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Biostime International Holdings Limited

合生元國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1112)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended 30 June		
	2016 RMB'000	2015 RMB'000	% of Change
Revenue	3,008,304	1,962,902	53.3%
Gross profit	1,928,108	1,142,904	68.7%
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	949,948	295,176	221.8%
Profit for the period	404,892	204,955	97.6%
Net cash flows from operating activities	551,440	147,428	274.0%
Basic earnings per share	RMB0.57	RMB0.34	67.6%

For the six months ended 30 June 2016, the Group recorded the following:

- Revenue amounted to RMB3,008.3 million, representing an increase of RMB1,045.4 million or 53.3% from RMB1,962.9 million in the corresponding period of 2015.
- Gross profit amounted to RMB1,928.1 million, representing an increase of RMB785.2 million or 68.7% from RMB1,142.9 million in the corresponding period of 2015.
- EBITDA amounted to RMB949.9 million, representing an increase of RMB654.7 million, or 221.8% from RMB295.2 million in the corresponding period of 2015.
- Profit for the period amounted to RMB404.9 million, representing an increase of RMB199.9 million or 97.6% from RMB205.0 million in the first half of 2015.
- Net cash flows from operating activities amounted to RMB551.4 million, representing an increase of RMB404.0 million or 274.0% from RMB147.4 million in the corresponding period of 2015.
- Basic earnings per share increased from RMB0.34 in the corresponding period of 2015 to RMB0.57, representing an increase of 67.6%.
- The acquisition of Swisse was completed on 30 September 2015, and its financial results were not consolidated for the six months ended 30 June 2015.

The board (the “**Board**”) of directors (the “**Directors**”) of Biostime International Holdings Limited (the “**Company**”) is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 30 June 2016, together with the comparative figures for the corresponding period in 2015, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
REVENUE	5	3,008,304	1,962,902
Cost of sales		<u>(1,080,196)</u>	<u>(819,998)</u>
Gross profit		1,928,108	1,142,904
Other income and gains	5	137,473	68,840
Selling and distribution costs		(954,704)	(746,158)
Administrative expenses		(165,362)	(80,212)
Other expenses		(52,517)	(57,224)
Finance costs	6	(228,389)	(47,550)
Share of losses of an associate		<u>(2,858)</u>	<u>(482)</u>
PROFIT BEFORE TAX	7	661,751	280,118
Income tax expense	8	<u>(256,859)</u>	<u>(75,163)</u>
PROFIT FOR THE PERIOD		<u>404,892</u>	<u>204,955</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		46,166	125
Exchange difference on net investment in a foreign operation		<u>92,090</u>	<u>—</u>

	Six months ended 30 June	
	2016	2015
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	138,256	125
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	543,148	205,080
Profit attributable to:		
Owners of the parent	356,909	204,955
Non-controlling interests	47,983	–
	404,892	204,955
Total comprehensive income attributable to:		
Owners of the parent	480,549	205,080
Non-controlling interests	62,599	–
	543,148	205,080
	<i>RMB</i>	<i>RMB</i>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10	
Basic	0.57	0.34
Diluted	0.56	0.33

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

		30 June 2016	31 December 2015
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		532,736	546,995
Prepaid land lease payments		61,027	61,765
Goodwill	11	5,164,178	4,937,296
Intangible assets		2,979,614	2,896,616
Bonds receivable		128,893	124,003
Loans receivable		52,803	54,896
Deposits		4,242	8,513
Investment in an associate		37,347	40,205
Held-to-maturity investment		18,607	17,901
Time deposits		122,467	70,159
Deferred tax assets		144,528	198,061
Pledged deposits		30,000	250,000
		<hr/>	<hr/>
Total non-current assets		9,276,442	9,206,410
CURRENT ASSETS			
Inventories	12	990,902	856,224
Trade and bills receivables	13	415,314	622,842
Prepayments, deposits and other receivables		130,178	218,980
Loan to an associate		40,000	40,000
Loans receivable		24,288	21,984
Derivative financial instruments	15	30,486	2,728
Pledged deposits		1,102,498	1,677,000
Cash and cash equivalents		1,559,963	1,198,235
		<hr/>	<hr/>
Total current assets		4,293,629	4,637,993
CURRENT LIABILITIES			
Trade and bills payables	14	596,953	618,711
Other payables and accruals		949,971	1,125,549
Derivative financial instruments	15	9,939	19,005
Interest-bearing bank loans	16	654,022	4,740,450
Convertible bonds	17	1,147,097	–
Senior notes	18	192,312	–
Tax payable		140,903	175,609
		<hr/>	<hr/>

		30 June 2016	31 December 2015
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
		(Unaudited)	(Restated)
Total current liabilities		<u>3,691,197</u>	<u>6,679,324</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>602,432</u>	<u>(2,041,331)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,878,874</u>	<u>7,165,079</u>
NON-CURRENT LIABILITIES			
Convertible bonds	17	–	2,659,057
Senior notes	18	2,426,927	–
Interest-bearing bank loans	16	2,376,217	–
Other payables and accruals		26,742	28,696
Deferred tax liabilities		<u>894,790</u>	<u>875,083</u>
Total non-current liabilities		<u>5,724,676</u>	<u>3,562,836</u>
Net assets		<u>4,154,198</u>	<u>3,602,243</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	19	5,389	5,387
Equity component of convertible bonds	17	24,489	66,978
Other reserves		<u>3,754,957</u>	<u>3,220,787</u>
		3,784,835	3,293,152
Non-controlling interests		<u>369,363</u>	<u>309,091</u>
Total equity		<u>4,154,198</u>	<u>3,602,243</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

1. CORPORATE AND GROUP INFORMATION

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

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

The Group began to consolidate the financial results of Swisse from 30 September 2015. Details of Swisse’s contribution to the Group’s revenue and operating results for the six months ended 30 June 2016 (the “**Period**”) are set out in note 4.

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

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements of the Group for the Period have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. These unaudited interim condensed consolidated financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group’s annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the new and revised International Financial Reporting Standards (“**IFRSs**”) (which also include International Accounting Standards and Interpretations) as disclosed in note 3 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group’s annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2015.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11 IFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations Regulatory Deferral Accounts</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs

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

4. OPERATING SEGMENT INFORMATION

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

- (a) the infant formulas segment comprises the production of infant formulas for children under seven years old and milk formulas for expectant and nursing mothers;
- (b) the adult nutrition and care products segment comprises the production of vitamins, health supplements, skin care and sports nutrition products for adults; and
- (c) other pediatric products segment comprises the production of probiotic supplements, dried baby food and nutrition supplements and baby care products.

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

Operating segment information for the six months ended 30 June 2016 (Unaudited):

	Infant formulas RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	<u>1,460,490</u>	<u>1,284,010</u>	<u>263,804</u>	<u>–</u>	<u>3,008,304</u>
Segment results	957,182	801,196	169,730	–	1,928,108
<i>Reconciliations:</i>					
Interest income					29,342
Other income and unallocated gains					108,131
Share of loss of an associate					(2,858)
Corporate and other unallocated expenses					(1,172,583)
Finance costs					(228,389)
Profit before tax					<u>661,751</u>
Other segment information:					
Depreciation and amortisation	<u>1,420</u>	<u>5,936</u>	<u>2,588</u>	<u>79,206</u>	<u>89,150</u>
Impairment of trade receivables	<u>–</u>	<u>346</u>	<u>–</u>	<u>–</u>	<u>346</u>
Write-down of inventories to net realisable value	<u>53,387</u>	<u>18,174</u>	<u>7</u>	<u>–</u>	<u>71,568</u>
Capital expenditure*	<u>5,244</u>	<u>26,647</u>	<u>8,382</u>	<u>1,188</u>	<u>41,461</u>

Operating segment information for the six months ended 30 June 2015 (Unaudited):

	Infant formulas <i>RMB'000</i>	Adult nutrition and care products <i>RMB'000</i>	Other pediatric products <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:					
Sales to external customers	1,697,843	–	265,059	–	1,962,902
Segment results	995,316	–	147,588	–	1,142,904
<i>Reconciliations:</i>					
Interest income					62,601
Other income and unallocated gains					6,239
Share of loss of an associate					(482)
Corporate and other unallocated expenses					(883,594)
Finance costs					(47,550)
Profit before tax					280,118
Other segment information:					
Depreciation and amortisation	4,871	–	1,677	23,561	30,109
Write-down/(back) of inventories to net realisable value	1,404	–	(649)	–	755
Capital expenditure*	2,731	–	–	66,182	68,913

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	1,863,413	1,962,902
Australia	1,063,154	–
Other countries	81,737	–
	<u>3,008,304</u>	<u>1,962,902</u>

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

(b) Non-current assets

	30 June	31 December
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Mainland China	715,466	758,464
Australia	2,868,160	2,763,024
Other countries	31,340	32,606
	<u>3,614,966</u>	<u>3,554,094</u>

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

Information about a major customer

During the six months ended 30 June 2016 and 2015, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Revenue</i>		
Sale of goods	<u>3,008,304</u>	<u>1,962,902</u>
<i>Other income and gains</i>		
Bank interest income	24,183	57,076
Interest income from loans and bonds receivables	5,159	5,525
Service income	307	–
Foreign exchange differences	91,285	–
Fair value gains on derivative financial instruments	9,647	–
Government subsidies	3,865	3,129
Others	3,027	3,110
	<u>137,473</u>	<u>68,840</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans, convertible bonds and senior notes	159,179	47,550
Bank charges	51,522	–
Loss on repurchase of convertible bonds	17,688	–
	<u>228,389</u>	<u>47,550</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	1,008,628	819,243
Depreciation	41,062	25,339
Amortisation of intangible assets	47,350	4,031
Amortisation of prepaid land lease payments	738	739
Loss on disposal of items of property, plant and equipment	3,240	–
Loss on repurchase of convertible bonds	17,688	–
Employee benefit expenses:		
Wages and salaries	395,400	269,705
Pension scheme contributions (defined contribution schemes)	43,478	58,288
Staff welfare and other expenses	6,652	18,593
Equity-settled share option expense	18,783	483
Equity-settled share award expense	14,375	20,851
	478,688	367,920
Foreign exchange differences, net	(91,285)	11,556*
Fair value gains on derivative financial instruments	(9,647)	–
Impairment of trade receivables*	346	–
Write-down of inventories to net realisable value#	71,568	755

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

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

8. INCOME TAX

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current – Charge for the period		
Mainland China	58,685	93,205
Hong Kong	5,660	7,122
Australia	152,523	–
Others	3,250	66
Deferred	36,741	(25,230)
	<hr/>	<hr/>
Total tax charge for the period	256,859	75,163
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The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

PRC enterprise income tax (“EIT”)

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the rate of 25% (six months ended 30 June 2015: 25%) on the taxable profits for the Period, based on the existing legislation, interpretations and practices in respect thereof.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period.

Australian corporate income tax

Australian corporate income tax has been provided at the rate of 30% on the estimated assessable profits arising in Australia for the Period. No Australian corporate income tax has been provided for the six months ended 30 June 2015 as the Group did not have any assessable profits arising in Australia for that period.

9. INTERIM DIVIDENDS

No interim dividend was proposed during by the Board for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 626,867,751 (six months ended 30 June 2015: 604,616,727) in issue during the Period.

The calculation of the diluted earnings per share amount for the Period is based on the profit for the Period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share option schemes and the share award schemes. As the conversion or exercise of convertible bonds would have an antidilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the convertible bonds.

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	356,909	204,955
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	630,284,526	608,033,502
Weighted average number of shares held for the share award schemes	(3,416,775)	(3,416,775)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	626,867,751	604,616,727
Effect of dilution – weighted average number of ordinary shares:		
Share options and awarded shares	10,602,390	9,319,527
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	637,470,141	613,936,254

11. GOODWILL

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Restated)
Cost:		
At 1 January	4,937,295	76,000
Acquisition of subsidiaries	4,193	4,593,425
Exchange alignment	222,690	267,871
	<u>5,164,178</u>	<u>4,937,296</u>
At period/year end		
	<u>5,164,178</u>	<u>4,937,296</u>
Accumulated impairment:		
At 1 January and at period/year end	—	—
	<u>—</u>	<u>—</u>
Net carrying amount:		
At period/year end	<u>5,164,178</u>	<u>4,937,296</u>

12. INVENTORIES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Raw materials	262,188	357,315
Raw materials in transit	159,730	142,104
Work in progress	2,044	4,711
Finished goods	566,940	352,094
	<u>990,902</u>	<u>856,224</u>
	<u>990,902</u>	<u>856,224</u>

13. TRADE AND BILLS RECEIVABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade receivables	414,659	625,013
Bills receivable	6,000	3,000
	<u>420,659</u>	<u>628,013</u>
Less: Impairment provision	(5,345)	(5,171)
	<u>415,314</u>	<u>622,842</u>
	<u>415,314</u>	<u>622,842</u>

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

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

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 1 month	247,842	289,922
1 to 3 months	142,374	313,809
Over 3 months	25,098	19,111
	<u>415,314</u>	<u>622,842</u>

The above aged analysis included bills receivable of RMB6,000,000 (31 December 2015: RMB3,000,000).

14. TRADE AND BILLS PAYABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade payables	593,074	610,558
Bills payable	3,879	8,153
	<u>596,953</u>	<u>618,711</u>

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

	30 June 2016	31 December 2015
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 1 month	330,397	370,967
1 to 3 months	254,163	220,867
Over 3 months	12,393	26,877
	596,953	618,711

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
<i>Note</i>	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Convertible option embedded in a loan receivable	2,786	–	2,728	–
Forward currency contracts	–	4,457	–	5,559
Put option embedded in a roll-up call option (“ Roll-up Call Option ”)	–	5,482	–	13,446
Early redemption option embedded in the senior notes (a)	27,700	–	–	–
	30,486	9,939	2,728	19,005

Note:

- (a) An early redemption option is embedded in the senior notes, details of which are set out in note 18. The fair value asset of the early redemption option as at 30 June 2016 was RMB27,700,000 (31 December 2015: Nil). No fair value gain or loss on the early redemption option was recognised in profit or loss for the Period (six months ended 30 June 2015: Nil).

16. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	30 June 2016		Effective interest rate (%)	31 December 2015	
		Maturity	RMB'000		Maturity	RMB'000
Current						
Secured bank loan	BBSY + margin	Apr-2017	230,709	–	–	–
Secured bank loan	Libor + margin	Apr-2017	253,313	–	–	–
Secured bank loan	4.140%	Sep-2016	170,000	4.140%	Mar-2016	830,000
Secured bank loan			–	Libor+margin	Sep-2016	2,900,929
Secured bank loan			–	Libor+margin	Mar-2016	779,236
Secured bank loan			–	Libor+margin	Mar-2016	194,809
Unsecured bank loan			–	Libor+margin	Mar-2016	35,476
			<u>654,022</u>			<u>4,740,450</u>
Non-current						
Secured bank loan	BBSY + margin	Apr-2019	1,090,016	–	–	–
Secured bank loan	Libor + margin	Apr-2019	1,286,201	–	–	–
			<u>2,376,217</u>			<u>–</u>
			<u>3,030,239</u>			<u>4,740,450</u>

Notes:

- (a) Certain of the Group's bank loans are secured and guaranteed by the pledge of certain of the Group's time deposits amounting to RMB188,000,000 (31 December 2015: RMB1,927,000,000).
- (b) Certain of the Group's bank loans are guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and are secured by fixed and floating charges (in respect of Biostime Hong Kong Limited, a floating charge only) over all present and future assets of the Company and certain of its subsidiaries and assignments over the Company's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, share pledges over certain subsidiaries' shares.

- (c) At 30 June 2016, the Group's bank loans were denominated in RMB, US\$, AUD and Euro in the amounts of RMB170,000,000 (31 December 2015: RMB830,000,000), RMB1,539,514,000 (31 December 2015: RMB3,874,974,000), RMB1,320,725,000 (31 December 2015: Nil), and Nil (31 December 2015: RMB35,476,000), respectively.

17. CONVERTIBLE BONDS

On 20 February 2014, the Company issued zero coupon convertible bonds due 20 February 2019 with an aggregate principal amount of HK\$3,100,000,000. The convertible bonds have been listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 21 February 2014.

On 6 June 2016, the Company commenced an offer to repurchase for cash the convertible bonds (the "**Offer**") and announced to accept for purchase valid tenders of the convertible bonds with aggregate principle amount of HK\$1,814,000,000 pursuant to the Offer on 15 June 2016. The purchase price is HK\$2,140,000 for each HK\$2,000,000 in principal amount of the convertible bonds and the Offer was settled on 22 June 2016. During the Period, the Company recorded a loss on repurchase of convertible bonds of approximately RMB17,688,000 (six months ended 30 June 2015: Nil) which have been charged to profit or loss.

18. SENIOR NOTES

On 21 June 2016, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of USD400,000,000. The interest rate is 7.25% per annum and is paid semi-annually. The senior notes are listed on the Singapore Exchange Securities Trading Limited.

The net proceeds after deduction of underwriting discount and certain expenses related to the senior notes issue have been deposited into an escrow account (the "**Escrow Account**"). Approximately US\$250 million (equivalent to HK\$1,941 million or RMB1,616 million) of the net proceeds of the senior notes were released to repurchase the convertible bonds tendered in the Offer as detailed in note 17 above and pay certain fees related to the Offer. The remaining net proceeds in the Escrow Account will be released from time to time in whole or in part, as applicable, in connection with any mandatory or optional redemption, repayment or repurchase of the remaining convertible bonds.

The senior notes are secured by the escrow charge over the Escrow Account and a floating charge over the assets of the Company (other than any assets located in the PRC or shares of subsidiaries) on a second-ranking basis. Besides, the senior notes are jointly and severally guaranteed on a senior subordinated basis by certain subsidiaries.

The Company may redeem part or all of the senior notes at certain time and certain redemption prices as specified in the terms of the senior notes.

As at 30 June 2016, the fair value of the early redemption option embedded in the senior notes amounted to RMB27,700,000, details of which are set out in note 15.

19. SHARE CAPITAL

Shares

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
Authorised:		
10,000,000,000		
(31 December 2015: 10,000,000,000)		
ordinary shares of HK\$0.01 each	<u>HK\$100,000,000</u>	<u>HK\$100,000,000</u>
Issued and fully paid:		
630,348,790		
(31 December 2015: 630,080,426)		
ordinary shares of HK\$0.01 each	<u>HK\$6,303,488</u>	<u>HK\$6,300,804</u>
Equivalent to	<u>RMB5,389,000</u>	<u>RMB5,387,000</u>

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

	Number of shares in issue	Share capital HK\$'000	Equivalent to RMB'000
At 1 January 2015 (Audited)	606,825,765	6,068	5,197
Share options exercised (<i>note (a)</i>)	2,741,576	28	22
Share consideration for the acquisition of a subsidiary (<i>note (b)</i>)	<u>20,513,085</u>	<u>205</u>	<u>168</u>
	<u>23,254,661</u>	<u>233</u>	<u>190</u>
At 31 December 2015 and 1 January 2016 (Audited)	630,080,426	6,301	5,387
Share options exercised (<i>note (c)</i>)	<u>268,364</u>	<u>2</u>	<u>2</u>
At 30 June 2016 (Unaudited)	<u>630,348,790</u>	<u>6,303</u>	<u>5,389</u>

Notes:

- (a) During the year ended 31 December 2015, the subscription rights attaching to 2,741,576 share options were exercised at the subscription prices ranging from HK\$2.53 to HK\$24.70, resulting in the issue of 2,741,576 ordinary shares for a total cash consideration, before expenses, of HK\$14,567,000 (equivalent to RMB11,838,000).

- (b) During the year ended 31 December 2015, the Company issued 20,513,085 ordinary shares of HK\$13.48 each as consideration of HK\$276,516,000 (equivalent to RMB226,967,000) for the Acquisition.
- (c) During the Period, the subscription rights attaching to 268,364 share options were exercised at the subscription prices ranging from HK\$2.53 to HK\$24.70, resulting in the issue of 268,364 ordinary shares for a total cash consideration, before expenses, of HK\$2,180,000 (equivalent to RMB1,830,000).

20. COMPARATIVE AMOUNTS

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

Additionally, the purchase price allocation for the acquisition of Healthy Times Inc. ("**Healthy Times**"), a wholly-owned subsidiary, has been completed during the Period, certain comparative amounts have been restated to conform with the current period's presentation and accounting treatment. The quantitative impact on the consolidated statement of financial position as at 31 December 2015 is summarised below:

	<i>RMB'000</i>
Increase in intangible assets	31,917
Decrease in goodwill	(19,096)
	<hr/>
Increase in total non-current assets	12,821
Increase in deferred tax liabilities	(11,171)
	<hr/>
Increase in other reserves	1,650
	<hr/> <hr/>

Healthy Times was acquired on 1 July 2015. Accordingly, the retrospective restatement had no effect on the statement of profit or loss and other comprehensive income for the six months ended 30 June 2015.

BUSINESS REVIEW

The first half of 2016 is the first complete half financial year after the acquisition of Swisse Wellness Group Pty Ltd (“**Swisse**”) in September 2015. As an all-around provider of premium family nutrition and care products, Biostime International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) has leveraged its resources to carry out a smooth integration of Swisse into the business of the Group and activate its direct sales in China. In the first half of 2016, the Group successfully completed a debt refinancing of its Swisse acquisition bridge loan and convertible bonds, further strengthening the Group’s capital efficiency and financial stability. With two strong brands in both the infant milk formula (“**IMF**”) and vitamin, herbal and mineral supplements (“**VHMS**”) segments, the Group is well-positioned to maintain strong market position within these two dynamic industries.

During the first half of the 2016 financial year, the revenue of the Group and its net profit for the six months ended 30 June 2016 reached RMB3,008.3 million and RMB404.9 million, respectively. Among the Group’s revenue, the baby nutrition and care products segment contributed approximately 57.3% of the revenue, with the remaining 42.7% derived from the adult nutrition and care products segment.

Due to the tightening effect casted by new IMF recipes registration rules, the market remained fiercely competitive. The significant de-stocking of IMF products and aggressive price competition led to a decrease in industry sales volume. Consequently, revenues from the baby nutrition and care products segment decreased by approximately 12.2% as compared to the corresponding period in 2015. The decrease was mainly attributable to the sales decline of the mid-tier IMF products under ADiMIL™ brand. Meanwhile, the revenue from Biostime™ branded products remained relatively stable. According to Nielsen, an independent market research firm, the Group’s share of the overall IMF market experienced a slight decrease to 5.8% for the twelve months ended 30 June 2016 compared with 5.9% for the year ended 31 December 2015.

Despite the intensifying competition, the Group has continued to invest in brand building and consumer education to consolidate market position of Biostime™ branded products. The Biostime™ brand remained strong within Chinese market during the period, demonstrated by strong revenue growth of the probiotics segment, which has increased by 12.8% compared with the same period last year.

In the adult nutrition and care products segment, Swisse has delivered strong momentum in both top line revenue and net profit, driven by robust sales growth in Australian and Chinese markets. The revenue derived from Swisse for the six months ended 30 June 2016 increased by 34.9% compared with the corresponding period last year, and was RMB1,284.0 million (AUD267.6 million) in the first half of 2016. Based on the research statistics from IRI Worldwide, Swisse remained No. 1 in the total Australian vitamin and herbal market with a share of 18.3% for the twelve months ended 30 June 2016. Since its flagship store opening on Tmall.hk, Swisse has strengthened its number one position in the healthcare category on both Tmall and Taobao platforms. In addition, Swisse also established strategic partnerships with other major cross-border e-commerce platforms, such as VIP shop, Netease Kaola and JD.com, and has demonstrated strong sales momentum in the Chinese market.

Although Swisse sales growth remained strong over the first half of this year, we have observed some downward pressure in the later part of the period. As a result of the uncertainties from the recently announced cross-border e-commerce regulations related to health food products, passive sales have weakened, primarily due to destocking from distributors in Australia. Although further clarification has been provided by regulators, some uncertainty remains around the future cross-border e-commerce regulation post May 2017. We expect this uncertainty may continue to affect performance in the second half of the year, but remain confident that given strong underlying consumer demand for VHMS products, prompted by heightened health awareness from Chinese consumers and Swisse's leading position in the category, the Group is well-positioned to capture its significant business potential in the future. In the first half of 2016, the Group began to leverage its sophisticated marketing models and distribution capabilities to strengthen brand recognition and extend online strategic partnerships in China. Meanwhile, the Group has also commenced the filing and registration process for a compelling range of products to facilitate the offline sales and increase the nationwide exposure of Swisse's branded products.

PROSPECTS

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

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

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

RESULTS OF OPERATION

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

Revenue

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

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

Infant formulas

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

Adult nutrition and care products

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

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

Other pediatric products

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

Gross profit and gross profit margin

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

EBITDA and EBITDA margin

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

Finance costs

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

Income tax expenses

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

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

Investing activities

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

Financing activities

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

Cash and bank balances

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

Interest-bearing bank loans, senior notes and convertible bonds

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

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

Working capital

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

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

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

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2016 given the Group's priority on enhancing financial liquidity and optimizing capital structure.

CORPORATE GOVERNANCE CODE

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). Throughout the six months ended 30 June 2016, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provisions A.2.1 and C.1.2 as disclosed below.

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

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

Under code provision C.1.2 of the CG Code, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During the six months ended 30 June 2016, as the Board had held 3 meetings, in addition to regular Board meetings, to discuss and consider certain specific affairs of the Group, instead of monthly updates, the management of the Company had provided the Board with updates of the Group before and during each of such meetings to keep all Directors abreast of the performance, position and prospects of the Group.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code during the six months ended 30 June 2016.

The Company has also established written guidelines (the "**Employees Written Guidelines**") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the six months ended 30 June 2016.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

AUDIT COMMITTEE

The audit committee of the Board (the "**Audit Committee**") was established on 25 November 2010 in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three members, namely Dr. Ngai Wai Fung, Mr. Tan Wee Seng and Mr. Luo Yun, all of whom are non-executive Directors and the majority of whom are independent non-executive Directors. Dr. Ngai Wai Fung, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Group's financial reporting system and internal control procedures.

The Audit Committee has held meetings to discuss the auditing, internal controls and financial reporting matters including the review of this interim report and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016 have been reviewed by the Company's external auditors.

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

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

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is also published on the websites of the Company (www.biostime.com) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2016 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 23 August 2016

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