533
After 1 year but within 5 years	1,228	2,683
	9,630	4,216

33 MATERIAL RELATED PARTY TRANSACTIONS

During the year, the directors are of the view that related parties of the Group include the following companies:

Name of party	Relationship
SFP	The holder of the preferred shares of Bloomage Biopharm
Shandong Biopharmaceuticals Research Institute (山東省生物藥物研究院"SBRI")	Under common control with SFP
Shandong Freda Bioengineering Co., Ltd. (山東福瑞達生物工程有限公司"SFB")	Subsidiary of SFP
Shandong Freda Medical Devices Co., Ltd. (山東福瑞達醫療器械有限公司"SFMD")	Subsidiary of SFP
Shandong Freda Biotechnology Co., Ltd. (山東福瑞達生物科技有限公司"LFB")	Subsidiary of SFP
Shandong Mingren Freda Pharmaceutical. Co., Ltd (山東明仁福瑞達製藥有限公司)	Subsidiary of SFP
Beijing Bloomage Central Property Management Co., Ltd. (北京華熙中環物業管理有限公司"BBC")	Affiliate of an equity shareholder of the Company
Blommage International Investment Group Inc. (華熙國際投資集團有限公司)	Affiliate of an equity shareholder of the Company
Blommage International Cultural and Sport Development Co., Ltd. (華熙國際文化體育發展有限公司)	Affiliate of an equity shareholder of the Company
Sichuan Bloomage Longxi Investment Co., Ltd. (四川華熙龍禧投資有限公司)	Affiliate of an equity shareholder of the Company
V Plus S.A.	Associate of the Group

(a) **Transactions with related parties**

Particulars of significant transactions between the Group and the above related parties during the year are as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Sales of products to related parties	3,945	2,013
Purchase of products from related parties	44,020	23,416
Dividends on preferred shares paid to SFP	11,538	10,683
Lease of buildings and plant to related parties	1,515	1,950
Rental expense for lease of properties from a related party	6,746	6,252
Loans to key management personnel*	85,722	—

* The loans are repayable on demand and bear an interest rate of 2% per annum.

In the opinion of the directors of the Company, the above related party purchase and lease transactions were conducted in the ordinary and usual course of business and on normal commercial terms.

(b) **Balances with related parties:**

As at the end of the reporting period, the Group had the following balances with related parties:

	2016	**2015**
	RMB'000	*RMB'000*
Trade and other receivables	3,679	3,201
Trade and other payables	—	1,563
Preferred shares, including current portion	47,859	51,471
Loans to key management personnel	85,722	—

(c) **Key management personnel remuneration:**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	19,944	9,995
Contributions to retirement benefit schemes	551	251
Equity compensation benefits (see Note 27(i)(ii))	22,342	24,265
	42,837	34,511

Total remuneration is included in "staff costs" (see Note 6(b)).

The Group participates in the defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details are disclosed in Note 6(b).

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investments in subsidiaries	15	37,010	34,888
Interest in a joint venture		17,862	—
Other receivables due from subsidiaries		476,468	531,922
Other non-current assets	18	120,572	35,723
Total non-current assets		651,912	602,533
Current assets			
Other receivables		6,506	—
Cash and cash equivalents		64,656	530,770
Total current assets		71,162	530,770
Current liabilities			
Bank loans		—	472,873
Amounts due to subsidiaries		1,540	7,287
Accrued expenses, interest payable and other payables		1,990	19,359
Total current liabilities		3,530	499,519
Net current assets		67,632	31,251
Total assets less current liabilities		719,544	633,784
Convertible bonds		360,948	326,938
Total non-current liabilities		360,948	326,938
NET ASSETS		358,596	306,846
CAPITAL AND RESERVES			
Share capital	30(c)	3,219	3,117
Reserves	30(d)	355,377	303,729
TOTAL EQUITY		358,596	306,846

35 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

On 6 January 2017, a wholly-owned subsidiary of the Company (as purchaser) entered into a sale and purchase agreement with an individual and a company (the "Vendors"), pursuant to which the Group agreed to purchase and the Vendors agreed to sell the entire issued and paid-up capital of the Revitacare, a société par actions simplifiée incorporated in France, at a consideration of up to EUR25,150,000 (equivalent to approximately RMB183,200,000), subject to the terms of the sale and purchase agreement. The acquisition has been completed on 19 January 2017. Upon completion, Revitacare became an indirect wholly-owned subsidiary of the Company.

36 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate and ultimate holding company of the Company at 31 December 2016 to be AFI, which is incorporated in BVI.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting period beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) ***Classification and measurement***

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of IFRS 9.

(b) ***Impairment***

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(c) ***Hedge accounting***

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group currently does not applied any hedge accounting and therefore this new requirement may not have any impact on the Group on adoption of IFRS 9.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) ***Timing of revenue recognition***

The Group's revenue recognition policies are disclosed in note 2(v). Currently, revenue arising from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

- When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

- When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

(b) ***Significant financing component***

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

(c) ***Sales with a right of return***

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales. The Group expects that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

IFRS 16, Leases

As disclosed in note 2(i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 32(b), as at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB9,630,000, which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Group is considering whether to adopt IFRS 16 before its effective date of 1 January 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being 1 January 2018.

4. FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

The following financial information is extracted from the annual report of the Company for the year ended 31 December 2015.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2015

	Note	2015 *RMB'000*	2014 *RMB'000*
Revenue	4	650,868	481,301
Cost of sales		(163,629)	(105,904)
Gross profit		487,239	375,397
Other revenue	5	15,799	12,979
Distribution costs		(107,070)	(74,646)
Administrative expenses		(141,910)	(104,128)
Other operating income/(expenses), net		569	(1,864)
Profit from the operation		254,627	207,738
Finance costs	6(a)	(16,727)	(9,617)
Share of profits less losses of associates	91	—	
Share of loss of a joint venture		(66)	—
Profit before taxation	6	237,925	198,121
Income tax	7	(47,530)	(36,055)
Profit for the year		190,395	162,066
Other comprehensive income for the year (after tax adjustments):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		(23)	593
Share of other comprehensive income of equity-accounted investees		5,841	—
Total comprehensive income for the year		196,213	162,659

	Note	2015 RMB'000	2014 RMB'000
Profit attributable to:			
Equity shareholders of the Company		190,393	162,067
Non-controlling interests		2	(1)
Profit for the year		190,395	162,066
Total comprehensive income attributable to:			
Equity shareholders of the Company		196,211	162,667
Non-controlling interests		2	(8)
Total comprehensive income for the year		196,213	162,659
Earnings per share (RMB)			
Basic	10(a)	0.565	0.488
Diluted	10(b)	0.553	0.473

Consolidated Statement of Financial Position
at 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment, net	11	362,731	375,622
Construction in progress	12	5,383	412
Intangible assets	13	208,093	1,160
Lease prepayments	14	59,161	60,470
Interest in associates	16	240,949	—
Interest in a joint venture	17	—	—
Deferred tax assets	29(b)	11,615	11,383
Other non-current assets	18	35,723	—
Total non-current assets		923,655	449,047
Current assets			
Inventories	19	117,592	55,082
Trade and other receivables	20	251,874	177,672
Available-for-sale financial assets	21	—	80,000
Restricted cash	22	255,000	15,803
Cash and cash equivalents	22	651,050	187,840
Total current assets		1,275,516	516,397
Current liabilities			
Secured bank loans	24	472,873	—
Trade and other payables	25	117,801	136,577
Current portion of preferred shares	26	11,538	10,683
Income tax payable	29(a)	21,888	13,394
Total current liabilities		624,100	160,654
Net current assets		651,416	355,743
Total assets less current liabilities		1,575,071	804,790

	Note	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Preferred shares	26	39,933	42,946
Convertible bonds	27	326,938	—
Deferred income	30	16,243	9,337
Total non-current liabilities		383,114	52,283
NET ASSETS		1,191,957	752,507
CAPITAL AND RESERVES			
Share capital	31(c)	3,117	2,969
Reserves	31(d)	1,188,787	749,487
Total equity attributable to equity shareholders of the Company		1,191,904	752,456
Non-controlling interests		53	51
TOTAL EQUITY		1,191,957	752,507

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

		Attributable to equity shareholders of the Company								
		Share capital	**Share premium**	**Statutory reserve**	**Exchange reserve**	**Other reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			31(d)(i)	*31(d)(ii)*	*31(d)(iii)*	*31(d)(iv)*				
Balance at 1 January 2014		2,961	92,220	44,447	(3,914)	78,677	349,895	564,286	59	564,345
Changes in equity for 2014:										
Profit for the year		—	—	—	—	—	162,067	162,067	(1)	162,066
Other comprehensive income		—	—	—	600	—	—	600	(7)	593
Total comprehensive income for the year		—	—	—	600	—	162,067	162,667	(8)	162,659
Equity settled share-based transactions		—	—	—	—	26,549	—	26,549	—	26,549
Appropriation to statutory reserve		—	—	16,745	—	—	(16,745)	—	—	—
Shares issued on the exercise of share options granted under share option scheme		8	5,088	—	—	(1,182)	—	3,914	—	3,914
Dividends for the year ended 31 December 2013	31(b)	—	—	—	—	—	(4,960)	(4,960)	—	(4,960)
		8	5,088	16,745	—	25,367	(21,705)	25,503	—	25,503
Balance at 31 December 2014		2,969	97,308	61,192	(3,314)	104,044	490,257	752,456	51	752,507

		Attributable to equity shareholders of the Company								
		Share capital	Share premium	Statutory reserve	Exchange reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			31(d)(i)	*31(d)(ii)*	*31(d)(iii)*	*31(d)(iv)*				
Balance at 1 January 2015		2,969	97,308	61,192	(3,314)	104,044	490,257	752,456	51	752,507
Changes in equity for 2015:										
Profit for the year		—	—	—	—	—	190,393	190,393	2	190,395
Other comprehensive income		—	—	—	5,818	—	—	5,818	—	5,818
Total comprehensive income for the year		—	—	—	5,818	—	190,393	196,211	2	196,213
Equity settled share-based transactions		—	—	—	—	26,538	—	26,538	—	26,538
Appropriation to statutory reserve		—	—	20,941	—	—	(20,941)	—	—	—
Shares issued on the exercise of share options granted under share option scheme		17	9,581	—	—	(2,226)	—	7,372	—	7,372
Equity component of convertible bonds		—	—	—	—	59,627	—	59,627	—	59,627
Issuance of new shares		131	156,147	—	—	—	—	156,278	—	156,278
Dividends for the year ended 31 December 2014	31(b)	—	—	—	—	—	(6,578)	(6,578)	—	(6,578)
		148	165,728	20,941	—	83,939	(27,519)	243,237	—	243,237
Balance at 31 December 2015		3,117	263,036	82,133	2,504	187,983	653,131	1,191,904	53	1,191,957

Consolidated Cash Flow Statement
for the year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
Operating activities			
Cash generated from operations	22(b)	193,245	180,991
PRC income tax paid		(39,268)	(44,366)
Interest received on cash at bank		5,184	848
Net cash generated from operating activities		159,161	137,473
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress and intangible assets		(266,974)	(118,449)
Government grants received		7,750	4,550
Payments for acquisition of interest in associates		(230,083)	—
(Increase) /decrease in restricted cash		(239,197)	20,197
Net disposal of available-for-sale financial assets		80,000	17,000
Investment income received from available-for-sale financial assets		2,494	5,280
Deposits made in relation to certain proposed acquisitions		(35,723)	—
Net cash used in investing activities		(681,733)	(71,422)
Financing activities			
Proceeds from exercise of share options		7,372	3,914
Proceeds from issuance of convertible bonds, net of issuing expenses		379,817	—
Proceeds from issuance of new shares, net of issuing expenses		156,278	—
Proceeds from bank loans		454,362	—
Repayment of bank loans		—	(36,000)
Interests paid on bank loans		(5,304)	(735)
Dividends paid on preferred shares		(10,683)	(9,892)
Dividends paid to equity shareholders of the Company		(6,578)	(4,960)
Net cash generated from/(used in) financing activities		975,264	(47,673)
Net increase in cash and cash equivalents		452,692	18,378
Cash and cash equivalents at 1 January		187,840	169,429
Effect of foreign exchange rate changes		10,518	33
Cash and cash equivalents at 31 December	22(a)	651,050	187,840

Notes to the Financial Statements

1 CORPORATE INFORMATION

Bloomage BioTechnology Corporation Limited (the "Company", and together with its subsidiaries, the "Group") was incorporated in the Cayman Islands on 3 April 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 October 2008. The Group is principally engaging in the manufacture and sale of bio-chemical products (including hyaluronic acid ("HA") raw materials and end products) through its principal subsidiaries established in the People's Republic of China (the "PRC"), Bloomage Freda Biopharmaceutical Co., Ltd. ("Bloomage Biopharm"), Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc") and Shandong Bloomage Hyinc Biopharm Company Limited ("Shandong Bloomage Hyinc"), and investment holding in associates and a joint venture engaging in design, development, manufacturing and sales of cosmetic products.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Group and the Group's interest in associates and a joint venture.

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis except that the following assets are stated at their fair values as explained in the accounting policies set out below:

— available-for-sale financial assets (see Note 2(f)).

The preparation of these consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on these consolidated financial statements and major sources of estimation uncertainty are discussed in Note 3.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company's principal subsidiaries operating in the PRC. The Company's functional currency is Hong Kong dollar ("HKD").

(c) **Changes in accounting policies**

The IASB has issued the following amendments to IFRSs that are relevant to the Group and first effective for the current accounting period of the Group:

- *Annual Improvements to IFRSs 2010-2012 Cycle*
- *Annual Improvements to IFRSs 2011-2013 Cycle*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are discussed below:

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, *Related party disclosures* has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

(d) **Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(j)).

(e) **Associates and joint ventures**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and the joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see Note 2(j)).

(f) **Available-for-sale financial assets**

The investments in securities, other than investments in subsidiaries, which do not fall into any other categories are classified as available-for-sale financial assets. These investments are initially stated at fair value, which is their transaction price. Cost includes attributable transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Investment income from these investments is recognised in profit or loss in accordance with the policy set out in Note 2(v)(v). When these investments are derecognised or impaired (see Note 2(j)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) **Property, plant and equipment and construction in progress**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the statement of financial position at cost less impairment losses (see Note 2(j)). Cost comprises the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(x)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	5-10 years
Motor vehicles	5 years
Office equipment and others	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) **Intangible assets**

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Technology know-how	10-20 years
Software	2-10 years
Exclusive distribution right	10 years

Both the period and method of amortisation are reviewed annually.

(i) **Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) ***Classification of assets leased to the Group***

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) ***Assets acquired under finance leases***

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) ***Operating lease charges***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments (see Note 14) represent cost of land use rights paid to the government authority. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 2(j)). Amortisation is charged to profit or loss on a straight-line basis over the lease period of land use rights.

(j) **Impairment of assets**

(i) ***Impairment of investments in securities and trade and other receivables***

Investments in securities and trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see Note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(j)(ii).

For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity assets are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) ***Impairment of other assets***

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— intangible assets;

— lease prepayments; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell (if measurable), or value in use (if determinable).

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) ***Interim financial reporting and impairment***

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(j)(i) and (ii)).

(k) **Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) **Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interests method, less allowance for impairment of doubtful debts (see Note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) **Convertible bonds**

Convertible bonds that can be converted into equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserve until either the bond is converted or redeemed.

If the bond is converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the other reserve is released directly to retained earnings.

(n) **Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) **Preference share capital**

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the holder of the preferred shares, or if dividend payments are not discretionary. The liability is recognised in accordance with the Group's policy for interest-bearing borrowings set out in Note 2(n) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

(p) **Trade and other payables**

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) **Warrants**

The issue of warrants will be settled by the exchange of fixed amount of cash for a fixed number of the Company's own equity instruments.

The fair value of warrants on the date of issue is recognised in warrant reserve, or other reserve when this is related to share-based payments to directors and employees (see Note 2(s)(ii)). The warrant reserve will be transferred to share capital and share premium upon exercise of the warrants, where the warrants remain unexercised at the expiry date, the amount previously recognised in warrant reserve will be released to the retained earnings.

(r) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) **Employee benefits**

(i) ***Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC and Hong Kong are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) ***Share-based payments***

The fair value of shares, share options (including those settled by the controlling shareholder) and warrants (net of net proceeds received from the issues of shares, share options and warrants) granted to directors and employees is recognised as an employee cost with a corresponding increase in other reserve within equity. The fair value of shares is measured at grant date market price taking into account the effect of the restriction, if any, on transferring. The fair value of share options and warrants is measured at grant date using Dividend Adjusted Black-Scholes Options Pricing model, taking into account the terms and conditions upon which the options and warrants were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares, options and warrants, the total estimated fair value of the shares, options and warrants is spread over the vesting period, taking into account the probability that the shares, options and warrants will vest.

During the vesting period, the number of shares, share options (including those settled by the controlling shareholder) and warrants that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review with a corresponding adjustment to other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of shares, options and warrants that vest (with a corresponding adjustment to other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in other reserve until either the options and warrants are exercised and shares are issued (when it is transferred to the share premium account) or the options and warrants expire (when it is released directly to retained earnings).

(iii) ***Termination benefits***

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(t) **Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exception, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) ***Sales of goods***

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) ***Government grants***

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(iii) ***Rental income from operating lease***

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) ***Interest income***

Interest income is recognised as it accrues using the effective interest method.

(v) ***Investment income on available-for-sale financial assets***

Investment income on available-for-sale financial assets is recognised when the holder's right to receive payment is established.

(w) **Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) **Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third entity.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these consolidated financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing these consolidated financial statements. The significant accounting policies are set forth in Note 2. Note 28 contains information about the assumptions and their risk factors relating to fair value of shares, share options and warrants granted to the directors and employees. In addition, the Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

(a) Impairment for non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36, *Impairment of assets*. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less cost to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(b) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) **Depreciation**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into the account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) **Withholding tax**

Withholding tax is recognised on profits of Bloomage Biopharm and other PRC established subsidiaries which are to be distributed to their overseas holding companies in the foreseeable future. Note 29(c) contains information on the unrecognised deferred tax liabilities relating to the undistributed profits of the PRC established subsidiaries as the Company controls the dividend policy of the PRC established subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future. Any significant change in the dividend policy of the PRC established subsidiaries would result in adjustment in the amount of withholding tax charged to profit or loss for the period and deferred tax liabilities recognised as at the end of the reporting period.

(e) **Impairment of interest in the associates**

In determining whether an interest in the associates is impaired or the event previously causing impairment no longer exists, the Group has to exercise judgement in the area of impairment of assets relevant to the associates (the "Relevant Assets") and others, particularly in assessing: (1) whether an event has occurred that may affect the value of Relevant Assets or such event affecting the value of Relevant Assets have not been in existence; (2) whether the carrying value of Relevant Assets can be supported by the net present value of future cash flows which are estimated based upon the continued use of the Relevant Assets or de-recognition; (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate and (4) dividend policy of the associates.

4 REVENUE AND SEGMENT REPORTING

(a) **Revenue**

The principal activities of the Group are the production and sale of bio-chemical products.

Revenue represents the sales value of goods sold, net of value-added tax.

	2015	2014
	RMB'000	*RMB'000*
HA raw materials	396,932	320,286
HA end products	243,360	160,012
Others	10,576	1,003
	650,868	481,301

The Group's customer base is diversified and includes no customer (2014: no customer) with whom transactions have exceeded 10% of the Group's revenues. Details of concentrations of credit risk arising from the largest customer and the five largest customers are set out in Note 32(a).

(b) **Segment reporting**

In accordance with IFRS 8, segment information disclosed in the financial statements was prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments.

The Group has presented two reportable segments for the year ended 31 December 2015, namely domestic customers and overseas customers, for which business are mainly derived from the production and sale of bio-chemical products.

In presenting information on the reportable segments, segment revenue is based on the geographical location of customers. The measure used for reporting segment profit is "gross profit", after deducting transportation expenses incurred.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2015 and the reconciliation of reportable segment revenues and profit or loss are set out below.

	Year ended 31 December 2015				
	Domestic	Overseas			Total
		Asia	Americas	Others	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
HA raw materials and others	288,767	41,749	48,905	28,087	407,508
HA end products	239,223	3,826	75	236	243,360
Revenue	527,990	45,575	48,980	28,323	650,868
Segment results	410,237	25,896	26,481	18,568	481,182
Unallocated income and expenses					(226,555)
Profit from operations					254,627
Finance costs					(16,727)
Share of profits less losses of associates					91
Share of loss of a joint venture					(66)
Income tax					(47,530)
Profit for the year					190,395

	Year ended 31 December 2014				
	Domestic	Overseas			Total
		Asia	Americas	Others	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
HA raw materials and others	235,931	28,467	37,410	19,481	321,289
HA end products	158,613	279	236	884	160,012
Revenue	394,544	28,746	37,646	20,365	481,301
Segment results	322,410	16,909	20,279	13,168	372,766
Unallocated income and expenses					(165,028)
Profit from operations					207,738
Finance costs					(9,617)
Income tax					(36,055)
Profit for the year					162,066

The following table sets out information about the geographical location of the Group's property, plant and equipment, construction in progress, lease prepayments, intangible assets, interest in associates, interest in a joint venture and other non-current assets ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, lease prepayments and construction in progress, the location of the operation to which they are allocated, in the case of intangible assets and other non-current assets, and the location of operations, in the case of interest in associates and interest in a joint venture.

	2015	**2014**
	RMB'000	*RMB'000*
China (including Hong Kong)	670,883	437,664
United States	208	—
France	222,201	—
Israel	18,748	—
Total	912,040	437,664

5 OTHER REVENUE

		2015	**2014**
	Note	*RMB'000*	*RMB'000*
Government grants	(a)	4,447	3,992
Interest income on cash at bank		5,184	848
Investment income on available-for-sale financial assets		2,494	5,280
Rental income		2,141	2,331
Others		1,533	528
		15,799	12,979

(a) **Government grants**

The grants represent incentives and awards of RMB4,447,000 which are mainly in relation to the Group's technical achievement on the research and development of HA products and its expansion of business to overseas markets during the year ended 31 December 2015 (2014: incentives and awards of RMB3,992,000 mainly in relation to the Group's technical achievement on the research and development of HA products).

There are no unfulfilled conditions and other contingencies attached to the receipt of these government grants. There is no assurance that the Group will receive government grants in the future in respect of any of the Group's research and development and other activities.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2015	2014
	RMB'000	*RMB'000*
Interest on bank loans	5,304	735
Dividends on preferred shares (Note 26)	8,525	8,882
Interest on convertible bonds (Note 27)	2,898	—
	16,727	9,617

(b) Staff costs

	2015	2014
	RMB'000	*RMB'000*
Salaries, wages and other benefits	99,464	66,468
Contributions to defined contribution retirement plan	6,875	5,619
Equity-settled share-based payment expenses		
— share option scheme (Note 28(i))	6,972	15,907
— group share-based payment transaction settled by the controlling shareholder (Note 28(iii))	17,990	10,642
— shares granted to employees at discount (Note 28(iv))	1,576	—
	132,877	98,636

Pursuant to the relevant labour rules and regulations in the PRC, the subsidiaries of the Group established in the PRC (the "PRC subsidiaries") participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby the PRC subsidiaries are required to make contributions to the Schemes at 18%~20% (2014: 19%~20%) of the eligible employees' salaries during the year. The local government authorities are responsible for the entire retirement plan obligation payable to retired employees.

The employees of the Company who are stationed in Hong Kong participates in the Mandatory Provident Fund Scheme ("MPF Scheme"), whereby the Company is required to contribute to the MPF Scheme at 5% of the employee's basic salaries.

For those forfeited contributions under the Schemes and MPF Scheme, the amounts could not be used by the Group to reduce the existing level of contributions.

The Group has no other obligation for the payment of pension benefits beyond the contributions described above.

(c) **Other items**

	Note	**2015** RMB'000	**2014** RMB'000
Amortisation			
— intangible assets		9,905	220
— lease prepayments		1,309	1,309
Auditors' remuneration		1,770	1,327
Depreciation		30,340	13,891
Net foreign exchange (gain)/loss		(1,455)	580
Net loss on disposal of property, plant and equipment		8	3
Provision for impairment loss on trade receivables		732	—
Operating lease charges in respect of leased property, plant and equipment		6,407	7,060
Cost of inventories	(i)	163,629	105,904
Research and development costs	(ii)	29,803	15,655

(i) Cost of inventories for the year ended 31 December 2015 included RMB53,388,000 (2014: RMB27,973,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately in Note 6(b) or above for each of these types of expenses.

(ii) Research and development costs for the year ended 31 December 2015 included RMB12,319,000 (2014: RMB8,023,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately in Note 6(b) or above for each of these types of expenses.

7 INCOME TAX

(a) **Taxation in the consolidated statement of profit or loss and other comprehensive income represents:**

	2015	2014
	RMB'000	*RMB'000*
Current tax - PRC income tax		
Provision for the year (Note 29(a))	47,974	39,226
(Over)/under-provision in respect of prior year (Note 29(a))	(212)	512
Deferred tax		
Origination and reversal of temporary differences (Note 29(b))	(232)	(3,683)
	47,530	36,055

(b) **Reconciliation between actual tax expense and accounting profit at applicable tax rates:**

		2015	2014
	Note	*RMB'000*	*RMB'000*
Profit before taxation		237,925	198,121
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	(i) and (v)	72,848	55,121
Tax effect of tax concession	(ii)	(29,639)	(24,501)
Tax effect of non-deductible expenses	(iii)	4,605	3,373
Tax effect of unused tax losses not recognized (Note 29(d))		1,092	1,686
Utilisation of previous years' unrecognised tax losses		(1,164)	(136)
(Over)/under-provision in respect of prior year		(212)	512
Income tax		47,530	36,055

(i) Provision for PRC income tax is based on a statutory rate of 25% of the assessable profit of the PRC subsidiaries.

(ii) Pursuant to the notice [Lu Ke Han Zi (2014) No.136] issued by Department of Science & Technology of Shandong Province, Finance Bureau of Shandong Province, National Taxation Bureau of Shandong Province and Local Taxation Bureau of Shandong Province on 31 October 2014, Bloomage Biopharm has satisfied certain conditions in the income tax law and was granted the qualification of advanced and new technology enterprise. Bloomage Biopharm was therefore entitled to a concession on PRC income tax of 10% for the three years from 1 January 2014 to 31 December 2016. As a result, the applicable PRC income tax rate of Bloomage Biopharm for 2015 is 15% (2014: 15%).

Pursuant to the notice [Jing Ke Fa (2015) No.548] issued by Department of Science & Technology of Beijing, Finance Bureau of Beijing, National Taxation Bureau of Beijing and Local Taxation Bureau of Beijing on 24 November 2015, Beijing Bloomage Hyinc has satisfied certain conditions in the income tax law and was granted the qualification of advanced and new technology enterprise. Beijing Bloomage Hyinc was therefore entitled to a concession on PRC income tax of 10% for the three years from 1 January 2015 to 31 December 2017. As a result, the applicable PRC income tax rate of Beijing Bloomage Hyinc for 2015 is 15% (2014: 25%).

(iii) The non-deductible expenses primarily represent dividends on the preferred shares and entertainment expenses in excess of allowable limit.

(iv) Pursuant to the PRC income tax law, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business in the PRC, are subject to PRC income tax at the rate of 10% on various types of passive income including dividends derived from sources in the PRC ("withholding tax").

Under the Sino-Hong Kong Double Tax Arrangement and the relevant regulations, a Hong Kong company will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong company is the "beneficial owner" and holds 25% of equity interests or more of the Chinese company directly.

As the Company controls the dividend policy of the PRC subsidiaries and it has been determined that no profits of the PRC subsidiaries will be distributed in the foreseeable future, no tax expenses have been recognised during the year ended 31 December 2015 in respect of the withholding tax that would be payable on the distribution of the distributable profits of PRC subsidiaries.

(v) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year ended 31 December 2015.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance, and part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2015						
	Fees	**Basic salaries, allowances and other benefits in kind**	**Discretionary bonuses**	**Contributions to retirement benefit schemes**	**Subtotal**	**Equity-settled share-based payments (note)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman							
Zhao Yan	122	—	—	—	122	—	122
Executive directors							
Jin Xuekun	499	3,788	—	59	4,346	23,966	28,312
Liu Aihua	163	412	—	9	584	—	584
Wang Aihua	163	402	—	44	609	39	648
Non-executive directors							
Guo Jiajun (resigned on 18 January 2016)	81	—	—	—	81	—	81
Yau Waiyan (appointed on 18 January 2016)	—	717	60	15	792	39	831
Independent non-executive directors							
Zhan Lili	122	—	—	—	122	—	122
Li Junhong	122	—	—	—	122	—	122
Hai Wen (resigned on 18 January 2016)	—	—	—	—	—	—	—
Xue Zhaofeng (appointed on 18 January 2016)	—	—	—	—	—	—	—
	1,272	5,319	60	127	6,778	24,044	30,822

	2014						
	Fees	**Basic salaries, allowances and other benefits in kind**	**Discretionary bonuses**	**Contributions to retirement benefit schemes**	**Subtotal**	**Equity-settled share-based payments (note)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman							
Zhao Yan	118	—	—	—	118	—	118
Executive directors							
Jin Xuekun	480	3,620	180	40	4,320	19,970	24,290
Liu Aihua	158	396	355	23	932	600	1,532
Wang Aihua	158	334	104	21	617	186	803
Non-executive directors							
Guo Jiajun	79	—	—	—	79	192	271
Independent non-executive directors							
Qin Bin (resigned on 28 February 2014)	11	—	—	—	11	—	11
Zhan Lili	109	—	—	—	109	—	109
Zhang Fuping (resigned on 28 February 2014)	11	—	—	—	11	—	11
Li Junhong (appointed on 28 February 2014)	99	—	—	—	99	—	99
Hai Wen (appointed on 28 February 2014)	132	—	—	—	132	—	132
	1,355	4,350	639	84	6,428	20,948	27,376

Note:

These represent the estimated value of shares, share options and warrants granted to the directors. The value of these shares, share options and warrants granted to directors is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(s)(ii).

The details of these benefits in kind, including the principal terms and number of shares, options and warrants granted, are disclosed in Note 28.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, one of them (2014: two) is director of the Company whose emoluments is disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2014: three) individuals of the Group are as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	4,190	2,053
Bonus	100	753
Contributions to retirement benefit schemes	129	81
Equity settled share-based transaction expenses	307	1,261
	4,726	4,148

The emoluments of the four (2014: three) individuals with the highest emoluments are within the following bands:

	2015	**2014**
HKD1,000,001 ~ HKD1,500,000	2	—
HKD1,500,001 ~ HKD2,000,000	2	2
HKD2,000,001 ~ HKD2,500,000	—	1

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the year ended 31 December 2015 of RMB190,393,000 (2014: RMB162,067,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2015 of 336,907,000 shares (2014: 332,172,000 ordinary shares), calculated as follows:

(i) ***Weighted average number of ordinary shares (basic)***

	2015	**2014**
	'000	*'000*
Issued ordinary shares at 1 January	333,124	332,000
Effect of issuance of new shares	1,814	—
Effect of shares granted to employees at discount (Note 28(iv))	1,460	—
Effect of exercise of share options granted under share option scheme	509	172
Weighted average number of ordinary shares (basic) at 31 December	336,907	332,172

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB190,393,000 (2014: RMB162,067,000) and the weighted average number of ordinary shares of 344,437,000 shares (2014: 342,511,000 ordinary shares), calculated as follows:

(i) ***Weighted average number of ordinary shares (diluted)***

	2015	**2014**
	'000	*'000*
Weighted average number of ordinary shares at 31 December	336,907	332,172
Effect of deemed issue of shares under the Company's share option scheme and for warrants granted to a director for nil consideration (Note 28)	7,530	10,339
Weighted average number of ordinary shares (diluted) at 31 December	344,437	342,511

Note: The conversion of convertible bonds has anti-dilution effect to the basic earnings per share.

11 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 2014	79,859	90,436	3,737	6,652	180,684
Additions	—	51	138	3,106	3,295
Transferred from construction in progress (Note 12)	206,016	86,396	—	5,030	297,442
Deduction of government grants received	(30,800)	—	—	—	(30,800)
Disposal	—	(40)	—	—	(40)
At 31 December 2014	255,075	176,843	3,875	14,788	450,581
At 1 January 2015	255,075	176,843	3,875	14,788	450,581
Additions	—	204	231	7,838	8,273
Transferred from construction in progress (Note 12)	—	9,175	—	9	9,184
Disposal	—	(9)	—	—	(9)
At 31 December 2015	255,075	186,213	4,106	22,635	468,029
Accumulated depreciation:					
At 1 January 2014	21,139	34,856	1,752	3,358	61,105
Charge for the year	3,580	7,934	554	1,823	13,891
Written back on disposal	—	(37)	—	—	(37)
At 31 December 2014	24,719	42,753	2,306	5,181	74,959
At 1 January 2015	24,719	42,753	2,306	5,181	74,959
Charge for the year	11,307	15,531	514	2,988	30,340
Written back on disposal	—	(1)	—	—	(1)
At 31 December 2015	36,026	58,283	2,820	8,169	105,298
Net book value:					
At 31 December 2014	230,356	134,090	1,569	9,607	375,622
At 31 December 2015	219,049	127,930	1,286	14,466	362,731

The Group's property, plant and equipment are mainly located in the PRC. As at 31 December 2015, property certificates of certain properties of the Group with an aggregate net book value of RMB19,600,000 (31 December 2014: RMB181,387,000) are yet to be obtained. Management expects that the related certificates will be obtained within one year.

As at 31 December 2015, property, plant and equipment of the Group of RMB200,270,000 (31 December 2014: RMB nil) have been pledged as collateral for the issuance of letters of guarantee by a PRC bank (see Note 24).

(a) **Buildings and plant leased out under operating leases**

The Group leases out part of the buildings and plant to certain related parties (see Note 34(a)) under operating leases. The leases run for a period of one year. None of the leases includes contingent rentals. The Directors consider that these leases are temporary and the Group has the plan to occupy the leased portion of the buildings and plant as factories for the production of HA products or as administrative offices in the short run. Accordingly, the leased portion of the buildings and plant has been accounted for as property, plant and equipment in the consolidated financial statements.

12 CONSTRUCTION IN PROGRESS

	2015	**2014**
	RMB'000	*RMB'000*
At 1 January	412	146,197
Additions	14,155	151,657
Transferred to property, plant and equipment (Note 11)	(9,184)	(297,442)
At 31 December	5,383	412

13 INTANGIBLE ASSETS

	2015	2014
	RMB'000	*RMB'000*
Cost:		
At 1 January	2,046	1,733
Additions	204,592	313
Exchange adjustments	12,533	—
At 31 December	219,171	2,046
Accumulated amortisation:		
At 1 January	886	666
Charge for the year	9,905	220
Exchange adjustments	287	—
At 31 December	11,078	886
Net book value:		
At 31 December	208,093	1,160

Intangible assets mainly represent the exclusive distribution right acquired for the distribution of Laboratoires Vivacy SAS ("Vivacy")'s products in certain countries in the Asia-Pacific region (see Note 16).

14 LEASE PREPAYMENTS

	2015	2014
	RMB'000	*RMB'000*
Cost:		
At 1 January and 31 December	65,443	65,443
Accumulated amortisation:		
At 1 January	4,973	3,664
Charge for the year	1,309	1,309
At 31 December	6,282	4,973
Net book value:		
At 31 December	59,161	60,470

Lease prepayments represent cost of land use rights in the PRC and are amortised on a straight-line basis over the lease period of 50 years.

As at 31 December 2015, lease prepayments of the Group of RMB59,161,000 (31 December 2014: RMB nil) have been pledged as collateral for the issuance of letters of guarantee by a PRC bank (see Note 24).

15 INVESTMENTS IN SUBSIDIARIES

Details of the subsidiaries at 31 December 2015 are set out below:

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid-up capital	Effective percentage of equity attributable to the Company Direct	Indirect	Principal activities
Valuerank Holdings Limited ("Valuerank")	British Virgin Islands ("BVI")	United States Dollars ("USD")[1]	100%	—	Investment holding
Farstar Enterprises Limited ("Farstar")	BVI	USD100	100%	—	Investment holding
Tactful World Limited ("Tactful")	Hong Kong	1 share	—	100%	Investment holding
Fumax Investment Limited	Hong Kong	1 share	—	100%	Investment holding
Bloomage Biopharm (Note i)	PRC	RMB88,800,000	—	100%	Production and sale of bio-chemical products
Plumoon Company Limited	Japan	Japanese Yen ("JPY") 12,000,000	—	91%	Sales of bio-chemical products
Beijing Bloomage Hyinc*	PRC	RMB20,000,000	—	100%	Sales of bio-chemical products and medical instrument
Shandong Bloomage Hyinc*	PRC	RMB200,000,000	—	100%	Production and development of bio-chemical products

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid-up capital	Effective percentage of equity attributable to the Company Direct	Indirect	Principal activities
Bloomage Freda Biopharm USA Inc.	United States	USD2,000	—	100%	Development, distribution and sales of bio-chemical products and medical instruments
Beijing Bloomage Hengmei Shang Mao Co., Ltd.**	PRC	RMB1,000,000	—	100%	Sales of beauty products
Bloomage Empery Beauty Holdings Limited ("Empery Beauty (BVI)")	BVI	USD1	100%	—	Investment holding
Bloomage Empery Beauty Investment Limited ("Empery Beauty (HK)")	Hong Kong	1 share	—	100%	Investment holding
Pando Group Limited ("Pando")	BVI	USD10,000	—	80%	Investment holding
Bloomage Meso Holdings Limited ("Meso (BVI)")	BVI	USD1	100%	—	Investment holding
Bloomage Meso Investment Limited ("Meso (HK)")	Hong Kong	1 share	—	100%	Investment holding
Bloomage Meso Holdings S.A. ("Meso Holdings")	Luxembourg	EUR31,000	—	100%	Investment holding

* Wholly foreign owned enterprises established under the PRC law.

** Limited liability company established under the PRC law.

Note i: Bloomage Biopharm was established on 3 January 2000 as a Sino-foreign equity joint venture company. Pursuant to a board resolution dated 30 May 2004, Bloomage Biopharm underwent a restructuring and transformed to a Sino-foreign co-operative joint venture company (the "Transformation"). The Transformation was approved by the Government of Shandong Province on 4 September 2004 and revised business licence was obtained by Bloomage Biopharm on 8 October 2004. In connection with the Transformation, the Group acquired the rights to the 25% equity interest in Bloomage Biopharm from its joint venture partner by issuing a financial instrument that was presented as a liability in the consolidated financial statements (see Note 26), and accordingly, the Group effectively held 100% equity interest in Bloomage Biopharm.

16 INTEREST IN ASSOCIATES

	2015	2014
	RMB'000	*RMB'000*
Interest in a material associate	222,201	—
Interest in immaterial associates	18,748	—
	240,949	—

(a) Interest in a material associate

The following list contains only the particulars of a material associate whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
V Plus S.A.	Incorporated	Luxembourg	1,560,000 ordinary shares of Euro 1 each	37.32%	—	37.32%	Design, development, manufacturing and sales of medical aesthetics devices

On 15 July 2015, the Group acquired 37.32% of the issued shares of V Plus S.A., an investment holding company with no substantial business activities other than its shareholding of its controlling subsidiary Vivacy which is principally engaged in the design, development, manufacturing and sales of medical aesthetics devices including dermal fillers and cosmetics. In conjunction with the acquisition of the equity interest in V Plus S.A., the Group acquired exclusive distribution right for the distribution of Vivacy's products in certain countries in the Asia-Pacific region. The total of consideration paid and transaction costs incurred by the Group is approximately Euro 61 million, among which approximately Euro 31 million was costs of acquisition for the interest in this associate and approximately Euro 30 million was the costs for the exclusive distribution right (see Note 13) based on an independent valuation report.

This material associate is accounted for using the equity method of accounting in the consolidated financial statements.

Summarised financial information of this material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2015
	RMB'000
Gross amounts of this material associate	
Current assets	122,619
Non-current assets	330,121
Current liabilities	(35,639)
Non-current liabilities	(47,868)
Equity attributable to the shareholders of V Plus S.A.	330,550
Equity attributable to non-controlling interests	38,683
Revenue	83,234
Profit from continuing operations	7,416
Attributable to the shareholders of V Plus S.A.	6,638
Attributable to non-controlling interests	778
Post-tax profit or loss from discontinued operations	—
Other comprehensive income	17,545
Attributable to the shareholders of V Plus S.A.	15,705
Attributable to non-controlling interests	1,840
Total comprehensive income	24,961
Attributable to the shareholders of V Plus S.A.	22,343
Attributable to non-controlling interests	2,618
Dividend received from the associate	—
Reconciled to the Group's interest in this material associate	
Gross amounts of equity attributable to the shareholders of V Plus S.A.	330,500
The Group's effective interest (%)	37.32%
The Group's share of equity attributable to the shareholders of V Plus S.A.	123,343
Goodwill	100,532
Elimination of unrealised profit on V Plus S.A. group's sales to the Group	(1,674)
Carrying amount in the consolidated financial statements	222,201

(b) **Interest in immaterial associates**

Aggregate information of associates that are not individually material:

	2015
	RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	18,748
Aggregate amounts of the Group's share of those associates	
Loss from continuing operations	(713)
Post-tax profit or loss from discontinued operations	—
Other comprehensive income	(20)
Total comprehensive income	(733)

17 INTEREST IN A JOINT VENTURE

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

			Proportion of ownership interest			
Name of joint venture	**Form of business structure**	**Place of incorporation and business**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Medybloom China Limited ("Medybloom")	Incorporated	Hong Kong	50%	—	50%	Registration, promotion and sales of medical beauty products

Medybloom, a joint venture of the Group established in 2015, is an unlisted corporate entity whose quoted market price is not available. As at 31 December 2015, the joint venture did not have any material assets or liabilities.

18 OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent deposits made by the Group in relation to the proposed acquisitions ("Proposed Acquisitions") of equity interests in relevant target companies which are independent third parties. These deposits will be used to set off against the purchase considerations at the completion of the Proposed Acquisitions. As at 31 December 2015, the Group has been in the negotiation with these independent third parties for finalization of the terms of the sale and purchase agreements of the Proposed Acquisitions. The directors of the Company are of the opinion that the Group can fully recover these deposits.

19 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2015	2014
	RMB'000	*RMB'000*
HA products:		
Raw materials and consumables	17,583	12,250
Work in progress	11,389	8,514
Finished goods	70,996	34,318
Cosmetic equipment for trading	17,624	—
	117,592	55,082

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2015	2014
	RMB'000	*RMB'000*
Carrying amount of inventories sold	163,629	105,904

20 TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables from:		
— Third parties	147,964	85,525
— Related parties	948	140
	148,912	85,665
Less: allowance for doubtful debts	(732)	—
	148,180	85,665
Bills receivable	63,598	72,597
Prepayments and other receivables from:		
— Third parties	37,843	17,087
— Related parties	2,253	2,323
	251,874	177,672

All of the trade receivables and bills receivable of the Group are expected to be recovered within one year.

(i) **Ageing analysis**

As of the end of the reporting period, the ageing analysis of trade receivables and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follow:

	2015	**2014**
	RMB'000	*RMB'000*
Within 3 months	190,131	137,736
3 to 6 months	9,294	10,880
6 to 9 months	7,957	8,463
9 to 12 months	195	1,183
Over 1 year	4,201	—
	211,778	158,262

(ii) **Impairment of trade receivables and bills receivable**

The movement in the allowance for doubtful debts during the year is as follows:

	2015	**2014**
	RMB'000	*RMB'000*
At 1 January	—	—
Impairment loss recognised	732	—
At 31 December	732	—

At 31 December 2015, the Group's trade receivables of RMB732,000 (31 December 2014: RMB nil) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed these receivables were not expected to be recovered. Consequently, specific allowances for doubtful debts of RMB732,000 (31 December 2014: RMB nil) were recognised.

(iii) **Trade receivables and bills receivable that are not impaired**

The analysis of trade receivables and bills receivable, based on the current and overdue status, that are neither individually nor collectively considered to be impaired are as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Current	180,634	140,562
1 to 3 months overdue	20,699	8,054
3 to 6 months overdue	7,676	8,463
6 months to 1 year overdue	2,203	1,183
More than 1 year overdue	566	—
	211,778	158,262

The credit term for trade receivables is generally 30 to 90 days. Bills receivable are generally due within 180 days from the date of billing. Further details on the Group's credit policy are set out in Note 32(a).

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Group believes that no impairment allowance is necessary as there has not been any significant change in credit quality and these receivables were considered fully recoverable. The Group has not held any collateral over these balances.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2014, the available-for-sale financial assets represented the Group's investment in principal-guaranteed banking products which had maturity periods less than 3 months or could be redeemed on demand. These banking products invested in bonds traded in the PRC. As at 31 December 2015, the Group has no available-for-sale financial assets.

22 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) Cash and cash equivalents comprise:

	2015	2014
	RMB'000	*RMB'000*
Cash at bank and in hand	906,050	203,643
Less: restricted cash (i)	255,000	15,803
Cash and cash equivalents	651,050	187,840

(i) At 31 December 2015, restricted cash represents time deposits placed with a PRC bank for issuance of letters of guarantee (see Note 24). At 31 December 2014, restricted cash represented time deposits placed with a bank for issuance of banker's acceptance bills.

All the Group's cash and cash equivalents were placed with banks in the PRC, Hong Kong, Japan and United States. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations:

	2015	2014
	RMB'000	*RMB'000*
Profit before taxation	237,925	198,121
Adjustments for:		
Amortisation of intangible assets	9,905	220
Amortisation of lease prepayments	1,309	1,309
Depreciation	30,340	13,891
Dividends on preferred shares	8,525	8,882
Equity settled share-based payment expenses (Note 28)	26,538	26,549
Interest income on cash at bank	(5,184)	(848)
Investment income received from available-for-sale financial assets	(2,494)	(5,280)
Share of profits less losses of associates	(91)	—
Share of loss of a joint venture	66	—
Net loss on disposal of property, plant and equipment	8	3
Interests on bank loans	5,304	735
Interests on convertible bonds	2,898	—
Changes in working capital:		
Increase in inventories	(62,510)	(12,564)
Increase in trade and other receivables	(81,642)	(88,798)
Increase in trade and other payables	22,348	38,771
Cash generated from operations	193,245	180,991

23 LOAN FACILITIES TO DIRECTORS

No loan to directors has been made during the years ended 31 December 2015 and 2014 and there is no outstanding balance as at 31 December 2015 and 2014.

During the year ended 31 December 2015, the Company has granted loan facilities to the directors as follows:

Name of borrower	**Jin Xuekun**	**Wang Aihua**	**Yau Wai Yan**
Relationship with the Company	Director of the Company	Director of the Company	Director of the Company
Terms of the loan facilities			
Duration and repayment terms	Repayable on demand	Repayable on demand	Repayable on demand
Loan facility amount	HKD49,406,250.00	HKD2,470,317.60	HKD2,470,317.60
Interest rate	2% per annum	2% per annum	2% per annum
Security	None	None	None

24 SECURED BANK LOANS

At 31 December 2015, the secured bank loans represent loans borrowed from a bank in Macau and a bank in Hong Kong mainly for the acquisition of 37.32% issued share capital of V Plus S.A.. These loans have terms of 3 years, however the loan agreements contain clauses which give the banks the rights to demand immediate repayment if the Group fails the banks' annual credit assessment which is determined at the banks' discretion. These bank loans are secured by letters of guarantee issued by a PRC bank. The letters of guarantee issued by the PRC bank are in turn secured by the Group's restricted cash of RMB255,000,000 (see Note 22), property, plant and equipment of RMB200,270,000 (see Note 11) and lease prepayments of RMB59,161,000 (see Note 14).

25 TRADE AND OTHER PAYABLES

	2015	**2014**
	RMB'000	*RMB'000*
Trade payables	35,091	14,913
Bills payables	—	15,803
Payables for construction of plant and purchase of equipment	21,504	59,707
Receipts in advance	15,721	25,358
Value added tax payable	12,852	7,872
Other payables due to related parties	1,563	570
Accrued expenses and other payables	31,070	12,354
	117,801	136,577

All of the trade and other payables of the Group are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Within 3 months	24,884	9,979
3 to 6 months	9,898	19,310
6 months to 1 year	186	1,427
Over 1 year	123	—
	35,091	30,716

The maturity analysis of trade and bills payables is as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Due within 1 month or on demand	35,091	30,716

26 PREFERRED SHARES

	2015	**2014**
	RMB'000	*RMB'000*
At 1 January	53,629	54,639
Dividends during the year (Note 6(a))	8,525	8,882
Dividends of preferred shares declared	(10,683)	(9,892)
	51,471	53,629
Less: current portion of preferred shares	(11,538)	(10,683)
	39,933	42,946

In connection with the Transformation, Valuerank and Farstar acquired the rights to the 25% equity interest in Bloomage Biopharm from Shandong Freda Pharmaceutical Group (山東福瑞達醫藥集團公司, "SFP"), the then non-controlling interests holder of Bloomage Biopharm, by issuing a financial instrument with a preference over the Group in payment of dividends and redemption of the financial instrument upon termination of business in Bloomage Biopharm ("preferred shares") as consideration. Pursuant to the cooperative joint venture agreement signed between the Group and SFP on 30 May 2004 ("CJV"), the preferred shares were redeemable by Valuerank, subject to the consensus of SFP, at RMB2,694,000 as at 1 January 2005, or at any subsequent date on or before the earlier of the termination of business in Bloomage Biopharm or the expiry date of the CJV (i.e. 2 January 2015) with an annual increment of 8%. Dividends for the preferred shares of RMB5,344,000 for the year ended 31 December 2005, and thereafter with an annual increment of 8% until the preferred shares are redeemed, are payable by Bloomage Biopharm to SFP annually. The dividend payments are cumulative and not discretionary. The Transformation was approved by the Government of Shandong Province on 4 September 2004 and business licence was obtained by Bloomage Biopharm on 8 October 2004. The preferred shares were initially recognised as a financial liability at its fair value of RMB38,500,000 as at 8 October 2004, representing 25% of the fair value of Bloomage Biopharm as at 8 October 2004 derived from the present value of the future cash flows expected to be derived from Bloomage Biopharm. The financial liability was measured at amortised cost subsequently. Dividends for the preferred shares are accounted for using the effective interest method and recorded as finance costs in the consolidated statement of profit or loss and other comprehensive income.

Pursuant to a board resolution dated 29 March 2006, with the agreement from SFP, the expiry date of the CJV has been changed. According to the revised arrangement, the preferred shares were redeemable by Valuerank, subject to the consensus of SFP, at any subsequent date on or before the earlier of the termination of business in Bloomage Biopharm or the expiry of the CJV on 2 January 2020, while other terms of the preferred shares remained unchanged. The change of expiry date of the CJV to 2 January 2020 was approved by the Government of Shandong Province on 24 April 2006 and revised business licence was obtained by Bloomage Biopharm on 28 April 2006. There was no significant difference between the carrying amount of preferred shares and the fair value of the preferred shares arising from the change of expiry date to 2 January 2020.

(a) **Amount due to the holder of the preferred shares**

The present value of the amount due to the holder of the preferred shares of Bloomage Biopharm is repayable as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Within 1 year	11,538	10,683
After 1 year but within 5 years	39,933	33,165
After 5 years	—	9,781
	51,471	53,629

The above repayment schedules have been prepared on the basis that the preferred shares would be redeemed on the applicable expiry date of 2 January 2020 of the CJV and included the pre-determined annual dividend payments until the applicable expiry date of the CJV.

27 CONVERTIBLE BONDS

The movement of the carrying amount of the convertible bonds for the year ended 31 December 2015 is set out below:

	Liability component	Equity component	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2015	—	—	—
Initial recognition	320,190	59,627	379,817
Interest charged during the year (Note 6(a))	2,898	—	2,898
Interest payable	(1,699)	—	(1,699)
Exchange adjustments	5,549	—	5,549
At 31 December 2015	326,938	59,627	386,565

On 20 November 2015, the Company issued convertible bonds in the aggregate principal amount of HK$465,000,000 to Ora Investment Pte. Ltd.. The convertible bonds bear interest rate at 4% per annum payable semi-annually. The maturity date of the convertible bonds is 20 November 2020. The convertible bonds are convertible into ordinary shares of the Company at the option of the holders of the convertible bonds at any time on or after the date of issue of the convertible bonds and up to the date falling seven days prior to the maturity date at a conversion price of HK$17.2 per share, subject to adjustments.

28 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(i) Share option scheme

The Company has a share option scheme which was adopted on 3 September 2008 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at consideration of HKD 1.0 to subscribe for shares of the Company.

For the options granted in 2012, 50% of the options vest after one year from the date of grant and are then exercisable within a period of four years and the remaining 50% of the options vest after two years from the date of grant and are then exercisable within a period of three years.

For the options granted in 2013, subject to the satisfaction of certain performance conditions, 25% of the options vest after one year from the date of grant and are then exercisable within a period of four years, 25% of the options vest after two years from the date of grant and are then exercisable within a period of three years, 25% of the options vest after three years from the date of grant and are then exercisable within a period of two years and the remaining 25% of the options vest after four years from the date of grant and are then exercisable within a period of one year.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) ***The terms and conditions of the grants are as follows:***

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Options granted to directors:			
— on 24 December 2012	1,940,000	One year from the date of grant	5 years
— on 24 December 2012	1,940,000	Two years from the date of grant	5 years
— on 23 December 2013 (being the date on which the grant of options became unconditional) ("Grant Date")	1,660,000	One year from the Grant Date and revenue of the Group for the year ended 31 December 2013 is not less than 130% of that for the year ended 31 December 2012 ("FY 2012")	5 years
— on 23 December 2013 (Grant Date)	1,660,000	Two years from the Grant Date and revenue of the Group for the year ended 31 December 2014 is not less than 169% of that for FY 2012	5 years
— on 23 December 2013 (Grant Date)	1,660,000	Three years from the Grant Date and revenue of the Group for the year ended 31 December 2015 is not less than 211.25% of that for FY 2012	5 years
— on 23 December 2013 (Grant Date)	1,660,000	Four years from the Grant Date and revenue of the Group for the year ending 31 December 2016 is not less than 264.0625% of that for FY 2012	5 years

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to employees:			
— on 24 December 2012	4,300,000	One year from the date of grant	5 years
— on 24 December 2012	4,300,000	Two years from the date of grant	5 years
— on 29 October 2013	830,000	One year from the date of grant and revenue of the Group for the year ended 31 December 2013 is not less than 130% of that for FY 2012	5 years
— on 29 October 2013	830,000	Two years from the date of grant and revenue of the Group for the year ended 31 December 2014 is not less than 169% of that for FY 2012	5 years
— on 29 October 2013	830,000	Three years from the date of grant and revenue of the Group for the year ended 31 December 2015 is not less than 211.25% of that for FY 2012	5 years
— on 29 October 2013	830,000	Four years from the date of grant and revenue of the Group for the year ending 31 December 2016 is not less than 264.0625% of that for FY 2012	5 years
Total share options granted	22,440,000		

(b) ***The number and weighted average exercise prices of share options are as follows:***

	2015		2014	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
Outstanding at the beginning of the year	HKD10.137	21,316,000	HKD9.85	22,440,000
Exercised during the year	HKD4.422	(2,050,000)	HKD4.422	(1,124,000)
Outstanding at the end of the year	HKD10.745	19,266,000	HKD10.137	21,316,000
Exercisable at the end of the year	HKD8.685	14,286,000	HKD6.621	13,846,000

The options outstanding at 31 December 2015 had an exercise price of HKD4.422 or HKD16.652 (2014: HKD4.422 or HKD16.652) and a weighted average remaining contractual life of 2.4 years (2014: 3.4 years).

(c) ***Fair value of share options and assumptions***

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Dividend Adjusted Black-Scholes Options Pricing model ("Black-Scholes Model"). The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into Black-Scholes Model.

	Share options granted in 2013	**Share options granted in 2012**
Fair value at measurement date	HKD2.51 to 3.79	HKD1.30 to 1.37
Share price	HKD15.80 and 17.22	HKD4.3
Exercise price	HKD16.652	HKD4.422
Expected volatility	32.5%	55%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	3 to 4.5 years	3.25 years
Expected dividends	3%	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.446% to 1.153%	0.108% and 0.156%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service condition and non-market performance condition. These conditions have not been taken into account in the fair value measurement of the services received at the date of grant. There were no market conditions associated with the share option grants.

(ii) **Warrants granted to a director**

On 29 October 2013, upon the re-designation of Mr. Jin Xuekun ("Mr. Jin") as an executive director from an independent non-executive director and the appointment of Mr. Jin as chief executive officer of the Company, the Company entered into the warrant subscription agreement (the "Warrant Subscription Agreement") with Wealthy Delight Group Limited (as Subscriber), a company the entire issued share capital of which is legally and beneficially owned by Mr. Jin, and Mr. Jin (as guarantor of the Subscriber to guarantee the performance by the Subscriber of its obligations under the Warrant Subscription Agreement), pursuant to which the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 16,600,000 warrants (the "Warrants") at the issue price of HK$0.01 per Warrant (the "Warrant Subscription"). Each of the Warrants carries the right to subscribe for one warrant share at the exercise price of HKD16.652 per warrant share initially (subject to adjustment) during the period from the date of the first anniversary of the completion of the Warrant Subscription to the date before the fifth anniversary of the warrant completion date in four equal installments.

On 23 December 2013, the shareholders of the Company approved the Warrant Subscription in an extraordinary general meeting. As there were no explicit or implicit vesting conditions attached to the Warrants, the Warrants were treated as granted and vested on 23 December 2013 and relevant share-based payment expenses of the Warrants granted of RMB46,822,000 were charged to profit or loss immediately in 2013.

Relevant details of the Warrants are listed below.

(a) ***The terms and conditions of the grants are as follows:***

Date of grant	Number of instruments	Vesting conditions	Exercisable period	Contractual life of warrants
23 December 2013	4,150,000	None	From 27 December 2014 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2015 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2016 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2017 to 26 December 2018	5 years
	16,600,000			

(b) ***The number and exercise price of the Warrants are as follows:***

	2015		2014	
	Exercise price	Number of warrants	Exercise price	Number of warrants
Outstanding at the end of the year	HKD16.652	16,600,000	HKD16.652	16,600,000
Exercisable at the end of the year	HKD16.652	8,300,000	HKD16.652	4,150,000

The Warrants outstanding as at 31 December 2015 had an exercise price of HKD16.652 (2014: HKD16.652) and a weighted average remaining contractual life of 3 years (2014: 4 years).

(c) ***Fair value of Warrants and assumptions***

In 2013, the fair value of services received in return for the Warrants granted was measured by reference to the fair value of the Warrants. The estimate of the fair value of the Warrants was measured based on the Black-Scholes Model. The contractual life of the Warrants was used as an input into this model. Expectations of early exercise were incorporated into Black-Scholes Model.

Fair value at measurement date	HKD3.26 to 3.79
Share price	HKD17.22
Exercise price	HKD16.652
Expected volatility	32.5%
Warrant life (expressed as weighted average life used in the modelling under Black-Scholes Model)	3 to 4.5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.635% to 1.153%

The expected volatility was based on the historical volatility (calculated based on the weighted average remaining life of the Warrants), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were no service or performance conditions associated with the Warrants.

(iii) **Group share-based payment transaction settled by the controlling shareholder**

On 22 May 2014, AIM First Investments Limited ("AFI", the controlling shareholder of the Company), Ms. Zhao Yan (as warrantor for AFI), Wealthy Delight Group Limited ("Wealthy Delight") and Mr. Jin (as warrantor for Wealthy Delight) entered into an option agreement (the "Option Agreement"). Pursuant to the Option Agreement, AFI granted a call option (the "AFI Call Option") to Wealthy Delight for the purchase of 9,960,000 shares of the Company (the "Option Shares") held by AFI. The AFI Call Option is exercisable from 22 May 2014 to 22 May 2019 at HK$5.80 per share (the "Transfer Price"). Also, pursuant to the same Option Agreement, Wealthy Delight granted a call option to AFI to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AFI at the Transfer Price on the condition that AFI Call Option has been exercised by Wealthy Delight and Mr. Jin resigns as the chief executive officer of the Company due to personal reasons. The call option granted by Wealthy Delight to AFI is exercisable from the completion date of the transfer of the relevant Option Shares under the AFI Call Option to 22 May 2019. The Transfer Price and/or the number of the Option Shares are subject to adjustment upon any consolidation or subdivision of shares of the Company during the term of the Option Agreement. The arrangements under the Option Agreement are to provide incentive to Mr. Jin to remain as the chief executive officer of the Company.

This transaction is accounted for as a group share-based payment transaction settled by the controlling shareholder and AFI Call Option is treated as vesting in a five-year period, i.e. the fair value of this share-based payment transaction of HKD110,656,000 is amortised over the 5 years using the straight-line method. During the year ended 31 December 2015, expenses related to this group share-based payment transaction of RMB17,990,000 (2014: RMB10,642,000) have been recognised in profit or loss.

(a) ***Fair value of share options and assumptions***

The fair value of services received in return for the AFI Call Option is measured by reference to the fair value of share options granted. The estimate of the fair value of the AFI Call Option is measured based on Black-Scholes Model. The contractual life of the AFI Call Option is used as an input into this model.

Fair value at measurement date	HKD11.11
Share price	HKD18.96
Exercise price	HKD5.80
Expected volatility	35.0%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	1.195%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

The AFI Call Option was granted under service condition. The service condition has not been taken into account in the fair value measurement of the services received at the date of grant. There were no market conditions associated with the AFI Call Option.

(iv) **Shares granted to directors and employees at discount**

On 4 November 2015, the board of directors of the Company approved the grant of 9,687,500 shares at a subscription price of HKD12.0 per share to certain directors and employees. The shares were granted with a lockup period of six months during which the shares are not transferable. The relevant directors and employees accepted the grant on the same date. As there were no explicit or implicit vesting conditions attached to the shares, the shares were treated as granted and vested on 4 November 2015 and relevant share-based payment expenses of the shares granted of RMB1,576,000, which were calculated by deducting the proceeds received from the relevant directors and employees from the fair value of shares adjusted for the effect of share transfer restriction, were charged to profit or loss immediately in 2015.

(a) ***Fair value of the shares and assumptions***

The fair value of services received in return for the shares granted is measured at grant date market price of the shares adjusted for the effect of share transfer restriction (net of the proceeds received from the relevant directors and employees).

Market price of share	HKD13.86
The effect of share transfer restriction	HKD1.66
Fair value of share adjusted for the effect of share transfer restriction	HKD12.20

The effect of share transfer restriction is measured by reference to the fair value of a put option that relevant directors and employees would have purchased in order to hedge the drop in share price during the lockup period. The estimate of its fair value is measured based on Black-Scholes Model. Key assumptions used in the valuation of the fair value are:

Market price of share	HKD13.86
Exercise price of the put option	HKD13.86
Expected volatility	40.0%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	0.5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.084%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) **Current taxation in the consolidated statement of financial position represents:**

	2015	**2014**
	RMB'000	*RMB'000*
Balance of PRC income tax relating to prior years	13,394	18,022
Provision for PRC income tax for the year (Note 7(a))	47,974	39,226
(Over)/under-provision in respect of prior year	(212)	512
PRC income tax paid	(39,268)	(44,366)
	21,888	13,394

(b) **Deferred tax assets and liabilities recognised:**

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Government grant	Property, plant and equipment	Bad debt provision	Unrealised profits on intra-group transactions	Total
Deferred tax arising from:					
At 1 January 2014	7,700	—	—	—	7,700
Credited to profit or loss	963	—	—	2,720	3,683
At 31 December 2014	8,663	—	—	2,720	11,383
At 1 January 2015	8,663	—	—	2,720	11,383
Credited/(charged) to profit or loss	1,487	(1,444)	109	80	232
At 31 December 2015	10,150	(1,444)	109	2,800	11,615

Reconciliation to the consolidated statement of financial position

	2015 *RMB'000*	**2014** *RMB'000*
Deferred tax assets recognised in the consolidated statement of financial position	11,615	11,383

(c) **Deferred tax liabilities not recognised:**

As at 31 December 2015, temporary differences relating to the undistributed profits of certain PRC subsidiaries amounted to RMB604,267,000 (31 December 2014: RMB395,163,000). Deferred tax liabilities of RMB30,213,000 (31 December 2014: RMB19,758,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of certain PRC subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

(d) **Deferred tax assets not recognised:**

In accordance with the accounting policy set out in Note 2(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB8,466,000 (31 December 2014: RMB10,069,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses will expire on or before 31 December 2020.

30 DEFERRED INCOME

Deferred income represents unrecognised government grants received to compensate the Group's cost of construction in respect of the HA production facilities which will subsequently be deducted from the carrying amount of assets, and unfulfilled conditional government grants received to compensate the Group for expenses incurred which will subsequently be recognised as revenue in profit or loss in the same periods in which the expenses are incurred.

31 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital	**Share premium**	**Contributed surplus**	**Exchange reserve**	**Other reserve**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	31(c)	*31(d)(i)*	*(i) below*	*31(d)(iii)*	*31(d)(iv)*		
Balance at 1 January 2014	2,961	92,220	36,966	(10,197)	57,467	(64,096)	115,321
Changes in equity for 2014:							
Loss for the year	—	—	—	—	—	(33,637)	(33,637)
Other comprehensive income	—	—	—	369	—	—	369
Total comprehensive income for the year	—	—	—	369	—	(33,637)	(33,268)
Equity settled share-based transactions	—	—	—	—	26,549	—	26,549
Share issued on the exercise of share options granted under share option scheme	8	5,088	—	—	(1,182)	—	3,914
Dividends for the year ended 31 December 2013	—	—	—	—	—	(4,960)	(4,960)
Balance at 31 December 2014	2,969	97,308	36,966	(9,828)	82,834	(102,693)	107,556

	Share capital	Share premium	Contributed surplus	Exchange reserve	Other reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	31(c)	*31(d)(i)*	*(i) below*	*31(d)(iii)*	*31(d)(iv)*		
Balance at 1 January 2015	2,969	97,308	36,966	(9,828)	82,834	(102,693)	107,556
Changes in equity for 2015:							
Loss for the year	—	—	—	—	—	(56,244)	(56,244)
Other comprehensive income	—	—	—	12,297	—	—	12,297
Total comprehensive income for the year	—	—	—	12,297	—	(56,244)	(43,947)
Equity settled share-based transactions	—	—	—	—	26,538	—	26,538
Share issued on the exercise of share options granted under share option scheme	17	9,581	—	—	(2,226)	—	7,372
Equity component of convertible bonds	—	—	—	—	59,627	—	59,627
Issuance of new shares	131	156,147	—	—	—	—	156,278
Dividends for the year ended 31 December 2014	—	—	—	—	—	(6,578)	(6,578)
Balance at 31 December 2015	3,117	263,036	36,966	2,469	166,773	(165,515)	306,846

(i) Contributed surplus represents the excess of fair value of the shares of the Company determined based on the basis of consolidated net assets of Valuerank and Farstar as at 10 April 2008, the date of the acquisition of shares of Valuerank and Farstar by the Company from AFI and Newgrand Holdings Limited ("Newgrand") over the nominal value of the shares issued by the Company in exchange thereof. Under the Companies Law of Cayman Islands, the contributed surplus account of Company is distributable to the equity shareholders of the Company.

(b) **Dividends**

(i) ***Dividends payable to equity shareholders of the Company attributable to the year***

	2015	**2014**
	RMB'000	*RMB'000*
Final dividends proposed after the end of the reporting period of HKD2.7 cents per ordinary share (2014: HKD2.5 cents per ordinary share)	8,171	6,578

The final dividends proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) ***Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year***

	2015	**2014**
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of HKD2.5 cents per ordinary share (2014: HKD1.9 cents per ordinary share)	6,578	4,960

(c) **Share capital**

(i) ***Authorised and issued share capital***

	2015		**2014**	
	No. of shares	*HKD'000*	*No. of shares*	*HKD'000*
Authorised:				
Ordinary shares of HKD0.01 each	1,000,000,000	10,000	1,000,000,000	10,000

	2015		**2014**	
	No. of shares	*RMB'000*	*No. of shares*	*RMB'000*
Issued and fully paid:				
At 1 January	333,124,000	2,969	332,000,000	2,961
New shares issued (note)	16,145,834	131	—	—
Shares issued on exercise of share options granted under share option scheme	2,050,000	17	1,124,000	8
At 31 December	351,319,834	3,117	333,124,000	2,969

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes:

On 20 November 2015, the Company issued 16,145,834 ordinary shares to Ora Investment Pte. Ltd. at HKD12.00 per share with a net proceed of RMB156,278,000.

(ii) ***Terms of unexpired and unexercised share options and warrants at the end of the reporting period:***

Exercise period	Exercise price	2015 Number of options/ warrants	2014 Number of options/ warrants
25 December 2013 to 24 December 2017	HKD4.422	3,066,000	5,116,000
25 December 2014 to 24 December 2017	HKD4.422	6,240,000	6,240,000
30 October 2014 to 29 October 2018	HKD16.652	830,000	830,000
30 October 2015 to 29 October 2018	HKD16.652	830,000	830,000
30 October 2016 to 29 October 2018	HKD16.652	830,000	830,000
30 October 2017 to 29 October 2018	HKD16.652	830,000	830,000
23 December 2014 to 22 December 2018	HKD16.652	1,660,000	1,660,000
23 December 2015 to 22 December 2018	HKD16.652	1,660,000	1,660,000
23 December 2016 to 22 December 2018	HKD16.652	1,660,000	1,660,000
23 December 2017 to 22 December 2018	HKD16.652	1,660,000	1,660,000
27 December 2014 to 26 December 2018	HKD16.652	4,150,000	4,150,000
27 December 2015 to 26 December 2018	HKD16.652	4,150,000	4,150,000
27 December 2016 to 26 December 2018	HKD16.652	4,150,000	4,150,000
27 December 2017 to 26 December 2018	HKD16.652	4,150,000	4,150,000
		35,866,000	37,916,000

Each option/warrant entitles the holder to subscribe for one ordinary share in the Company. Further details of these options/warrants are set out in Note 28 to the financial statements.

(d) **Nature and purposes of reserves**

(i) ***Share premium***

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of

Cayman Islands, the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) ***Statutory reserve***

In accordance with the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The transfers of these reserves are at discretion of the directors of the PRC subsidiaries. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iii) ***Exchange reserve***

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(iv) ***Other reserve***

Other reserve as at 31 December 2015 mainly includes:

i) the difference between the historical carrying value of the 25% equity interest right of Bloomage Biopharm then held by SFP and the fair value of financial liability initially recognised (see Note 26);

ii) capitalization of reserve arising from transfer of retained earnings. Pursuant to board resolutions of Bloomage Biopharm passed on 24 August 2005, 23 November 2007 and 12 January 2008, retained earnings/statutory reserve of Bloomage Biopharm in the amount of RMB3,000,000, RMB12,000,000 and RMB38,800,000 was capitalized and transferred to other reserve;

iii) waiver of amounts due to related parties. On 10 July 2008, AFI and Valuerank entered into an agreement to waive repayment of consideration of acquiring Bloomage Biopharm by Valuerank for an amount of RMB3,150,000. On 25 July 2008, Freda International Inc. and Farstar entered into an agreement to waive repayment of consideration of acquiring Bloomage Biopharm by Farstar for an amount of RMB1,575,000. The waiver of amounts due to AFI and Freda International Inc. of RMB4,725,000 was credited to other reserve of the Group;

iv) reserve on equity-settled share-based transactions is the portion of the grant date fair value of unexercised share options and warrants and unissued shares granted to the directors and the employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(s)(ii); and

v) the equity component of the convertible bonds issued in 2015 (see note 27).

(e) **Distributability of reserves**

At 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB303,729,000 (31 December 2014: RMB104,587,000), excluding the share capital as disclosed in Note 31. After the end of the reporting period, the directors proposed a final dividend of HKD2.7 cents per ordinary share (2014: HKD2.5 cents per ordinary share), amounting to HKD9,753,000 (equivalent to RMB8,171,000) (2014: HKD8,328,000 (equivalent to RMB6,578,000)). This dividend has not been recognised as a liability at the end of the reporting period.

(f) **Capital management**

The Group's objective of managing capital is to optimize the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, the Group may issue new shares and adjust the capital expenditure plan. The Group monitors capital on the basis of debt-to-capital ratio, which is calculated by dividing long term liability by the total equity and long term liability, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets.

The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and to maintain the debt-to-capital ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2015, the debt-to-capital ratio of the Group was 24% (31 December 2014: 6%), and the liability-to-asset ratio of the Group was 46% (31 December 2014: 22%).

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

32 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) **Credit risk**

The Group's credit risk is primarily attributable to cash at bank and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Substantially all of the Group's cash at bank are deposited in the reputable banks, which the management assess the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 0% (2014: 3%) and 17% (2014: 7%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The Group does not provide any guarantees which would expose the Group to credit risk.

(b) **Liquidity risk**

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

	As at 31 December 2015					
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	472,873	472,873	472,873	—	—	—
Convertible bonds	326,938	467,492	15,583	15,583	436,326	—
Trade and other payables	117,801	117,801	117,801	—	—	—
Preferred shares	51,471	76,238	11,538	12,461	52,239	—
	969,083	1,134,404	617,795	28,044	488,565	—

	As at 31 December 2014					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	136,577	136,577	136,577	—	—	—
Preferred shares	53,629	86,921	10,683	11,538	40,454	24,246
	190,206	223,498	147,260	11,538	40,454	24,246

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from interest-bearing borrowings.

(i) ***Interest rate profile***

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2015		2014	
	Interest rate	*RMB'000*	Interest rate	*RMB'000*
Fixed rate borrowing				
Convertible bonds	8%	326,938	N/A	—
Variable rate borrowing				
Secured bank loan	2.52%-2.60%	472,873	N/A	—
Total borrowings		799,811		—
Fixed rate borrowings as a percentage of total borrowings		40.88%		—

(ii) ***Sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the end of the reporting period. For variable-rate borrowings, the analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year.

At 31 December 2015, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained earnings by RMB1,182,000 (2014: RMB nil).

(d) **Currency risk**

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through The People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be based on market supply and demand with reference to a basket of currencies or subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

(i) ***Exposure to currency risk***

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded. The Group did not hedge its foreign currency exposure during the year.

	2015 Exposure to foreign currencies (expressed in RMB)			
	RMB	**USD**	**JPY**	**Euros**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand and at bank	4	546,483	4,453	4,393
Trade and other receivables	—	29,639	1,013	—
Trade and other payables	—	(966)	(1,382)	—
Secured bank loans	—	(229,640)	—	(243,233)
Net exposure arising from recognised assets and liabilities	4	345,516	4,084	(238,840)

	2014 Exposure to foreign currencies (expressed in RMB)			
	RMB	USD	JPY	Euros
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand and at bank	1,136	6,044	—	3
Trade and other receivables	—	7,558	108	—
Trade and other payables	—	(6)	—	(63)
Net exposure arising from recognised assets and liabilities	1,136	13,596	108	(60)

(ii) ***Sensitivity analysis***

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2015		2014	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained earnings	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained earnings
		RMB'000		*RMB'000*
RMB	5%	—	5%	57
	(5%)	—	(5%)	(57)
USD	5%	18,647	5%	578
	(5%)	(18,647)	(5%)	(578)
JPY	5%	174	5%	5
	(5%)	(174)	(5%)	(5)
Euros	5%	(10,007)	5%	(3)
	(5%)	10,007	(5%)	3

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rate had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including intercompany payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2014.

(e) **Fair value measurement**

(i) ***Financial instruments measured at fair value***

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2015 categorised into		
	Fair value at 31 December 2015	**Level 1**	**Level 2**	**Level 3**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial assets	—	—	—	—

	Fair value at 31 December 2014	Fair value measurements as at 31 December 2014 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial assets	80,000	—	80,000	—

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) ***Valuation techniques and inputs used in Level 2 fair value measurements***

The fair value of available-for-sale financial assets in Level 2 is determined by reference to the prices of similar banking products offered by the banks at the end of the reporting period.

(iii) ***Fair values of financial instruments carried at other than fair value***

All the financial assets and liabilities other than available-for-sale financial assets are carried at amounts not materially different from their fair values as at 31 December 2015.

In respect of cash and cash equivalents, restricted cash, trade and other receivables, secured bank loan, trade and other payables and convertible bonds, the carrying amounts approximate fair value due to the relatively short term or the effective interest rates are approximate to the market interest rates.

Upon initial recognition, the estimated fair value amount of preferred shares has been determined by using market information and valuation methodology considered appropriate by the Group. However, considerable judgement is required to interpret market data to develop the estimate of fair value. Accordingly, the estimate presented herein is not necessarily indicative of the amount that the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amount. Due to the limitation of developing estimates, the fair value amount of preferred shares cannot be measured reliably, and therefore the fair value information of preferred shares as at 31 December 2015 has not been disclosed.

33 COMMITMENTS

(a) **As at 31 December 2015, the Group had capital commitments for construction of property, plant and equipment as follows:**

	2015	2014
	RMB'000	*RMB'000*
Authorised and contracted for	8,000	6,190
Authorised but not contracted for	—	—
	8,000	6,190

(b) **As at 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:**

	2015	2014
	RMB'000	*RMB'000*
Within 1 year	1,533	7,392
After 1 year but within 5 years	2,683	461
	4,216	7,853

34 MATERIAL RELATED PARTY TRANSACTIONS

During the year, the directors are of the view that related parties of the Group include the following companies:

Name of party	**Relationship**
SFP	The holder of the preferred shares of Bloomage Biopharm
Shandong Biopharmaceuticals Research Institute (山東省生物藥物研究院"SBRI")	Under common control with SFP
Shandong Freda Bioengineering Co., Ltd. (山東福瑞達生物工程有限公司"SFB")	Subsidiary of SFP and effectively managed by key management personnel of Bloomage Biopharm
Shandong Freda Medical Devices Co., Ltd. (山東福瑞達醫療器械有限公司"SFMD")	Subsidiary of SFP and effectively managed by key management personnel of Bloomage Biopharm

Name of party	Relationship
Shandong Freda Biotechnology Co., Ltd. (山東福瑞達生物科技有限公司"LFB")	Subsidiary of SFP
Shandong Mingren Freda Pharmaceutical Co., Ltd. (山東明仁福瑞達製藥有限公司)	Subsidiary of SFP
Beijing Bloomage Central Property Management Co., Ltd. (北京華熙中環物業管理有限公司"BBC")	Affiliate of an equity shareholder of the Company
V Plus S.A.	Associate of the Group

(a) **Transactions with related parties**

Particulars of significant transactions between the Group and the above related parties during the year are as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Sales of products to related parties	2,013	342
Purchase of materials from related parties	23,416	13,151
Dividends on preferred shares paid to SFP	10,683	9,892
Lease of buildings and plant to related parties	1,950	2,160
Rental expense for lease of properties from a related party	6,252	6,822

In the opinion of the directors of the Company, the above related party transactions were conducted in the ordinary and usual course of business and on normal commercial terms.

(b) **Balances with related parties:**

As at the end of the reporting period, the Group had the following balances with related parties:

	2015	**2014**
	RMB'000	*RMB'000*
Trade and other receivables	3,201	2,463
Trade and other payables	1,563	570
Preferred shares, including current portion	51,471	53,629

(c) **Key management personnel remuneration:**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2015	**2014**
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	9,995	11,659
Contributions to retirement benefit schemes	251	191
Equity compensation benefits (see Note 28)	24,265	21,888
	34,511	33,738

Total remuneration is included in "staff costs" (see Note 6(b)).

The Group participates in the defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details are disclosed in Note 6(b).

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2015 *RMB'000*	2014 *RMB'000*
Non-current assets			
Investments in subsidiaries		34,888	32,641
Other receivables due from subsidiaries		531,922	66,652
Other non-current assets	18	35,723	—
Total non-current assets		602,533	99,293
Current assets			
Other receivables		—	129
Cash and cash equivalents		530,770	9,884
Total current assets		530,770	10,013
Current liabilities			
Secured bank loans		472,873	—
Amounts due to subsidiaries		7,287	1,358
Accrued expenses, interest payable and other payables		19,359	392
Total current liabilities		499,519	1,750
Net current assets		31,251	8,263
Total assets less current liabilities		633,784	107,556
Convertible bonds		326,938	—
Total non-current liabilities		326,938	—
NET ASSETS		306,846	107,556
CAPITAL AND RESERVES			
Share capital	31(c)	3,117	2,969
Reserves	31(d)	303,729	104,587
TOTAL EQUITY		306,846	107,556

36 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

Pursuant to a board resolution dated on 22 March 2016, the Company declared dividends of HKD9,753,000 (equivalent to RMB8,171,000) to its equity shareholders. Further details are disclosed in Note 31(b).

37 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate and ultimate holding company of the Company at 31 December 2015 to be AFI, which is incorporated in BVI.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting period beginning on or after
Annual improvements to IFRSs 2012-2014 cycle	1 January 2016
Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendments to IFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 1, Disclosure initiative	1 January 2016
Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

5. INDEBTEDNESS

At the close of business on 30 June 2017, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this Scheme Document, the Group had the following indebtedness:

(1) secured bank loans of approximately RMB17,000;

(2) unsecured bank loans of approximately RMB252,603,000;

(3) liability component of outstanding convertible notes of approximately RMB356,501,000; and

(4) liability in connection with the outstanding preferred shares of RMB38,882,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, none of the companies in the Group had outstanding at the close of business on 30 June 2017 any mortgages, charges or debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness or any finance lease or hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

6. MATERIAL CHANGE

The Directors confirmed that save as and except for the below, there was no material change in the financial or trading position or outlook of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date:

(i) the Group completed the acquisition of the entire issued share capital of REVITACARE SARL ("**Revitacare**") (the "**Acquisition**") on 19 January 2017 which constituted a discloseable transaction of the Company (details of the Acquisition are set out under the Company's announcements dated 6 January 2017 and 19 January 2017);

(ii) the Group's administrative expenses for the six months ended 30 June 2017 increased as compared to the corresponding period in 2016 mainly due to the increase in staff costs in respect of the performance incentive arrangement with a key employee of Revitacare. The increase in administrative expenses and decrease in revenue of the Group led to decrease in the Group's profit for the six months ended 30 June 2017 as compared to the corresponding period in 2016;

(iii) the Group's bank loans as at 30 June 2017 reduced as compared to 31 December 2016 as a result of repayment; and

(iv) the Group's restricted cash, cash and cash equivalents as at 30 June 2017 decreased as compared to 31 December 2016 mainly due to the repayment of bank loans during the six months ended 30 June 2017.

The changes of the items (ii) to (iv) as set out above were shown under the Company's interim results announcement for the six months ended 30 June 2017.

1. RESPONSIBILITY STATEMENT

The information contained in this Scheme Document relating to the Group has been supplied by the Company. The issue of this Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The information contained in this Scheme Document relating to the Offeror has been supplied by the Offeror. The issue of this Scheme Document has been approved by the sole director of the Offeror, who accepts full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirms, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date:

(a) the authorised share capital of the Company was HK$10,000,000 divided into 1,000,000,000 Shares, and the Company had 365,621,334 Shares in issue;

(b) the Company had issued 2,613,500 new Shares pursuant to the exercise of outstanding Share Option(s) since 31 December 2016, being the end of the last financial year of the Company, up to the Latest Practicable Date;

(c) all of the Shares ranked pari passu in all respects as regards rights to capital, dividends and voting;

(d) there were 14,021,200 outstanding Share Options granted under the Share Option Scheme, each relating to one Share, of which 4,692,000 outstanding Share Options had an exercise price of HK$4.422 per Share and 9,329,200 outstanding Share Options had an exercise price of HK$16.652 per Share. Mr. Jin held an aggregate of 6,950,000 Share Options, comprising 310,000 Share Options with an exercise price of HK$4.422 per Share and 6,640,000 Share Options with an exercise price of HK$16.652 per Share. Among the said Share Options, outstanding Share Options with respect to 11,688,900 new Shares have already vested as at the Latest Practicable Date, outstanding Share Options with respect to 672,300 new Shares are expected to vest on 30 October 2017 and outstanding Share Options with respect to 1,660,000 new Shares are expected to vest on 23 December 2017. The exercise of the said outstanding Share Options granted under the Share Option Scheme (other than the Jin Share Options) in full would result in the issue of 7,071,200 new Shares, representing approximately 1.93% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.90% of the issued share capital of the Company as enlarged by the issue of such new Shares;

(e) there were 16,600,000 outstanding unlisted warrants issued by the Company to Wealthy Delight which each entitles Wealthy Delight to subscribe for one Share at the exercise price of HK$16.652 per Share initially (subject to adjustment) during the relevant period;

(f) the Company had issued 4% convertible bonds in the aggregate principal amount of HK$465,000,000 due 2020 convertible into Shares at the initial conversion price of HK$17.20 per Share, subject to adjustments, to Ora Investment; and

(g) except for the outstanding Share Options, the Convertible Bonds and the Warrants, there are no other outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

3. MARKET PRICE

The table below sets out the closing price of the Shares on the Stock Exchange on (i) the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the last Business Day of each of the calendar months during the period commencing six months preceding the Offer Period Commencement Date and ending on the Latest Practicable Date:

	Closing price for each Share *(HK$)*
30 December 2016	11.68
27 January 2017	11.98
28 February 2017	11.28
31 March 2017	11.02
28 April 2017	13.20
31 May 2017	13.00
15 June 2017 (Last Trading Day)	14.30
30 June 2017	15.02
31 July 2017	14.62
31 August 2017	14.60
12 September 2017 (Latest Practicable Date)	14.48

The lowest and highest closing prices of Shares as quoted on the Stock Exchange during the period commencing six months preceding the Offer Period Commencement Date and ending on the Latest Practicable Date were HK$10.80 per Share on 13 March 2017, and HK$15.52 per Share on 22 June 2017.

4. DISCLOSURE OF INTERESTS

For the purpose of this paragraph, “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO.

(a) **Interests and dealings in Shares**

(i) As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties had the following interests in the Shares:

Shareholders	As at the Latest Practicable Date Number of Shares	Approx. %
Offeror Note 1	—	—
Offeror Concert Parties		
Ms. Zhao Note 1	1,200,000	0.33
AIM First Note 2	182,520,000	49.92
Mr. Jin Note 3	5,413,750	1.48
Mr. Gong Anmin	1,021,250	0.28
Ms. Wang Aihua	242,188	0.07
Mr. Yau Wai Yan	242,188	0.07
Aggregate number of Shares of the Offeror and the Offeror Concert Parties	190,639,376	52.14
Total number of Shares of the Independent Shareholders	174,981,958	47.86

Notes:

1. The Offeror is wholly owned by Ms. Zhao, the chairman and an executive director of the Company. Upon the Scheme becoming effective, Ms. Zhao will surrender the Zhao Shares for cancellation and the Company will allot and issue to the Offeror such number of new Shares as is equal to the number of the Zhao Shares cancelled.

2. AIM First is directly and wholly owned by Ms. Zhao.

3. Mr. Jin is an executive Director.

(ii) During the Disclosure Period and up to the Latest Practicable Date, none of the Offeror, the Offeror Concert Parties, the sole director of the Offeror and the Directors had dealt in the Share for value.

(iii) As at the Latest Practicable Date, there were certain outstanding Share Options granted under the Share Option Scheme, pursuant to which up to a maximum of 14,021,200 new Shares may be issued, of which outstanding Share Options with respect to 11,688,900 new Shares had already vested as at the Latest Practicable Date, outstanding Share Options with respect to 672,300 new Shares are expected to vest on 30 October 2017 and outstanding Share Options with respect to 1,660,000 new Shares are expected to vest on 23 December 2017. The exercise of all the said Share Options in full would result in the issue of 14,021,200 new Shares, representing approximately 3.83% of the issued share capital of the Company as at the Latest Practicable Date and approximately 3.69% of the issued share capital of the Company as enlarged by the issue of such new Shares. As at the Latest Practicable Date, the Offeror Concert Parties and/or Directors had the following interests in the Share Options:

Optionholder	**Number of new Shares that may be issued under the outstanding Share Options**	**Exercise Price** *(HK$)*	**Exercise Period**
Mr. Jin	310,000	4.422	25 December 2013 to 24 December 2017
	6,640,000	16.652	23 December 2014 to 22 December 2018
Ms. Wang Aihua	680,000	4.422	25 December 2013 to 24 December 2017
Mr. Yau Wai Yan	99,600	16.652	30 October 2014 to 29 October 2018

Mr. Jin had irrevocably undertaken, pursuant to the Jin Undertaking, that he would accept the Option Offer in respect of all Jin Share Options.

Ms. Wang Aihua and Mr. Yau Wai Yan intend, in respect of their Share Options not exercised before the Scheme Record Date, to accept the Option Offer.

(iv) As at the Latest Practicable Date, there were 16,600,000 outstanding unlisted warrants issued by the Company to Wealthy Delight which each entitles Wealthy Delight to subscribe for one Share at the exercise price of HK$16.652 per Share initially (subject to adjustment) during the relevant period.

(v) As at the Latest Practicable Date, the Company had issued 4% convertible bonds in the aggregate principal amount of HK$465,000,000 due 2020 convertible into Shares at the initial conversion price of HK$17.20 per Share, subject to adjustments, to Ora Investment.

(vi) None of the Offeror, the Offeror Concert Parties, the sole director of the Offeror and Directors had dealt for value in any convertible securities, warrants, options or derivatives in respect of the Shares.

(vii) During the Disclosure Period, no dealing in Shares for value has been conducted by Huatai Financial Group, for its own account or on a discretionary basis.

(viii) As at the Latest Practicable Date, the Ora Investment Undertaking and the Mr. Jin Undertaking were given by Ora Investment and Mr Jin, respectively. Accordingly, Ora Investment and Mr. Jin had not dealt for value in any Convertible Bonds, the Jin Share Options and Warrants during the period commencing on the Offer Period Commencement Date and up to the Latest Practicable Date.

(ix) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company, or no adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than exempt principal traders of such adviser as recognised by the SFC as such for purpose of the Takeovers Code) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares. During the period commencing on the Offer Period Commencement Date and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

(x) As at the Latest Practicable Date, save for the Termination Agreement, no person had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares with the Offeror (or with the Offeror Concert Parties). Accordingly, no such person owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.

(xi) As at the Latest Practicable Date, save for the Termination Agreement, no person had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares with the Company (or any person who is an associate of the Company by virtue of class (1) to (4) of the definition of "associate" under the Takeovers Code). Accordingly, during the period commencing on the Offer Period Commencement Date and up to the Latest Practicable Date, no such person owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options of derivatives in respect of the Shares.

(xii) As at the Latest Practicable Date, save as disclosed in paragraph 4(a)(i), (iii), (iv) and (v) of this section and the table below, none of the Directors had any interest in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares:

Shareholders	**Number of Shares**	**Approx. %**
Directors		
Mr. Jin	5,413,750	1.48
Mr. Gong Anmin (Mr. Gong) Note 1	1,021,250	0.28
Ms. Wang Aihua	242,188	0.07
Mr. Yau Wai Yan	242,188	0.07
Aggregate number of Shares held by the Director Shareholders	6,919,376	1.89

Notes:

1. Amongst the 1,021,250 Shares, Mr. Gong legally and beneficially holds 968,750 Shares and his spouse legally and beneficially holds 52,500 Shares. Mr. Gong is deemed to be interested in all the Shares held by his spouse for the purpose of Part XV of the SFO.

The Director Shareholders, all of whom being Scheme Shareholders, intend to, in respect of their personal and/or deemed shareholdings to be bound by the Scheme, to vote in favour of the Scheme.

(xiii) Save as disclosed in paragraph 4(a)(i), (iii), (iv) and (v) and (xii) of this section, none of the Offeror, Offeror Concert Parties, the sole director of the Offeror and Directors owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares as at the Latest Practicable Date.

(xiv) As at the Latest Practicable Date, none of the Offeror, the Offeror Concert Parties, the Company and the Directors had borrowed or lent any Shares.

(xv) As at the Latest Practicable Date, no fund managers (other than exempt fund managers as recognised by the SFC as such for the purpose of the Takeovers Code) connected with the Company who managed funds on a discretionary basis had owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares. During the period commencing on the Offer Period Commencement Date and up to the Latest Practicable Date, no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

(b) **Interests and dealings in the Offeror's Shares**

(i) Save as disclosed in "13. Information on the Offeror" in the Explanatory Memorandum, the Company and the Directors had no interests in the Offeror's shares or convertible securities, warrants, options or derivatives in respect of the Offeror's shares as the Latest Practicable Date. Save as disclosed in "13. Information on the Offeror", during the Disclosure Period, neither the Company nor the Directors had dealt for value in any shares or any convertible securities, warrants, options or derivatives in respect of the Offeror's shares.

(c) **Arrangements with the Offeror and the Offeror Concert Parties in respect of the Proposal and other interests**

(i) save for the Termination Agreement, there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code that existed between the Offeror or the Offeror Concert Parties and any other person;

(ii) there was no agreement or arrangement to which any Offeror was a party which related to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme;

(iii) no benefit was or would be paid/given to any Director as compensation for loss of office or otherwise in connection with the Scheme;

(iv) as set out in the paragraph headed "Terms of the Proposal and the Option Offer —Financial resources" in Part IV of this Scheme Document, the Offeror intends to finance the cash required for the Scheme and the Option Offer by available loan facilities to the Offeror. Upon drawdown, the said loan facilities will be secured by certain Shares and certain assets of the Company in favour of the lender, and, save as set out above and the Termination:

(1) there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be issued to the Offeror under and upon completion of the Scheme;

(2) there was no agreement, arrangement or understanding (including any compensation arrangement) between any of the Offeror or the Offeror Concert Parties and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependent upon the Scheme;

(3) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the offer or otherwise connected with the Scheme; and

(4) no material contract had been entered into by the Offeror in which any Director had a material personal interest; and

(v) save for the service contracts and letters of appointment set out below, no other Directors had a service contract or letter of appointment with any member of the Group or associated companies of the Company in force which (i) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the Offer Period Commencement Date; or (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract that has more than 12 months to run irrespective of the notice period:

Name of Director	**Commencement date of term of appointment**	**Expiry date of term of appointment**	**Annual remuneration** *(Note 1)*
Ms. Zhao	18 June 2015	2017 annual general meeting of the Company to be convened in 2018	HK$150,000.00
Mr. Jin	6 June 2016	2018 annual general meeting of the Company to be convened in 2019	RMB4,424,000.00 (including his remuneration for taking up other positions in the Company and/or as housing allowance from any company in the Group) *(Note 2)*
Ms. Wang Aihua	6 June 2016	2018 annual general meeting of the Company to be convened in 2019	HK$200,000.00
Mr. Gong	26 August 2016	25 August 2018	HK$200,000.00
	13 January 2016	12 January 2021	RMB600,000.00
Mr. Yau Wai Yan	18 January 2016	17 January 2019	HK$100,000.00
Mr. Li Junhong	6 June 2017	5 June 2020	HK$150,000.00
Mr. Xue Zhaofeng	18 January 2016	17 January 2019	HK$150,000.00

Notes:

1. No variable remuneration.

2. Remuneration had been increased from RMB4,304,000.00 to RMB4,424,000.00 with effect from 1 April 2017.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

6. MATERIAL CONTRACTS

Save for the following, no material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried or by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries after the date two years before the Offer Period Commencement Date up to and including the Latest Practicable Date:

(a) the sale and purchase agreement dated 6 January 2017 entered into between Bloomage Meso Holdings S.A. ("**Bloomage Meso**"), a wholly-owned subsidiary of the Company, Mrs. Martine Buzon and Rosen s.à.r.l. and the Company pursuant to which Bloomage Meso conditionally agreed to purchase, and Mrs. Martine Buzon and Rosen s.à.r.l. conditionally agreed to sell, the entire issued and paid-up capital of Revitacare, at the consideration of up to EUR25,150,000 (equivalent to approximately HK$203,086,000);

(b) the 23 management subscription agreements dated 6 November 2015 entered into between the Company and each of the 23 subscribers (the "**Subscribers**") (please refer to the circular of the Company dated 2 December 2015 for details of the subscribers), pursuant to which, each of the Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, an aggregate of 9,687,500 Shares, in cash, at the aggregate consideration of HK$116,250,000 (the "**Aggregate Subscription Consideration**") at HK$12 per Share;

(c) the 23 management loan agreements dated 6 November 2015 entered into between the Company and each of the Subscribers, pursuant to which the Company conditionally agreed to grant the loan in the aggregate principal amount of HK$98,812,500 to the Subscribers, representing approximately 85% of the Aggregate Subscription Consideration; and

(d) the subscription agreement dated 5 November 2015 entered into between the Company and Ora Investment, pursuant to which the Company has conditionally agreed to issue and Ora Investment has conditionally agreed to subscribe for (i) the Convertible Bonds in the aggregate principal amount of HK$465,000,000; and (ii) 16,145,834 Shares at the aggregate subscription consideration of HK$193,750,008.

7. EXPERTS

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

Name	Qualifications
Huatai Financial	A licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Gram Capital	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

8. CONSENTS

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

9. MISCELLANEOUS

(a) The Directors are:

Executive Directors:
Ms. Zhao Yan
Mr. Jin Xuekun
Mr. Gong Anmin
Ms. Wang Aihua

Non-executive Director:
Mr. Yau Wai Yan

Independent non-executive Directors:
Ms. Zhan Lili
Mr. Li Junhong
Mr. Xue Zhaofeng

(b) The company secretary of the Company is Mr. Yau Wai Yan.

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

(d) The principal place of business of the Company in Hong Kong is at Room 501, Hutchison House, No. 10 Harcourt Road, Central, Hong Kong.

(e) The principal place of business of the Company in the PRC is at No. 678 Tianchen Avenue, Jinan High-tech Development Zone, Jinan City, Shandong Province, the PRC.

(f) The principal share registrar and transfer office of the Company in the Cayman Islands is Conyers Trust Company (Cayman) Limited, situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(g) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(h) The Offeror is a company incorporated in Hong Kong on 18 October 2016 with limited liability. Its registered office is situated at Room 2201-03, 22/F, Worldwide House, 19 Des Voeux Road, Central, Hong Kong.

(i) The sole director of the Offeror is Ms. Zhao.

(j) The sole director of AIM First is Ms. Zhao.

(k) The sole director of Wealthy Delight is Mr. Jin.

(l) The principal place of business of Huatai Financial is at Room 5808-12, 58/F, The Center, 99 Queen's Road Central, Hong Kong.

(m) The principal place of business of Gram Capital is at Room 1209, 12/F., Nan Fung Tower, 88 Connaught Road Central / 173 Des Voeux Road Central, Central, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 501, Hutchison House, No. 10 Harcourt Road, Central, Hong Kong from the date of the Scheme Document to Monday, 16 October 2017 (being the date of the EGM), Monday to Friday and on the website of the Company at www.bloomagebio-tech.com and the website of the SFC at www.sfc.hk from the despatch of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

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

(b) the articles of association of the Offeror;

(c) the annual report of the Company for the years ended 31 December 2016 and 31 December 2015;

(d) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;

(e) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;

(f) the letter from Gram Capital, the text of which is set out in Part VI of this Scheme Document;

(g) the material contracts referred to in the section headed "6. Material Contracts" in this Appendix;

(h) the Termination Agreement;

(i) written consents referred to in the section headed "8. Consents" in this Appendix;

(j) the service contracts referred to in the section headed "4. Disclosure of Interests — (c) Arrangements with the Offeror and the Offeror Concert Parties in respect of the Proposal and other interests" in this Appendix;

(k) the Ora Investment Undertaking and the Mr. Jin Undertaking referred to in the section headed "Terms of the Proposal and the Option Offer — Irrevocable Undertakings" in the letter from the Board set out in Part IV of this Scheme Document; and

(l) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO. FSD 165 OF 2017 (CQJ)

IN THE MATTER OF

BLOOMAGE BIOTECHNOLOGY CORPORATION LIMITED
AND IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW (2016 REVISION)
OF THE CAYMAN ISLANDS

SCHEME OF ARRANGEMENT

between

BLOOMAGE BIOTECHNOLOGY CORPORATION LIMITED

and

THE HOLDERS OF SCHEME SHARES
(as hereinafter defined)

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

"AIM First"	AIM First Investments Limited, a company incorporated in the British Virgin Islands and directly and wholly owned by Ms. Zhao
"Business Day"	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
"Cancellation Price"	the cancellation price of HK$16.30 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
"Companies Law"	the Companies Law Cap. 22 (Law 3 of 1961), as consolidated and revised, of the Cayman Islands
"Company"	Bloomage BioTechnology Corporation Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are currently listed on the Main Board of the Stock Exchange

"Director"	a director of the Company
"Effective Date"	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Cayman Islands Companies Law, being the date on which a copy of the Order of the Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be 30 October 2017 (Cayman Islands time)
"Grand Court"	the Grand Court of the Cayman Islands
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	12 September 2017, being the latest practicable date for ascertaining certain information contained in the Scheme Document
"Mr. Jin"	Mr. Jin Xuekun, an executive director of the Company
"Ms. Zhao"	Ms. Zhao Yan, the chairman and an executive director of the Company
"Offeror"	Grand Full Development Limited, a company incorporated in Hong Kong with limited liability
"Record Time"	4:00 p.m. (Hong Kong time) on the Scheme Record Date
"Register"	the principal or branch register of members of the Company (as the case may be)
"Scheme"	a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of all the Scheme Shares and reduction of share capital and the restoration of the share capital of the Company to the amount immediately before such cancellation and reduction of share capital
"Scheme Document"	the composite scheme document issued by the Offeror and the Company on 15 September 2017, including each of the letters, statements, appendices and notices in it
"Scheme Record Date"	30 October 2017 , or such other time and date as shall have been announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme

"Scheme Shareholders"	holder(s) of Scheme Shares as at the Record Time
"Scheme Shares"	Share(s) other than those held by Ms. Zhao and AIM First as at the Record Time on the Scheme Record Date
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	the holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers of Hong Kong
"Zhao Shares"	1,200,000 Shares held by Ms. Zhao as at the Latest Practicable Date

(B) The Company was incorporated as an exempted company on 3 April 2006 in the Cayman Islands under the Companies Law.

(C) The authorized share capital of the Company as at the Latest Practicable Date was HK$10,000,000 divided into 1,000,000,000 Shares of which 365,621,334 Shares were issued and fully paid, with the remainder being unissued.

(D) The Offeror has proposed the privatisation of the Company by way of the Scheme.

(E) The primary purpose of the Scheme is that all of the Scheme Shares should be cancelled and extinguished and that, following the Scheme becoming effective and the completion of the arrangements in respect of the Zhao Shares referred to in (F) below, the Offeror and AIM First will hold the entire issued share capital of the Company.

(F) Ms. Zhao was the beneficial owner of the Zhao Shares as at the Latest Practicable Date. Upon the Scheme becoming effective, Ms. Zhao will surrender the Zhao Shares for cancellation and the Company will allot and issue to the Offeror such number of new Shares as is equal to the number of the Zhao Shares surrendered and cancelled.

(G) On the Latest Practicable Date, the Offeror did not hold any Shares and 183,720,000 Shares were legally and/or beneficially owned by Ms. Zhao and AIM First and registered as follows:

	As at the Latest Practicable Date	
Shareholders	**Number of Shares**	**Approximate %**
Ms. Zhao Note 1	1,200,000	0.33
AIM First Note 2	182,520,000	49.92
Subtotal	183,720,000	50.25
Directors of the Company		
Mr. Jin	5,413,750	1.48
Mr. Gong Anmin Note 3	1,021,250	0.28
Ms. Wang Aihua	242,188	0.07
Mr. Yau Wai Yan	242,188	0.07
Holders of Scheme Shares ("Scheme Shareholders")	181,901,334	49.75
Total Shares in issue	365,621,334	100

Notes:

1. The Offeror is wholly owned by Ms. Zhao, the chairman and an executive director of the Company. Upon the Scheme becoming effective, Ms. Zhao will surrender the Zhao Shares for cancellation and the Company will allot and issue to the Offeror such number of new Shares as is equal to the number of the Zhao Shares surrendered and cancelled.

2. AIM First is directly and wholly owned by Ms. Zhao.

3. Amongst the 1,021,250 Shares, Mr. Gong Anmin legally and beneficially holds 968,750 Shares and his spouse legally and beneficially holds 52,500 Shares. Mr. Gong is deemed to be interested in all the Shares held by his spouse for the purpose of Part XV of the SFO.

(H) Each of Ms. Zhao and AIM First will procure that any Shares in respect of which they are beneficially interested will not be represented or voted at the meeting convened at the direction of the Grand Court for the purpose of considering and, if thought fit, approving the Scheme.

(I) Each of the Offeror, Ms. Zhao and AIM First has undertaken to the Grand Court to be bound by the Scheme, and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. On the Effective Date:

   (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;

   (b) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company will be increased to its former amount by issuing to the Offeror the same number of Shares as the number of Scheme Shares cancelled and extinguished; and

   (c) the Company shall apply the credit arising in its books of account as a result of the capital reduction referred to in paragraph 1(a) above in paying up in full at par the new Shares issued to the Offeror, credited as fully paid.

   Contemporaneously with the cancellation of the Scheme Shares under 1(a) above, Ms. Zhao shall surrender the Zhao Shares for cancellation and, contemporaneously with the increase of Shares under 1(b) above, the Company will allot and issue to the Offeror such number of new Shares as is equal to the number of Zhao Shares surrendered and cancelled.

PART II

Consideration for the cancellation and extinguishment of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to each Scheme Shareholder the Cancellation Price.

PART III

General

3. (a) As soon as possible and in any event not later than seven (7) Business Days after the Effective Date, the Offeror shall send or cause to be sent to Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.

   (b) Unless otherwise indicated in writing to the branch share registrar and transfer office of the Company in Hong Kong, being Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, all such cheques shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint holders, at the address as appearing on the Register at the Record Time of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.

(c) Cheques shall be posted at the risk of the addressee and neither the Offeror nor the Company shall be responsible for any loss or delay in the transmission of the same.

(d) Each cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.

(e) On or after the day being six (6) calendar months after the posting of the cheque pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or that has been returned uncashed and shall place all monies represented thereby in a deposit account of the Offeror with a licensed bank of Hong Kong selected by the Company. The Offeror shall hold such monies on trust for those entitled to it under the terms of this Scheme until the expiration of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques referred to in paragraph (b) of this Clause 3 of which they are payees have not been cashed. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

(f) On the expiration of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme.

(g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.

(h) Upon cancellation of the Scheme Shares and the Zhao Shares, the Register shall be updated to reflect such cancellation.

4. Each instrument of transfer and certificate existing at the Record Time in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Offeror to deliver up the same to the Offeror for the cancellation thereof.

5. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.

6. This Scheme shall become effective as soon as a copy of the order of the Grand Court sanctioning this Scheme under Section 86 of the Companies Law has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law.

7. Unless this Scheme shall have become effective on or before 31 January 2018, or such later dates as the Company and the Offeror may agree, or as the Grand Court, on application of the Company and/or the Offeror may allow, this Scheme shall lapse.

8. The Company and the Offeror may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition that the Grand Court may think fit to approve or impose.

9. All costs, charges and expenses of the advisers and counsels appointed by the Company, will be borne by the Company, all costs, charges and expenses of the advisers and counsels appointed by the Offeror will be borne by the Offeror, and other costs, charges and expenses of this Scheme will be borne by the Company.

15 September 2017

IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

Cause No. FSD 165 of 2017 (CQJ)

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2016 REVISION)
AND
IN THE MATTER OF THE GRAND COURT RULE, ORDER 102
AND IN THE MATTER OF BLOOMAGE BIOTECHNOLOGY CORPORATION LIMITED

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 7 September 2017 (the "**Order**") made in the above matter, the Grand Court of the Cayman Islands (the "**Court**") has directed a meeting (the "**Court Meeting**") to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the "**Scheme of Arrangement**") proposed to be made between Bloomage BioTechnology Corporation Limited (the "**Company**") and the Scheme Shareholders and that the Court Meeting will be held at 3:00p.m. on Monday, 16 October 2017 at Ballroom C, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong at which place and time all Scheme Shareholders are requested to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend and vote in their stead. A form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 15 September 2017 despatched to members of the Company on 15 September 2017.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of such joint holding, the first named member being the senior.

It is requested that forms appointing proxies be deposited at the Hong Kong branch share registrar and transfer office of the Company in Hong Kong at Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 3:00 p.m. on Saturday, 14 October 2017 but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting.

By the Order, the Court has appointed Mr. Gong Anmin, a director of the Company, or failing him, Ms. Wang Aihua, also a director of the Company, or failing her any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By Order of the Court
Bloomage BioTechnology Corporation Limited

Dated 15 September 2017

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

Principal Place of Business in Hong Kong
Room 501
Hutchison House
No. 10 Harcourt Road
Central
Hong Kong

Bloomage BioTechnology Corporation Limited
華熙生物科技有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock code: 00963)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Bloomage BioTechnology Corporation Limited (the "**Company**") will be held at Ballroom C, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong on Monday, 16 October 2017 at 3:30 p.m. (Hong Kong time) (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened at the direction of the Grand Court of the Cayman Islands for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolutions (with or without amendment):

SPECIAL RESOLUTION

1 "**THAT AS A SPECIAL RESOLUTION**:

(a) pursuant to (and subject to approval of) the scheme of arrangement dated 15 September 2017 (the "**Scheme of Arrangement**") between the Company and the holders of Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme of Arrangement); and

(b) the directors of the Company be and are hereby authorised to do all such acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) the giving of consent to any modification of or addition to, the Scheme of Arrangement or the reduction of capital, which the Grand Court of the Cayman Islands may see fit to impose."

ORDINARY RESOLUTION

2 "**THAT AS AN ORDINARY RESOLUTION**:

(a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, (i) the surrender and cancellation of the Zhao Shares (as defined in the composite document containing the Scheme of Arrangement dated 15 September 2017) be and is hereby approved; and (ii) the share capital of the Company will be increased to its former amount by the issuance at par to Grand Full Development Limited, credited as fully paid, of the aggregate number of Shares (as defined in the Scheme of Arrangement) as is equal to the number of Scheme Shares cancelled and Zhao Shares surrendered and cancelled;

(b) the reserve created in the Company's books of account as a result of the capital reduction and surrender will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to Grand Full Development Limited;

(c) the authorisation of any one of the directors of the Company to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the shares of the Company be and is approved, confirmed and ratified; and

(d) the directors of the Company be and are hereby authorised and instructed to do all such acts and things considered by them to be necessary or desirable to give effect to the matters referred to in, and contemplated by, this resolution."

By Order of the Board
Bloomage BioTechnology Corporation Limited
Gong Anmin
Director

Dated 15 September 2017

Registered office
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KYI-1111 Cayman Islands

Principal Place of Business in Hong Kong
Room 501, Hutchison House
No. 10 Harcourt Road
Central
Hong Kong

Notes:

(1) A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint another person as his proxy to attend and, on a poll, to vote instead of him. A member holding two or more shares may appoint more than one proxy. A proxy need not be a member of the Company, but must attend the extraordinary general meeting in person to represent him.

(2) A **white** form of proxy for use at the extraordinary general meeting is enclosed with the composite document containing the Scheme of Arrangement dated 15 September 2017 despatched to members of the Company.

(3) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with the Hong Kong branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof failing which the form of proxy will not be valid. Completion and return of the form of proxy will not preclude a member from attending the extraordinary general meeting and voting in person if he so wishes. In the event that a member attends and votes at the extraordinary general meeting after having lodged his form of proxy, his form of proxy shall be deemed to be revoked.

(4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

The register of members of the Company will be closed from Wednesday, 11 October 2017 to Monday, 16 October 2017 (both days inclusive) and during such period no transfer of Shares will be registered. In order to be entitled to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 10 October 2017.

The following is a sample of the Option Offer Letter being sent to the Optionholders in connection with the Option Offer.

Grand Full Development Limited
Room 2201-03, 22/F, Worldwide House
19 Des Voeux Road
Central
Hong Kong

15 September 2017

To the Optionholders

Dear Sir/Madam,

**OPTION OFFER
IN RELATION TO THE PROPOSED PRIVATISATION OF
BLOOMAGE BIOTECHNOLOGY CORPORATION LIMITED
BY GRAND FULL DEVELOPMENT LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)**

A composite scheme document issued jointly by Grand Full Development Limited (the "**Offeror**") and Bloomage BioTechnology Corporation Limited (the "**Company**") dated the same date as this letter (the "**Scheme Document**") is enclosed with this letter. Terms used but not defined in this letter shall have the same meanings and construction as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

The Offeror and the Company issued a joint announcement dated 19 June 2017 (the "**Joint Announcement**") which stated that, among others, on 15 June 2017, the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law. As stated in the Joint Announcement, as part of the Proposal, the Offeror would make an appropriate offer, namely the Option Offer, to the Optionholders for the cancellation of every vested and unvested Share Option in accordance with Rule 13 of the Takeovers Code. The Option Offer will be conditional upon the Scheme becoming effective.

This letter explains the actions you may take in relation to your outstanding Share Option(s). You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the Share Option Scheme.

TERMS OF THE OPTION OFFER

We are making the Option Offer, which is conditional on the Scheme becoming effective, with respect to the Share Option(s) held by you.

Any outstanding Share Options, to the extent not exercised on or prior to the Latest Option Exercise Date, will lapse upon the Scheme becoming effective. You may accept the Option Offer by lodging a completed Form of Acceptance in respect of the Option Offer by the prescribed deadline and, if the Option Offer becomes unconditional, you will be entitled to the Option Offer Price with respect to the Shares underlying your Share Option(s).

In respect of Share Options with an exercise price of HK$4.422 per Share, the Option Offer Price of HK$11.878 per Share Option represents the "see-through" price calculated by deducting the exercise price per Share payable on exercise of the relevant Share Option from the Cancellation Price per Scheme Share under the Scheme, in accordance with the "see-through" principle of Rule 13 of the Takeovers Code. In respect of Share Options with an exercise price of HK$16.652 per Share, the "see-through" price is zero and a cash offer of a nominal amount at the Option Offer Price of HK$0.00001 will be made.

The Option Offer is conditional upon the Scheme becoming effective. The Conditions of the Scheme are set out in the section headed "4. Conditions of the Proposal and the Scheme" in the Explanatory Memorandum in the Scheme Document. In addition, all payments in respect of the Option Offer Price will be made by cheques in Hong Kong dollars.

You are further advised to refer to the section headed "17. Overseas Scheme Shareholders and Optionholders", the section headed "18. Registration and Payment" and the section headed "19. Taxation" in the Explanatory Memorandum in the Scheme Document.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders and Optionholders set out in Part V of the Scheme Document and the letter from Gram Capital set out in Part VI of the Scheme Document, which contain the recommendation of the Independent Board Committee and of Gram Capital, respectively, in relation to the Proposal, the Scheme and the Option Offer.

COURSES OF ACTION AVAILABLE TO OPTIONHOLDERS

In summary, the choices available to you in respect of your outstanding Share Option(s) are:

(a) to the extent any of your outstanding Share Option(s) is not exercised on or prior to the Latest Option Exercise Date, if you are a holder of outstanding Share Option(s) as at the Option Offer Record Date, you may accept the Option Offer in accordance with its terms, as set out in this letter and in the Scheme Document by allowing such unexercised outstanding Share Option(s) to lapse on the Effective Date, and elect by signing and returning the completed Form of Acceptance enclosed, by not later than 4:00 p.m. (Hong Kong time) on Monday, 13 November 2017 (or such later time and/or date as may be notified to you through announcement(s)), to receive the Option Offer Price for the relevant Shares under your Share Option(s) if the Scheme becomes effective;

(b) you may in accordance with the terms of the Share Option Scheme exercise, all or any of your outstanding vested Share Option(s) (to the extent not already exercised) to its full extent or to the extent specified in your notice of exercise of Share Options to the Company at any time after the date of this letter and up to the Latest Option Exercise Date. Any Share issued as a result of the exercise of such outstanding Share Option(s) as mentioned above, conditional on the passing of the resolutions to be proposed at the Court Meeting and EGM to approve the Scheme, will be subject to and eligible to participate in the Scheme. Please refer to the Scheme Document for details of the Scheme and the Proposal in this regard; or

(c) do nothing, in which case, conditional on the passing of the resolutions to be proposed at the Court Meeting and EGM to approve the Scheme, and the Scheme becoming effective, your Share Options will lapse automatically on the Effective Date, and you will receive neither the Option Offer Price nor the Cancellation Price.

Each outstanding Share Option you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document, the Form of Acceptance and the terms of the Share Option Scheme.

OUTSTANDING SHARE OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE

Information on the outstanding Share Option(s) held by you as at the Latest Practicable Date is available from the company secretary of the Company. If there is any exercise of your outstanding Share Option(s) after the Latest Practicable Date, you may accept the Option Offer only in respect of such outstanding Share Option(s) which remain unexercised or unvested as at the Latest Option Exercise Date.

LAPSED SHARE OPTIONS

Please note that nothing in this letter or the Scheme Document serves to extend the life of a Share Option which lapses, will lapse, or has already lapsed, under the terms of the Share Option Scheme. You cannot exercise any Share Option or accept the Option Offer in respect of a Share Option which will have lapsed in accordance with its terms on or before the Option Offer Record Date.

PROFESSIONAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in doubt as to any aspect of this letter, the Scheme Document, or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

DECLARATION

By signing and returning the completed Form of Acceptance, you thereby:

(a) warrant and confirm that each Share Option in respect of which you accept the Option Offer is valid and subsisting, free from all liens, charges, mortgages and third party interests of any nature whatsoever and you acknowledge that any option certificate or documents in respect of such Share Option shall become void once that Share Option has been cancelled as a result of your acceptance of the Option Offer pursuant to the Form of Acceptance;

(b) acknowledge and agree that you cease to have any rights and obligations, and waive all rights and claims against any party (including the Offeror and the Company), in respect of all the Share Option(s) held by you for which you accept the Option Offer, that all rights and obligations under all such Share Option(s) will be cancelled;

(c) confirm that the decisions which you have made on the Form of Acceptance cannot be withdrawn or altered;

(d) authorise the Offeror, the Company, Huatai Financial and/or such person or persons as any of them may direct to do all acts and things and to complete, amend and execute any document on your behalf as may be necessary or desirable to give effect to or in connection with the acceptance you have made on the Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance;

(e) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any person authorised or appointed by or pursuant to this letter and the Form of Acceptance; and

(f) confirm that you have read, understood and agreed to the terms and conditions of the Option offer (including, without limitation, those set out in the Scheme Document, this letter and the Form of Acceptance), and that you have received and read the Scheme Document and this letter.

GENERAL

(a) All communications, notices, Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from the Optionholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of the Offeror, the Company or Huatai Financial accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

(b) The provisions set out in the Form of Acceptance form part of the terms of the Option Offer.

(c) The Option Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

(d) Due execution of the Form of Acceptance in respect of the Option Offer will constitute an authority to the Offeror, the Company, Huatai Financial or such person(s) as any of them may direct to complete and execute on behalf of the accepting Optionholder, the Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of cancelling, or vesting in the Offeror or such person(s) as the Offeror shall direct, all rights of the Optionholders in respect of the outstanding Share Option(s) which are the subject of such acceptance.

(e) The delivery of the Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed, executed and received notwithstanding that it is not completed, executed or received strictly in accordance with the Forms of Acceptance and this letter, including the date specified for receipt or the absence of any witness attesting to the execution of any Form of Acceptance.

(f) By completing the Form of Acceptance in respect of a particular outstanding Share Option, you irrevocably and at your own risk elect to authorise the Offeror, the Company, Huatai Financial and/or their respective agent(s) to send to you, or procure the sending to you of, the payment to which you are entitled.

ACTIONS TO BE TAKEN FOR ACCEPTING THE OPTION OFFER

In order to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance together with relevant certificate(s) (if any) or any other document(s) evidencing the grant of the outstanding Share Option(s) to you or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Offeror, at c/o Bloomage Technology Corporation Limited, Room 501, Hutchison House, No. 10 Harcourt Road, Central, Hong Kong for the attention of the board of directors of the Offeror and marked "Bloomage BioTechnology Corporation Limited — Option Offer" by no later than 4:00 p.m. (Hong Kong time) on Monday, 13 November 2017 (or such later time and/or date as may be notified to you through announcement(s)). If you do not complete a Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your Share Option(s) will lapse.

Before forwarding the Form of Acceptance to the board of directors of the Offeror, please ensure that you have duly executed the Form of Acceptance and that your signature has been witnessed.

Assuming the Option Offer will close on Monday, 13 November 2017, payment for the Option Offer Price is expected to be made within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of the duly completed Form of Acceptance by the Offeror.

No acknowledgement of receipt of any Form of Acceptance, the relevant certificate(s) (if any) or any other document(s) evidencing the grant of the outstanding Share Option(s) or other document(s) of title or entitlement (and/or any satisfactory indemnity of indemnities required in respect thereof) will be given.

RESPONSIBILITY STATEMENT

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this letter and confirms, having made all reasonable inquiries, that to the best of her knowledge, opinion expressed in this letter have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter misleading.

Yours faithfully,
For and on behalf of
Grand Full Development Limited
Zhao Yan
Sole Director