ANNUAL REPORT 2014

# BBI Life Sciences Corporation
# BBI生命科學有限公司

(incorporated in the Cayman Islands with limited liability)

STOCK CODE: 1035

## A Well-recognised Provider of Life Sciences Research Product and Service Industry in China

We are a well-recognised provider with a comprehensive portfolio coverage in the life sciences research product and service industry in China, and the largest provider of DNA synthesis products in China. Our current business segments include DNA synthesis products, genetic engineering services, life sciences research consumables, and protein and antibody related products and services. With its mature research and development capability and powerful sales network, the Company maintains a stable and sustainable growth.

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# CORPORATE PROFILE

BBI Life Sciences Corporation (the "**Company**" or "**BBI Life Sciences**", together with its subsidiaries, the "**Group**") is a well-recognised provider with comprehensive portfolio coverage in the life sciences research product and service industry in China, and the largest provider of DNA synthesis products in the country. Our business segments include DNA synthesis products, genetic engineering services, life sciences research consumables, and protein and antibody related products and services. The Company maintains stable and sustainable growth by leveraging on its mature research and development capability and powerful sales network.

2014 was an important year for the growth and the development of the Group. Since the shares of the Company ("**Shares**") were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), BBI Life Sciences has stepped into the international capital market and laid a solid foundation for the rapid development in the future.

With our extensive direct sales network across China, we can efficiently deliver quality products and services to our customers. We have also entered in broader markets in Asia, North America, South America, Europe and Africa, mainly for introducing our DNA synthesis products and life sciences research consumables. Our key customers include colleges, universities and research institutes, which accounted for approximately 54.8% of our revenue as at 31 December 2014. Other customers also include hospitals, pharmaceutical and biotech companies, as well as government testing and diagnostic centres and distribution companies in China and overseas. According to the Frost & Sullivan Report, we were the No. 1 provider of DNA synthesis products in China by revenue in 2013 with a market share of approximately 17.4%. The Company was also the No. 1 provider of oligonucleotide synthesis products (a sub-segment of DNA synthesis products) by revenue with a market share of approximately 26.0%. In addition, we ranked sixth in the DNA sequencing service market (a sub-segment of genetic engineering services) by revenue.

For the year ended 31 December 2014, the Group generated 39.8% revenue from DNA synthesis products, 30.6% from research consumables, 19.4% from genetic engineering service and 10.2% from protein and antibody related products and services.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Wang Qisong
Ms. Wang Luojia
Ms. Wang Jin

### Non-executive Director

Mr. Hu Xubo

### Independent non-executive Directors

Mr. Xia Lijun
Mr. Ho Kenneth Kai Chung
Mr. Liu Jianjun

## AUDIT COMMITTEE

Mr. Xia Lijun *(Chairman)*
Mr. Ho Kenneth Kai Chung
Mr. Liu Jianjun

## REMUNERATION COMMITTEE

Mr. Ho Kenneth Kai Chung *(Chairman)*
Mr. Xia Lijun
Mr. Liu Jianjun

## NOMINATION COMMITTEE

Mr. Liu Jianjun *(Chairman)*
Mr. Ho Kenneth Kai Chung
Mr. Xia Lijun

## RISK MANAGEMENT COMMITTEE

Mr. Liu Jianjun *(Chairman)*
Mr. Ho Kenneth Kai Chung
Mr. Xia Lijun

## JOINT COMPANY SECRETARIES

Ms. Hu Heng
Ms. Ng Sau Mei

## AUTHORISED REPRESENTATIVES

Ms. Wang Luojia
Ms. Ng Sau Mei

## LEGAL ADVISERS

### Hong Kong Law:

Howse Williams Bowers
27/F, Alexandra House
18 Chater Road, Central
Hong Kong

### Cayman Islands Law:

Conyers Dill & Pearman (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands

## AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

## COMPLIANCE ADVISER

Haitong International Capital Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central, Hong Kong

## REGISTERED OFFICE IN THE CAYMAN ISLANDS

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 698, Xiangmin Road
Songjiang District
Shanghai, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two
Times Square, 1 Matheson Street
Causeway Bay, Hong Kong

# CORPORATE INFORMATION (CONTINUED)

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

## PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
16/F, Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

Industrial and Commercial Bank of China
2/F, No. 218, Zhongshaner Road
Songjiang District
Shanghai, PRC

## COMPANY WEBSITES

http://www.bbi-lifesciences.com
http://www.sangon.com
http://www.biobasic.com

## STOCK CODE

1035

## LISTING DATE

30 December 2014

# FINANCIAL HIGHLIGHT

- For the year ended 31 December 2014, the revenue of the Group was approximately RMB253.19 million, representing an increase of 15.1% as compared with approximately RMB219.99 million for 2013.

- For the year ended 31 December 2014, the gross profit increased by 17.4% from approximately RMB111.09 million in 2013 to approximately RMB130.36 million.

- For the year ended 31 December 2014, the profit of the Group decreased by 15.0% from approximately RMB42.35 million in 2013 to approximately RMB35.98 million. After deducting non-recurring one-off gains and expenses (including listing expenses, the gain from the disposal of 31% equity interest in Shanghai PrimeGene Bio-Tech Co., Ltd. and share-based payment (in tax exclusive terms)), the adjusted net profit was approximately RMB46.93 million, representing a year-on-year increase of 10.8% from approximately RMB42.35 million in 2013.

- For the year ended 31 December 2014, profit attributable to owners of the Company decreased by 17.3% from approximately RMB40.25 million recorded in 2013 to approximately RMB33.29 million. After deducting the aforesaid three items of non-recurring one-off gains and expenses, the adjusted net profit increased by 10.20% from approximately RMB40.25 million in 2013 to approximately RMB44.37 million.

# FOUR-YEAR FINANCIAL SUMMARY

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | RMB thousand | | | |
| | **2011** | **2012** | **2013** | **2014** |
| **Operation Results** | | | | |
| Revenue | 160,116 | 186,357 | 219,988 | 253,193 |
| Gross profit | 92,375 | 102,520 | 111,090 | 130,363 |
| Profit after income tax | 34,802 | 35,314 | 42,347 | 35,978 |
| Profit attributable to shareholders of the Company | 33,009 | 33,431 | 40,249 | 33,290 |
| Non-controlling interest | 1,793 | 1,883 | 2,098 | 2,688 |
| Basic and diluted earnings per share (RMB) | 0.084 | 0.085 | 0.102 | 0.084 |
| **Assets** | | | | |
| Non-current assets | 128,754 | 163,673 | 169,483 | 166,806 |
| Current assets | 190,126 | 158,751 | 204,143 | 432,092 |
| Current liabilities | 160,436 | 126,232 | 66,945 | 99,170 |
| Net current assets | 29,690 | 32,519 | 137,198 | 332,922 |
| Non-current liabilities | 876 | 3,081 | 4,928 | 5,578 |
| Net assets | 157,568 | 193,111 | 301,753 | 494,150 |
| Cash and cash equivalents | 84,883 | 55,500 | 109,556 | 195,821 |
| Inventories turnover days (day) | 165 | 166 | 139 | 127 |
| Trade receivables turnover days (day) | 88 | 76 | 71 | 74 |
| Trade payables turnover days (day) | 44 | 30 | 20 | 19 |

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of the Company (the "**Board**"), I am pleased to present the annual report of the Company for the year ended 31 December 2014 ("**the Reporting Period**").

# CHAIRMAN'S STATEMENT (CONTINUED)

2014 represents an important milestone in the Group's development. On 30 December 2014, the shares of the Company were successfully listed on the Main Board of the Stock Exchange, indicating that BBI Life Sciences has made inroads into the international capital arena and laying a solid foundation for our future business development. We are committed to providing diversified life sciences research products and services. After more than a decade of efforts, BBI Life Sciences has developed into a well-recognised provider in the life sciences research product and service industry with comprehensive portfolio coverage, proven research and development capabilities and strong direct sales and distribution network in domestic and overseas markets. BBI Life Sciences will enter a new stage hereafter and take strides towards the goal of being a global one-stop provider in the life sciences research product and service industry based in China.

BBI Life Sciences obtains a considerable market position in the industry with a comprehensive product and service portfolio for life sciences research, aiming to satisfy daily laboratory requirements from basic molecular biology research to extended research areas. The Group provides a wide range of products and services, including (1) DNA synthesis products, (2) genetic engineering services, (3) life sciences research consumables, and (4) protein and antibody related products and services. Our customers include colleges, universities, research institutes, hospitals, pharmaceutical and biotech companies, as well as government testing and diagnostic centres in China and overseas. Our Sangon and BBI brands have become highly recognisable in the market attributable to their reputation for product and service quality, price competitiveness, and efficient delivery services. Currently, BBI Life Sciences is the leading provider of DNA synthesis products in China.

With vigorous support from public and private enterprises in China in the development of life sciences industry, our business performance continues to improve. The PRC government expenditure on research and development activities has been growing year over year, resulting in the continual increase in academic research funding, and the number of professional researchers and research projects. In addition, the increasing research and development investment from the biotech and pharmaceutical companies promoted new drug discovery and product innovation, facilitating the development of life sciences research products and services in the PRC and thus providing ample business and development opportunities for our life sciences research products and services.

For the year ended 31 December 2014, total revenue from our business recorded a stable growth of 15.1% from the previous year to RMB253.19 million, mainly attributable to the increase in sales in the four business segments. Gross profit and gross profit margin increased 17.4% and 1% from the previous year to RMB130.36 million and 51.5% respectively, mainly attributable to the rise in overall growth profit margin as a result of the effective optimisation of production efficiency through our self-developed automated DNA synthesis system, the proper adjustment to the supplier portfolio and the economies of scale enjoyed by our research consumable business. Profit attributable to equity holders of the Company amounted to RMB33.29 million. The adjusted profit attributable to equity holders of the Company, after deducting the non-recurring one-off income and expenses including the listing expenses and gain on disposal of Shanghai PrimeGene Bio-Tech Co., Ltd., an associate of the Company, and the share-based payment, amounted to RMB44.37 million, representing an increase of 10.2% from the previous year. In appreciation of our shareholders' support, the Board proposed to distribute a final dividend of HK$0.008 per ordinary share for the Reporting Period.

# CHAIRMAN'S STATEMENT (CONTINUED)

In addition to our comprehensive product and service coverage in life sciences research, we have expanded our sales network to over 42 countries and regions in China, Asia, North America, South America, Europe and other regions, and established an extensive direct sales network across China with 38 sales points. We strive to enhance the penetration rate of the products of BBI Life Sciences brand in the global market and cope with the rapid development of our clients in scientific research through efficient delivery of products and provision of comprehensive technical support and after-sales service. Meanwhile, our highly skilled research and development team of 89 members continues to develop and launch new products and services. Currently, we have developed over 4,000 antibodies for life sciences research with a total of 10 registered patents and 4 patent applications pending approval in China. The strong intellectual property portfolio not only reinforces the competitiveness and unique nature of BBI Life Sciences brand, but also allows us to implement technical reform to keep abreast of the market changes and respond to market demand. In addition, we continue to strengthen our internal control to optimise the production process and exercise tight cost control through promoting further automation of production lines, thus enhancing our product competitiveness and overall profitability.

In the past decade or so, the Group has successfully established competitive advantages including brand building, comprehensive product and service coverage, multi-channel sales network and proven research and development capabilities and technologies, laying a solid foundation for our future growth. Looking ahead, we will expand and develop our product and service portfolio based on market demand, including next-generation sequencing and diagnostic research kits for the purpose of testing contaminants in food, in order to provide one-stop products and services in the field of life sciences research. Among which, the newly developed protein and antibody related products and services sector will become our development focus. According to our schedule, approximately 1,000 antibodies will be developed each year to meet the continual demand of clients. Moreover, on the basis of our extensive direct sales and distribution network, we plan to set foot in new markets in Asian and European countries and expand the network and market share of BBI Life Sciences. In addition, we strive to strengthen the cross-border online sales platform and enhance online purchasing experience and customer loyalty by upgrading our electronic commerce system, in order to reinforce our market position in the industry of life sciences research products and services. We will also continue to promote further automation of our production process for higher production capacity and operating efficiency so as to maintain our competitiveness and gross profit.

The PRC government has implemented a series of policies to push ahead the development and innovation of the biotech and pharmaceutical industries in China, promoting the life sciences production technologies and related products and services. With rising per capita healthcare expenditure and growing health awareness, biotech and pharmaceutical companies have increased their funding on research and development, which will continue to be the major impetus to our business growth. As such, we actively plan to expand our production capacity to embrace the rapid business growth in the future. We have planned to expand the plants in the production base in Shanghai with addition of new production facilities in accordance with the development pace of each business segment.

# CHAIRMAN'S STATEMENT (CONTINUED)

Finally, on behalf of the Board, I would like to express my sincere gratitude to our clients and business partners for their trust and support. Also, I would like to take this opportunity to extend my appreciation to the management team and all of our employees for their contribution. Looking ahead, we will capitalise on the financing platform following the listing of our shares and seize the fast-growing opportunities in the industry with a vision of becoming a global one-stop enterprise in life sciences industry, so as to achieve sustainable development of the Group and deliver favourable returns to our shareholders.

**WANG Qisong**
*Chairman*

17 March 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## POSITIONING OF THE COMPANY

The Company, a well-recognised supplier of life science research products and services in China, is committed to providing the most comprehensive product and service portfolios for colleges and universities, pharmaceutical and biotech companies, research institutes and hospitals. The Group mainly engages in the following businesses: (1) DNA synthesis products; (2) genetic engineering services; (3) life sciences research consumables and (4) protein and antibody related products and services (the "**Four Business Segments**"). The overall gross profit margin of the Group remains at a level of more than 50%. Leveraging on its quality and cost-effective products and services under "Sangon" and "BBI" brands as well as efficient delivery, the Group has been highly acknowledged by customers in both domestic and overseas markets.

## SUCCESSFUL LISTING IN DECEMBER 2014

2014 is a banner year for the Group. The shares of the Company have been listed on the Main Board of the Hong Kong Stock Exchange since 30 December 2014. The successful listing, marking a huge step of the Group toward capital internationalization, enhanced the capital strength and corporate governance of the Group and laid a solid foundation for future development. During the Reporting Period, the Group achieved sound operation performance and maintained a stable growth due to the continuous and strong support for the life science sector from the government, further increases in research and development expenses on life science by public and private institutions, private investment in product innovation and development and research, and medical expenses per capita in China, enhancement of health awareness, together with the promotion of business development and technology upgrade by the Group.

## BUSINESS REVIEW

During the Reporting Period, the overall revenue of the Group was approximately RMB253.19 million, representing an increase of 15.1% as compared with RMB219.99 million for 2013. The overall gross profit and the overall gross profit margin increased by 17.4% and one percentage point from RMB111.09 million and 50.5% for the previous year to RMB130.36 million and 51.5%. The increase in gross profit margin was attributable to continuous and stable increase in revenue and the active control over production costs of the Company during the period. During the Reporting Period, profit attributable to equity holders of the Company was approximately RMB33.29 million. After deducting non-recurring one-off gains and expenses, including listing expenses of RMB23.33 million, approximately RMB26.39 million of gain from the disposal of 31.0% equity interest in Shanghai PrimeGene Bio-Tech Co., Ltd. and share-based payment of approximately RMB13.49 million, the adjusted profit attributable to equity holders of the Company was RMB44.37 million, representing a year-on-year increase of 10.2%.

During the Reporting Period, the revenue of DNA synthesis products, genetic engineering services, life sciences research consumables and protein and antibody related products and services accounted for approximately 39.8%, 19.4%, 30.6% and 10.2% of the total revenue of the Group respectively.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

## Results Analysis of the Four Business Segments

### 1. DNA Synthesis Products

*Positioning*

The Group, as one of the leading suppliers of DNA synthesis products in China, offers oligonucleotide synthesis and gene synthesis products through making nucleic acid molecules with specific sequences. DNA synthesis is widely applied in life sciences research, such as animal and plant studies, disease research, medical diagnosis, drug development, and agriculture and food industry.

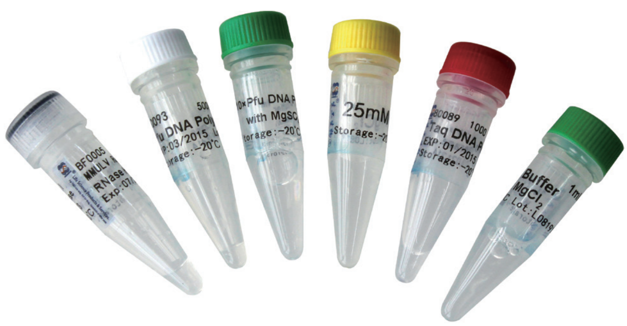
*Results*

During the Reporting Period, the revenue of DNA synthesis products was RMB100.81 million, representing a year-on-year increase of 10.6%, mainly attributable to the further expansion of product portfolio and increase in orders due to excellent product quality and prompt delivery. During the Reporting Period, the automatic DNA synthesis system independently developed by the Group effectively improved production efficiency and the gross profit margin increased to 59.9% from 54.8% for 2013.

*Development Strategies*

Given that the Group, as a leading player in the industry with strong market reputation, has a direct sales network and extensive coverage of support services, and that the industry has high entry barriers, the market environment is stable. Driven by market demand, the market of DNA synthesis products in China will achieve rapid development due to the lower cost and price of oligonucleotide synthesis and gene synthesis as a result of technology development and increasingly stronger support to life sciences research and development from public and private institutions. According to an independent market research report, the compound annual growth rate ("**CAGR**") of the DNA synthesis market in China from 2015 to 2018 will reach 11.6%. The Group is expected to further benefit from market demand and achieve stable development.

In 2015, the Group will strive to maintain its leadership in the market of DNA synthesis products by accelerating technology investment so as to offer cost-effective products and services. As for the segment of DNA synthesis products, we will focus on the development of high-throughput gene synthesis technology, which is targeted to be put into operation at the end of 2015. The high-throughput gene synthesis technology can improve the efficiency and success rate of gene synthesis and reduce costs so as to enhance product competitiveness in the market.




### 2. Genetic Engineering Services

*Positioning*

The Group offers a variety of genetic engineering services, covering DNA sequencing, next-generation sequencing and molecular biology services. DNA sequencing is the process of analysing DNA sequence to assist researchers in identifying and understanding the gene information of target species. Next-generation sequencing can sequence hundreds or thousands or even tens of millions of DNA molecules based on the customer's personalized needs, and is

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

a newly-emerged technology with high entry barriers. Molecular biology services mainly involve the provision of various methods of manipulation of nucleic acid molecules based on the needs of customers. Genetic engineering services have been widely applied in life sciences research and medical research, including disease research and detection, diagnosis and prognosis of diseases as well as agriculture.

*Results*

During the Reporting Period, the genetic engineering services achieved a revenue of RMB49.07 million, representing a year-on-year increase of 17.2%, while the gross profit margin reached 51.8%, 3.5 percentage points higher year-on-year. The increases in both revenue and profit margin were mainly attributable to the further expansion of service portfolio of the Group, especially the offer of additional services with higher sales potential and the efforts to improve the technologies and increase internal production efficiency, which enabled us to maintain a stable growth.

*Development Strategies*

With the development in science, new applications of DNA sequencing have been developed and the customers of and market demand for DNA sequencing have rapidly increased. In addition, the introduction of new technologies lowered service prices and more and more customers used next-generation sequencing data in their research, which facilitated large-scale research projects and brought more commercial opportunities to the Group. It is expected that by 2018, the total revenue of the genetic engineering market in China will reach RMB3,923.3 million with a CAGR (2015 to 2018) of 27.2%. The Group will continue to expand product and service portfolios and strive to achieve cross-selling by making full use of the synergy with DNA synthesis products. Moreover, catering to the prosperous growth of the market, the Group will increase DNA sequencing and next-generation sequencing production equipment in the new plant with an expansion plan in the production base in Shanghai. The new plant is expected to be put into operation in 2016 in response to the increase in the number of customers and orders, and to provide quality products and services with prompt delivery capability.

3. Life Sciences Research Consumables

*Positioning*

The Group provides researchers with necessary laboratory materials and consumables for experiments, including biochemical reagents, research kits and labware, and offers new products to meet the needs of daily laboratory research. The Group has established production facilities in both Beijing and Canada to promptly provide products and services to customers in China and North America markets.

*Results*

During the Reporting Period, this business segment achieved a revenue of RMB77.45 million, representing a year-on-year increase of 9.3%. The gross profit margin slightly decreased by 4.3 percentage points year-on-year. The decrease was mainly attributable to the renovation of old plants and equipment for laboratory consumables to meet the need for expanding the product portfolio of the Company.

*Development Strategies*

The Group will continue to develop different types of research consumables, such as molecular biology enzymes and research kits, based on market demand, and plans to develop more than 30 types of enzyme tools by the end of 2016 and develop more than 20 types of research kits every year. Currently, the research and development team has started to develop research kits for microbiological detection as planned, which will not only enrich the Group's product portfolio of life sciences research consumables, but also offer customers more diversified options.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

4. Protein and Antibody Related Products and Services

*Positioning*

The Group develops and sells protein related products, such as protein research kits and polypeptide, and antibody related products to assist diagnostic companies and testing laboratories to detect proteins and antigens, as well as for immunological experiments, which are important fields in life sciences research. The Group has developed over 4,000 types of antibodies, of which over 1,000 types of new antibodies were developed during the Reporting Period. The Group has also started to develop antibody services, such as antibody production services and relevant immunological experiments.

*Results*

This business segment achieved a revenue of RMB25.86 million in 2014, representing a year-on-year increase of 60%. The gross profit margin reached 34.5%, representing a year-on-year increase of 1.5 percentage points, mainly attributable to the fact that the gross profit margin has not reached a relatively stable level as the Group is at the early stage of business development.

*Development Strategies*

Protein and antibody related products and services will be the key business segment to be developed by the Group in 2015. Faced with the relatively substantial development potential of protein and antibody related products and services market in China, the Group will further expand the market, customer base and sales network by leveraging on its brand advantage and sound financial resources with an aim to be one of the well-known suppliers of the market of protein and antibody related products and services. As for research and development and production, the Group has planned to develop approximately 2,000 types of antibodies and 500 types of recombinant proteins both for life sciences research during the next two years for the use in the research fields of testing, analysis and diagnostics to meet market demand based on the sales of and demand for new products.

## FINANCIAL REVIEW

| | **2014** **RMB'000** | 2013 RMB'000 | Change |
|---|---|---|---|
| Revenue | **253,193** | 219,988 | 15.09% |
| Gross profit | **130,363** | 111,090 | 17.35% |
| Profit after income tax | **35,978** | 42,347 | -15.04% |
| Net profit excluding investment income, listing and share-based payment expenses | **46,934** | 42,347 | 10.83% |
| Profit attributable to shareholders of the Company | **33,290** | 40,249 | -17.29% |
| Profit attributable to shareholders of the Company, excluding investment income, listing and share-based payment expenses | **44,371** | 40,249 | 10.24% |
| Earnings per share *(RMB per share)* | **0.084** | 0.102 | -17.65% |

### Revenue

In 2014, the Group recorded revenue of RMB253.19 million, representing an increase of 15.09% from RMB219.99 million in 2013. This is mainly contributed by the steady growth of the Four Business Segments.

### Gross Profit

In 2014, the Group's gross profit increased by 17.35% to RMB130.36 million from RMB111.09 million in 2013. This is mainly contributed by the steady growth of the Company's revenue and the aggressive production costs control measures including the improvement of automation during the Reporting Period.

### Selling and distribution expenses

The selling and distribution expenses increased by 26.6% to RMB46.20 million in 2014 from RMB36.48 million in 2013. This is contributed by market development and product marketing.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

## General and administrative expenses

In 2014, the general and administrative expenses increased by 180.8% to RMB53.88 million (excluding the research and development expenses) from RMB19.19 million (excluding the research and development expenses) in 2013. This is mainly due to the public listing expenses of RMB23.33 million and share-based payment of RMB7.06 million in 2014. Excluding the effect of these two expenses, the general and administrative expenses recorded a year-on-year increase of approximately RMB4.3 million. This is mainly due to the increase in remuneration brought along by business expansion.

## Research and development expenses

The research and development expenses increased by 24.4% to RMB12.70 million from RMB10.21 million in 2013. This is mainly due to the increase in research and development investment.

## Income tax expenses

The income tax expenses increased from RMB7.23 million in 2013 to RMB11.3 million in 2014. The actual tax rate increased from 14.6% in 2013 to 23.9% in 2014, mainly because the total expenses of approximately RMB13.49 million for share-based payment are not likely to be deductible for income tax and no deferred income tax asset was recognised on tax losses of certain subsidiaries.

## Net profit and unaudited adjusted net profit

Due to the aforementioned reasons, the net annual profit of the Group amounted to RMB35.98 million in 2014, representing a decrease of 15.0% from RMB42.35 million in 2013. To supplement the consolidated financial statements which are presented in accordance with the HKFRS, the Group also used the unaudited adjusted net profit as an additional financial measure to evaluate the Group's financial performance by eliminating the impact of items that the Group do not consider indicative of the Group's business performance. The Group's unaudited adjusted net profit for the Reporting Period, derived by excluding non-recurring and one-off items comprising the listing expenses of RMB23.33 million and the share-based payment expenses of RMB13.49 million, and the gain of approximately RMB26.39 million generated from the sale of 31.0% equity interest in Shanghai PrimeGene Bio-Tech Co., Ltd., and their corresponding income tax effect was RMB46.93 million in 2014, representing an increase of 10.8% from the adjusted net profit in 2013.

## Trade receivables

| | **2014** | 2013 |
|---|---|---|
| Trade receivables turnover (day) | **74** | 71 |

The trade receivables of the Group remained stable under the ongoing control and management of the Company.

## Inventories

| | **2014** | 2013 |
|---|---|---|
| Inventory turnover (day) | **127** | 139 |

The inventory turnover of the Group is improving continuously with constant control and management.

## Property, plant and equipment

Property, plant and equipment include buildings, machinery equipment and construction under progress. As at 31 December 2014, the property, plant and equipment of the Group amounted to RMB116.54 million, representing an increase of RMB1.85 million from the property, plant and equipment of RMB114.69 million as at 31 December 2013. This is mainly due to the newly-built employees' dormitory and the expansion of production lines.

## Intangible assets

Intangible assets include computer software and patents/patented technology. As at 31 December 2014, the Group's net intangible assets amounted to RMB2.86 million, representing an increase of RMB2.22 million from RMB0.64 million as at 31 December 2013. The increase in intangible assets was mainly due to the adoption of SAP System by the Company.

## Working capital and financial resources

As at 31 December 2014, the cash and cash equivalents of the Group amounted to RMB195.82 million (2013: RMB109.56 million). There is no restricted fund or loan.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

## Cash flow analysis

For the Reporting Period, the Group recorded an annual net cash inflow of RMB50.36 million generated from operating activities.

For the Reporting Period, the annual cash inflow used in investing activities of the Group was RMB12.81 million. This is mainly due to the sale of a then associate, Shanghai PrimeGene Bio-Tech Co., Ltd..

For the Reporting Period, the cash inflow in financing activities of the Group was RMB22.82 million. This is mainly due to the net proceeds of approximately RMB47.84 million from part of the amount from the initial public offering. All of the remaining amount generated from the initial public offering was remitted to the Company's account on 9 January 2015.

## Capital expenditure

For the Reporting Period, the expenditure of purchasing intangible assets, namely computer software, was RMB2.7 million, while the expenditure of purchasing property, plant and equipment and of construction in process amounted to RMB16.26 million.

## Material acquisitions and disposals

For the Reporting Period, the Company did not have any material acquisitions.

For the Reporting Period, the sale of all of the 31.0% equity interest in Shanghai PrimeGene Bio-Tech Co., Ltd., an associate of the Group at that time, generated gain of approximately RMB26.39 million.

## Contingent liabilities and guarantees

As at 31 December 2014, the Group did not have any material contingent liabilities or guarantees.

## Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong dollar and United States dollar. Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. The Group does not hedge against any fluctuation in foreign currency during the year. The management of the Group may consider entering into currency hedging transactions to manage the Group's exposure towards fluctuations in exchange rates in future.

## Cash flow and fair value interest rate risk

Other than bank balances with variable interest rate, the Group has no other significant interest-bearing assets. The management of the Group does not anticipate any significant impact to interest-bearing assets resulting from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

## Credit risk

The carrying amounts of cash and cash equivalents, trade and other receivables are the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problems.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up actions will be taken to recover overdue debts. We grant credit limits to certain customers in consideration of their payment history and business performance. Prepayment is usually required for orders placed over credit limits. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of the year to ensure adequate impairment losses are made for irrecoverable amounts.

## Prospects

In 2015, market demand for life sciences research products and services will increase gradually. In addition to the increased popularity of life science research products and services due to lower costs resulting from technology development, the strong government support and heightened health awareness of citizens are also the important growth momentum of the market. The PRC government not only significantly increased its investment in research and development to RMB627.7 billion in 2013, but also issued the Notice of the State Council on Issuance of Biological Industry Development Plan in December 2012, stating that the biological industry will become the pillar industry of the national economy in 2020. Moreover, citizens have increasing

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

health awareness and undertake health check-up more frequently, which have driven market demand in China for accurate clinical diagnosis, effective treatment methods, and innovative medicine, laying a foundation for the stable increase in demand for life sciences research products and services. The above favourable market factors are expected to bring considerable revenue and huge commercial opportunities to the Group, which enjoys strong brand recognition and an advantageous position in the industry.

### Future Development Strategies

In general, the Group mainly has five development strategies to make full use of the growth potential of the market in the future. First, the Group will further strengthen and expand the product and service portfolios of each business segment based on market demand by leveraging on its research and development capability. Second, the Group will continue to improve the automation level of the production process to enhance production efficiency and reduce production costs so as to strengthen the competitiveness of products and services and improve the profitability of the Group. Third, the direct sales network will be further expanded by establishing more outlets in China and abroad to provide customers with better and more direct services and technical support and enhance customer relations. Fourth, the Group will further promote the online sales platform and upgrade the electronic commerce system to improve customers' online experience and convenience and develop an online customer base. The low-cost cross-region online sales channel will be further promoted to increase income sources. Fifth, the Group will build a new plant in the production base in Shanghai. The first phase, with a site area of over 8,000 sq.m., is expected to take 12 months to complete. The new plant will be used to install additional production equipment of the business segments for provision of DNA synthesis and genetic engineering services and for technology upgrade. In addition to the above strategies, the Group will seek regional breakthroughs in the process of business development, further expand sales network and explore potential merger and acquisition opportunities to increase market share and solidify its market position. Looking forward, the management of the Company is confident in the development prospect of the Group and believes that greater return for the Company and shareholders can be created in the next year.

## EMPLOYEES

As at 31 December 2014, the Group has a total of approximately 894 employees. The Group has entered into employment contracts covering positions, employment conditions and terms, salary, employees' benefits, responsibility for breach of contractual obligations and reason for termination with its employees. The remuneration package of the Group's employees includes basic salary, subsidies and other employees' benefits, which are determined on the reference of the experience and working years of the employees and general situations.

For the Reporting Period, the Group's total expenses on the remuneration of employees was approximately RMB62.79 million (excluding share-based payment of approximately RMB13.49 million), representing 24.8% of the revenue of the Group.

On 4 September 2014, the Company adopted the First 2014 Employee Stock Option Plan A ("**Pre-IPO Scheme A**") and First 2014 Stock Option Plan B ("**Pre-IPO Scheme B**"). On 8 December 2014, the Company adopted a Post-IPO share option scheme ("**Post-IPO Share Option Scheme**"). No further options have been granted under Pre-IPO Scheme A and Pre-IPO Scheme B since 4 September 2014 up to 31 December 2014. No further options have been granted under the Post-IPO Share Option Scheme since 8 December 2014 up to 31 December 2014.

The number of employees of the Group categorised by function as at 31 December 2014 is set forth as follows:

| Function | Number of employees | Percentage of total |
|---|---|---|
| Production | 424 | 47.43% |
| Sales and marketing | 247 | 27.63% |
| Administration | 87 | 9.73% |
| Research and development | 89 | 9.96% |
| Management | 47 | 5.26% |
| Total: | 894 | 100.00% |

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

The Board currently consists of seven directors of the Company ("**Directors**"), comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets out certain information concerning our Directors.

| Name | Age | Position | Date of Appointment |
|---|---|---|---|
| **Executive Directors** | | | |
| Mr. WANG Qisong | 73 | Chairman and executive Director | 16 January2014 |
| Ms. WANG Luojia | 45 | Chief executive officer and executive Director | 26 September 2014 |
| Ms. WANG Jin | 43 | President and executive Director | 26 September 2014 |
| **Non-executive Director** | | | |
| Mr. HU Xubo | 39 | Non-executive Director | 16 January2014 |
| **Independent non-executive Directors** | | | |
| Mr. XIA Lijun | 38 | Independent non-executive Director | 16 January2014 |
| Mr. HO Kenneth Kai Chung | 49 | Independent non-executive Director | 10 October 2014 |
| Mr. LIU Jianjun | 46 | Independent non-executive Director | 10 October 2014 |

# DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

## EXECUTIVE DIRECTORS

**Mr. WANG Qisong (王啟松)**, aged 73, is the founder of our Group. He was appointed as a Director and the chairman of the Board of our Company on 16 January 2014 and became our executive Director on 10 October 2014, and is primarily responsible for our Group's development, positioning and strategy planning. He was one of the founders of Shanghai Sangon Biological Engineering Technology & Services Co, Ltd.* (上海生工生物工程技術服務有限公司) ("**SSBETS**") in 2001, was a director of Bio Basic USA Inc. ("**BBI US**") from 2009 to 2010 and is currently chairman and director of Sangon Biotech Engineering (Shanghai) Company Limited* (生工生物工程(上海)股份有限公司) ("**Sangon Biotech**") and an executive director of Shanghai Qisong Investment Consulting Company Limited* (上海啟松投資諮詢有限公司) ("**BBI China**").

Mr. Wang has nearly 50 years of experience in the biotechnology industry. Prior to joining our Group, from August 1965 to May 1985, he worked as an assistant researcher in the Institute of Biochemistry and Cell Biology, Shanghai Institutes for Biological Sciences, China Academy of Sciences (中國科學院上海生命科學研究院生物化學與細胞生物學研究所) and from March 1980 to March 1983, Mr. Wang Qisong was seconded to the University of Toronto in Canada as a visiting scholar. From June 1985 to October 1991, he was an associate professor in the Institute of Genetics, School of Life Sciences, Fudan University (復旦大學生命科學學院遺傳學研究所). From June 1987 to December 1989, he was an expert member in the Biotechnology Group of the State High-Tech Development Plan (863 Programme)* (國家高技術研究發展計劃(863計劃)). From March 1991 to August 1991, he was a consultant in the United Nations Industrial Development Organization (聯合國工業發展組織). He is currently a supervisor of Wuhan Wenwang Cultural Education and Communication Limited* (武漢文王文化教育傳播有限公司).

Mr. Wang graduated from Wuhan University (武漢大學) in Hubei Province, PRC with a Bachelor of Science in Organic Chemistry in July 1965.

Mr. Wang is the father of Ms. Wang Luojia and Ms. Wang Jin.

In accordance with the meaning of Part XV of the Securities and Futures Ordinance, as at 31 December 2014, Mr. Wang was deemed to be interested in 312,221,948 Shares representing 59.51% of the Shares issued by the Company.

**Ms. WANG Luojia (王珞珈)**, aged 45, was appointed as an executive Director and the chief executive officer of our Company on 26 September 2014 and 16 January 2014 respectively and is primarily responsible for our Group's strategies and overall operation management. Ms. Wang is currently a director of Bio Basic Canada Inc. ("**Bio Basic (Canada)**"), Sangon Biotech, BBI Asia Limited ("**BBI Asia**") and BBI International Limited ("**BBI International**").

Ms. Wang graduated from the University of Calgary in Alberta, Canada with a Bachelor of Science in Chemistry in June 1995. In April 2006, she returned to China and worked as a general manager at SSBETS. Subsequently, she became general manager of Sangon Biotech in October 2009.

Ms. Wang is the daughter of Mr. Wang Qisong and sister of Ms. Wang Jin.

In accordance with the meaning of Part XV of the Securities Futures Ordinance, as at 31 December 2014, Ms. Wang Luojia was deemed to be interested in 312,221,948 Shares representing 59.51% of the Shares issued by the Company.

# DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

**Ms. WANG Jin (王瑾)**, aged 43, was appointed as an executive Director and the president of our Company on 26 September 2014 and 16 January 2014 respectively and is primarily responsible for our Group's strategies and operational management, overseas sales and development, and overall operations of Bio Basic (Canada) and Bio Basic, Inc. ("**Bio Basic (US)**"). Ms. Wang is currently a director of Bio Basic (Canada), Bio Basic (US), Sangon Biotech, BBI Asia and BBI International.

Ms. Wang graduated from the University of Calgary in Alberta, Canada with a Master of Science degree in Biochemistry and Molecular Biology in November 1997. She was a director of Bio Basic Inc. ("**BBI Canada**") from 2005 to 2011 and BBI US from 2009 to 2012. Since June 2012, she was a senior deputy general manager of Sangon Biotech, and was the president of Bio Basic (Canada) and Bio Basic (US) since November 2010 and December 2010 respectively.

Ms. Wang is the daughter of Mr. Wang Qisong and sister of Ms. Wang Luojia.

In accordance with the meaning of Part XV of the Securities and Futures Ordinance, as at 31 December 2014, Ms. Wang Jin was deemed to be interested in 312,221,948 Shares representing 59.51% of the Shares issued by the Company.

## NON-EXECUTIVE DIRECTOR

**Mr. HU Xubo (胡旭波)**, aged 39, was appointed as a Director of our Company on 16 January 2014 and became our non-executive Director on 10 October 2014. Mr. Hu has been a director of Sangon Biotech since April 2010. He is primarily responsible for advising on strategic development, corporate governance, compliance with The Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") regarding connected transactions, remuneration and nomination of our Directors.

Mr. Hu has over eight years of experience in investment management, strategic consulting and operations management in the area of biomedicine.

Mr. Hu joined Qiming Weichuang Venture Capital Management (Shanghai) Co. Ltd (啓明維創創業投資管理(上海)有限公司) in November 2006 and is currently a Partner of the firm. Mr. Hu is also a director of Hunan Tiger-Xiangya R&D Co., Ltd.* (湖南泰格湘雅藥物研究有限公司), China Pharmaceutical Distribution Holding Co., Ltd (英凡醫藥), Beijing Centre Biology Co., Ltd.* (北京生泰爾生物科技有限公司), Shanghai Tellgen Life Co., Ltd.* (上海透景生命科技有限公司), Vinno Technology (Suzhou) Co., Ltd.* (飛依諾科技(蘇州)有限公司), Sino Medical-Device Technology Co., Ltd.* (深圳聖諾醫療設備有限公司), Shanghai Rendu Biotechnology Limited* (上海仁度生物科技有限公司), Shanghai Pine & Power Biotech Co Ltd.* (上海松力生物科技有限公司), Shenzhen APT Medical Devices Co., Ltd (深圳市惠泰醫療器械有限公司), Shanghai Xinghe Investment Management Ltd.* (上海杏和投資管理有限公司), Zhuhai DL Biotech Co., Ltd.* (珠海市迪爾生物工程有限公司), Shanghai Sanyou Medical Technology Co. Ltd. (上海三友醫療器械有限公司), Arrail Group Limited (瑞爾齒科), Guangzhou Baoyu Game Technology Limited (廣州暴雨網絡技術有限公司), HORTOR (Beijing) Technology Limited (北京豪騰嘉科科技有限公司), Beijing Tiangua Online Technology limited (北京甜瓜在綫科技有限公司) and the supervisor of Hangzhou Tigermed Consulting Co., Ltd.(SZ: 300347)(杭州泰格醫藥科技股份有限公司).

Mr. Hu graduated from Shanghai Medical University (上海醫科大學) (now Fudan University Shanghai Medical College (復旦大學上海醫學院)) in Shanghai with a Bachelor of Medicine in July 1998. He also holds a Shanghai International Master of Business Administration from École Nationale des Ponts et Chaussées (now École des Ponts ParisTech) School of International Management in Shanghai, obtained in October 2004. Mr. Hu is the brother of Mr. Hu Xuyu, one of our vice presidents.

# DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. XIA Lijun (夏立軍)**, aged 38, was appointed as an independent non-executive Director of our Company on 16 January 2014. Mr. Xia was an independent director of Sangon Biotech from 2012 to 2013.

From June 2008 to March 2011, he was a professor in the School of Accountancy in the Shanghai University of Finance and Economics (上海財經大學) in the PRC. Since March 2011, he has been a professor and head of department in the Department of Accounting, Antai College of Economics and Management, Shanghai Jiao Tong University in the PRC.

Mr. Xia obtained his Doctor of Philosophy in Management (Accounting) from the Shanghai University of Finance and Economics (上海財經大學) in the PRC in March 2006.

Mr. Xia has been an independent director of Shanghai Guangdian Electric Group Co. Ltd. (stock code: 601616), a company listed on the Shanghai Stock Exchange, since April 2014.

**Mr. HO Kenneth Kai Chung (何啟忠)**, aged 49, was appointed as an independent non-executive Director of our Company on 10 October 2014.

Mr. Ho has served successively as head of China research, China strategist and equity sales in top international investment banks, including Credit Lyonnais, Jardine Fleming, JP Morgan and HSBC, from 1999 to 2013. From 2008 to 2010, he set up Beijing research office for HSBC, established and acted as leader of the local research team as well as the chief representative for the research office. From 2011 till January 2013, Mr. Ho worked as a Hong Kong China equity sales director for HSBC. From January 2014 to March 2015, Mr. Ho served as a director for Munsun Asset Management (Asia) Limited.

Mr. Ho obtained his Bachelor of Economics from The University of Sydney in May 1988 and Master of Commence in Finance from The University of New South Wales in April 1991. Mr. Ho was awarded a Chartered Financial Analyst in January 1999.

Mr. Ho has been an independent non-executive director of TK Group (Holdings) Limited (stock code: 2283) a company listed on the Stock Exchange, since 27 November 2013. Mr. Ho had been an independent non-executive director of TLT Lottotainment Group Limited (stock code: 8022), a company listed on the Growth Enterprise Market of the Stock Exchange, since 22 November 2013 to 1 April 2014. Mr. Ho has served as a director for Fifth Element Resources Ltd. (stock code: FTH), a company listed on the Australian Securities Exchange since 11 February 2015.

**Mr. LIU Jianjun (劉健君)**, aged 46, was appointed as an independent non-executive Director on 10 October 2014. Mr. LIU was in the legal department of China Ocean Shipping (Group) Company container lines (中國遠洋運輸(集團)總公司(集裝箱運輸)) from July 1993 to March 1999, a partner at Zhong Sheng Law Firm, Beijing (北京中盛律師事務所) from April 2001 to October 2006, a senior associate in Zhong Lun Law Firm, Beijing (北京中倫律師事務所) from November 2006 to May 2007, and has been a partner at Zhonglun W&D Law Firm, Beijing (北京中倫文德律師事務所) from June 2007 to around 2012. Mr. Liu started practicing as a lawyer in the PRC in August 2001.

Mr. Liu obtained a master's degree in law from Peking University, the PRC, in July 1998, and a law degree from Washington University in St. Louis, the U.S., in May 2004.

Mr. Liu has been an independent non-executive director of Nexteer Automotive Group Limited (stock code: 1316), a company listed on the Hong Kong Stock Exchange, since 15 June 2013.

# DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

## SENIOR MANAGEMENT

The following table sets out certain information concerning our senior management:

| Name | Age | Year of joining our Group | Date of Appointment |
|---|---|---|---|
| Mr. LI Ruifeng | 38 | 2008 | Vice president |
| Mr. HU Xuyu | 35 | 2010 | Vice president |
| Mr. LI Wei | 31 | 2009 | Vice president |
| Mr. YAN Hua | 48 | 2011 | Vice president |
| Mr. JIAO Qingfeng | 46 | 2010 | Vice president |
| Mr. ZHANG Hao | 43 | 2009 | Chief financial officer |
| Mr. WANG Zhi | 37 | 2009 | Senior manager |
| Mr. ZHOU Mi | 31 | 2011 | Senior manager |
| Mr. TENG Yuantung | 49 | 2013 | Internal auditor |

**Mr. LI Ruifeng (李瑞峰)**, aged 38, was appointed as a vice president of our Company on 16 January 2014. Mr. Li joined SSBETS in 2001 and has been a director and deputy general manager of Sangon Biotech since May 2008 and October 2009 respectively. He finished his undergraduate course in microbiology at Inner Mongolia University in the PRC in July 2001.

**Mr. HU Xuyu (胡旭宇)**, aged 35, was appointed as a vice president of our Company on 16 January 2014. He joined Sangon Biotech as a deputy general manager in October 2010.

From November 2007 to June 2010, he worked as a regional manager at Primary Care BU Department of Sanofi (China) Investment Co., Ltd. (賽諾菲(中國)投資有限公司). Subsequently from June 2010 to October 2010, he was the vice president of investment at HaiTong KaiYuan Investment Co. Ltd. (海通開元投資有限公司).

Mr. Hu obtained his Bachelor of Engineering in Pharmaceutical Production (化學製藥) from Zhejiang University of Technology (浙江工業大學) in the PRC in July 2000. He obtained the Master of Medical Science in Pharmacology from Soochow University (蘇州大學) in the PRC in June 2005. He subsequently obtained his Master of Business Administration after completing the EMBA Programme at China Europe International Business School (中歐國際工商學院) in September 2012.

Mr. Hu is the brother of Mr. Hu Xubo, a non-executive Director of our Company.

**Mr. LI Wei (李威)**, aged 31, was appointed as a vice president of our Company on 16 January 2014. He joined SSBETS and Sangon Biotech in August 2009 and October 2009 respectively, and since May 2010 has been a deputy general manager of Sangon Biotech. Mr. Li was a research assistant at the Plant Biotechnology Research Centre of Shanghai Jiao Tong University* (上海交通大學植物生物技術研究中心) from September 2008 to August 2009. Mr. Li obtained his Doctor of Philosophy in Genetics from Fudan University (復旦大學) in Shanghai in January 2012.

**Mr. YAN Hua (顏華)**, aged 48, was appointed as a vice president of our Company on 16 January 2014. He joined our Group in June 2011 as technical director and since June 2012 has been a deputy general manager of Sangon Biotech. From February 2008 to May 2011, Mr. Yan was a deputy general manager of Neweast (Wuhan) Biosciences Limited (武漢紐斯特生物技術有限公司). Mr. Yan obtained his Doctor of Philosophy in Immunology from Wuhan Institute of Biological Products (武漢生物製品研究所) in Hubei Province, PRC in 2012.

# DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

**Mr. JIAO Qingfeng (焦青峰)**, aged 46, was appointed as a vice president of our Company on 16 January 2014. He joined our Group in June 2010 as sales director and since June 2012 has been a deputy general manager of Sangon Biotech.

From November 2006 to May 2008 he was a national sales manager at Abbott Laboratories Trading (Shanghai) Co., Ltd. (雅培貿易(上海)有限公司). From December 2008 to December 2009, he was a market development manager and from January 2010 to June 2010 he was a distribution manager at QIAGEN China (Shanghai) Co., Ltd (凱傑企業管理(上海)有限公司). Mr. Jiao obtained his Master of Business Administration from Nanjing University (南京大學) in Nanjing in July 2000.

**Mr. ZHANG Hao (張昊)**, aged 43, was appointed as the chief financial officer of our Company on 16 January 2014. Since November 2009 Mr. Zhang has been the chief financial officer of Sangon Biotech. From February 1994 to December 2007 he worked in the financial department of SGS-CSTC Standards Technical Services Co., Ltd. (通標標準技術服務有限公司), being chief financial officer of the same company from July 2002 to December 2007. Mr. Zhang obtained his Master of Business Administration from the University of Management and Technology in Virginia, USA in December 2004.

**Mr. WANG Zhi (王志)**, aged 37, was appointed as a senior manager of our Company on 16 January 2014. Mr. Wang joined SSBETS in June 2001 and our Group in October 2009, and has been the DNA synthesis department director of Sangon Biotech since October 2012. Mr. Wang obtained his Master of Business Administration from Donghua University (東華大學) in Shanghai in May 2011.

**Mr. ZHOU Mi (周密)**, aged 31, was appointed as a department director of our Company on 16 January 2014. He joined BBI Canada in November 2007, and has been a department director of Bio Basic (Canada) and Bio Basic (US) since January 2011 and April 2011, respectively. Mr. Zhou obtained his Bachelor of Science in Biochemistry from Carleton University in Ottawa, Canada in June 2007.

**Mr. TENG Yuantung (鄧元東)**, aged 49, was appointed as the internal auditor of our Company on 16 January 2014. Mr. Teng joined Sangon Biotech as internal audit director in May 2013.

Mr. Teng has over 13 years of experience in internal controls, audit and compliance matters. From May 2011 to May 2012, Mr. Teng was the audit manager and assistant to the general manager, mainly responsible for its listing proposal, shareholding and legal matters, internal audit and control development, management policy planning and development, ISO management system implementation in Guangdong Wanxing Inorganic Co., Ltd.* (廣東萬興無機顏料股份有限公司) which is primarily engaged in non-metal mineral products production. From August 2012 to March 2013, he was the audit manager, mainly responsible for development and supervising the audit team, legal compliance and parent company internal audit and other specific audit matters of Zhangzhou Tsannkuen Enterprise Co., Ltd.* (漳洲燦坤實業股份有限公司), a subsidiary of Tsannkuen (China) Enterprise Co., Ltd (廈門燦坤實業股份有限公司) which is listed on the Shenzhen Stock Exchange (stock code: 200512). From May 2005 to April 2011, he was the regional manager of USUN TECHNOLOGY CO., LTD* (陽程科技股份有限公司), an OTC-listed company on GreTai Securities Market (stock code: 3498). From September 2004 to April 2005, he was an assistant audit manager of Wonderful Hi-Tech Co. Ltd. (萬泰科技股份有限公司). From March 2001 to April 2002, Mr. Teng was an audit manager of ITEQ Corporation (聯茂電子股份有限公司). Mr. Teng obtained his Bachelor of Management in Enterprise Management from Tamkang University (私立淡江大學) in Taiwan in June 1995. He also received a certificate on tax accounting from the Centre for Public and Business Administration Education of the National Chengchi University* (國立政治大學公共行政企業管理教育中心) in 1998. Mr. Teng is a Certified Internal Auditor (CIA) conferred by the Institute of Internal Auditors in November 2004.

# REPORT OF THE DIRECTORS

The Board is pleased to present its report and the audited financial statements of the Group for the year ended 31 December 2014.

## CORPORATE INFORMATION AND GLOBAL OFFERING

The Board Company was incorporated on 10 July 2013 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange on 30 December 2014 (the "**Listing**" or the "**Listing Date**").

## PRINCIPAL ACTIVITIES

The Group is mainly a well-recognised provider with a comprehensive portfolio coverage in the life sciences research products and services industry in China, as well as the largest provider of DNA synthesis products in China. We offer DNA synthesis products, genetic engineering services, life sciences research consumables, and protein and antibody related products and services which are used to facilitate the studies of life sciences including animal and plant, disease, medical diagnosis, drug development, food and agriculture industry. The Company and its subsidiaries provided our DNA synthesis products and life sciences research consumables primarily in China, North America, South America, Europe and Africa. The analysis of the principal activities of the Company's subsidiaries are set out in Note 37 to the financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2014 are set out in pages 54 to 59 of the financial statements.

## FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.008 per share for the year ended 31 December 2014, amounting to a total sum of approximately HK$4,197,000 (approximately equivalent to RMB3,311,000) to the shareholders of the Company. The dividend is subject to the approval by the Company's shareholders at the forthcoming annual general meeting. The final dividend, if approved, is expected to be paid on 30 June 2015 to the shareholders of the Company whose names appear on the register of members of the Company on 11 May 2015.

## CLOSURE OF REGISTER OF MEMBERS

### (a) Determining the entitlement of shareholders to attend and vote at the 2015 Annual General Meeting

In order to determine the entitlement of shareholders to attend and vote at the forthcoming AGM to be held on 30 April 2015, the register of members of the Company will be closed from 28 April 2015 to 30 April 2015 (both dates inclusive), during which period no transfer of shares will be registered. All transfer documents, accompanied by the relevant share certificates, shall be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30p.m. on 27 April 2015.

# REPORT OF THE DIRECTORS (CONTINUED)

### (b) Determining the entitlement of shareholders to receive proposed final dividend

In order to determine the list of shareholders entitled to receive the proposed final dividend, the register of members of the Company will also be closed from 7 May 2015 to 11 May 2015 (both dates inclusive). All transfer documents, accompanied by the relevant share certificates, shall be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 6 May 2015.

## FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last four financial years is set out on page 7 of this annual report. This summary does not form part of the audited consolidated financial statements.

## USE OF PROCEEDS FROM LISTING

Net proceeds from the listing of the Company (after deducting underwriting fee and relevant expenses) amounted to approximately HK$219.87 million. As of 31 December 2014, none of the proceeds had been utilised. Such amounts are proposed to be used according to the allocation set out in the prospectus of the Company dated 16 December 2014 (the "**Prospectus**").

## MAJOR CUSTOMERS AND SUPPLIERS

### Major Customers

The turnover attributable to the top five customers of 2014 accounted for 6.7% of the Company's operating income for the year ended 31 December 2014. The turnover of the largest single transaction accounted for 1.9% of the Company's operating income for 2014.

### Major Suppliers

In 2014, the turnover attributable to the top five suppliers accounted for 28.0% of the Company's total purchases for the year ended 31 December 2014. The turnover of the largest single supplier accounted for 7.0% of the Company's total purchases for 2014.

During the year, to the knowledge of the Directors, none of the Directors or any of their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in any of the Company's top five suppliers or customers.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 6 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2014 are set out in note 16 to the financial statements in this annual report.

# REPORT OF THE DIRECTORS (CONTINUED)

## APPLICATION FOR FOREIGN EXCHANGE REGISTRATION IN RESPECT OF RETURN INVESTMENTS BY THE ULTIMATE SHAREHOLDERS

The Company visited the Shanghai Branch of the State Administration of Foreign Exchange in February 2015 in order to communicate with the authority on the affairs regarding the application for registration by Ms. Wang Luojia and Mr. Mai Jun, both are controlling shareholders, required by Circular 37. The staff of the competent authority stated that it was not necessary to apply for Circular 37 registration. For details, please refer to page 59 of the Prospectus.

## ENVIRONMENTAL APPROVALS

The environmental facilities of our Guangzhou branch received the completion inspection approval on 20 January 2015 issued by Guangzhou Tianhe District Environmental Protection Bureau. Such approval stated that those environmental facilities were in compliance with the relevant laws and regulations. For details, please refer to page 238 of the Prospectus.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity on page 58 of this annual report.

## DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised), amounted to RMB471,272,000 (as at 31 December 2013: approximately RMB191,766,000), of which RMB3,311,000 (equivalent to HK$4,197,000) was recommended to be the payment of the final dividend for the year.

## BANK LOANS AND OTHER BORROWINGS

The Group did not have bank loans and other borrowings as at 31 December 2014.

## DIRECTORS

The Directors during the year ended 31 December 2014 and up to the date of this report were:

### Executive Directors:

Mr. Wang Qisong *(Chairman)*
Ms. Wang Luojia *(Chief Executive Officer)*
Ms. Wang Jin *(President)*

### Non-executive Director:

Mr. Hu Xubo

### Independent non-executive Directors:

Mr. Xia Lijun
Mr. Ho Kenneth Kai Chung
Mr. Liu Jianjun

# REPORT OF THE DIRECTORS (CONTINUED)

Pursuant to the Memorandum and Articles of Association of the Company (the "**Articles**"), each of Mr. Wang Qisong, Ms. Wang Luojia, Ms. Wang Jin, Mr. Hu Xubo, Mr. Xia Lijun, Mr. Ho Kenneth Kai Chung and Mr. Liu Jianjun will retire at the annual general meeting to be held on 30 April 2015 and, being eligible, offer himself or herself for re-election.

Biographical details of the Directors to be re-elected at the annual general meeting will be set out in the circular dated 27 March 2015 to the shareholders.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Company is set out in page 19 to 24.

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation from each of the independent non-executive Directors in respect of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a fixed term of three years commencing on the Listing Date which can be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other. The appointment is subject to the provisions of retirement and rotation of directors under the Articles.

The non-executive Director has signed an appointment letter with the Company for a term of three years with effect from the Listing Date. The appointment is subject to the provisions of retirement and rotation of directors under the Articles.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of two years with effect from the Listing Date. The appointments are subject to the provisions of retirement and rotation of directors under the Articles.

Save as disclosed herein, none of the Directors has entered into any service contract with the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

At any time during the year, none of the Company or any of its subsidiaries entered into, whether directly or indirectly, any contract of significance which a director of the Company had a material interest in, was related to the Company's business and subsisted during and up to the end of the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

# REPORT OF THE DIRECTORS (CONTINUED)

## REMUNERATION POLICIES

The Group's remuneration policy and structure for remuneration of the directors and senior management of the Group are based on the Group's operating results, individual performance and comparable market statistics and are reviewed by the remuneration committee periodically.

The remuneration of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the merit, qualifications and competence of individual directors, the Group's operating results and comparable market statistics.

The Company has also adopted the Pre-IPO Scheme A and Pre-IPO Scheme B (collectively, the "**Pre-IPO Share Option Schemes**") and Post-IPO share option scheme (together with the Pre-IPO Share Option Schemes, the "**Share Option Schemes**"). The purpose of the Share Option Schemes is to enable us to grant options to selected participants as incentives or rewards for their contributions. The Directors consider the Share Option Schemes, with its broad basis of participation, will enable the Company to reward its employees, Directors and other selected participants for their contributions.

During the year ended 31 December 2014, options to subscribe for 30,215,371 Shares have been granted (of which 943,144 Shares have been lapsed) under the Pre-IPO Share Option Schemes and no option has been granted under the Post-IPO Share Option Scheme. For details of the Share Option Schemes, please see the paragraph headed "Share Option Schemes" below.

## SHARE OPTION SCHEMES

### A. PRE-IPO SHARE OPTION SCHEMES

The Company has adopted Pre-IPO Scheme A and Pre-IPO Scheme B by resolutions of the Board on 4 September 2014. The Pre-IPO Share Option Schemes are not subject to the provision of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme does not involve the grant of options by the Company to subscribe for Shares once the Company is listed on the Stock Exchange. No further options will be granted under the Pre-IPO Share Option Schemes after Listing.

During the year ended 31 December 2014, all the options under the Pre-IPO Share Option Schemes that would entitle the holders to subscribe for an aggregate of 30,215,371 Shares have been granted to the Directors, senior management and existing employees of the Group. Of the 30,215,371 Shares entitled to be subscribed by the options granted under the Pre-IPO Share Option Schemes, 18,970,531 Shares and 10,301,696 Shares were entitled to be subscribed under the options granted under Pre-IPO Scheme A and Pre-IPO Scheme B respectively. Outstanding as at 31 December 2014, and 343,767 Shares and 599,377 Shares have been lapsed under Pre-IPO Scheme A and Pre-IPO Scheme B respectively during the year ended 31 December 2014.

# REPORT OF THE DIRECTORS (CONTINUED)

Set out below are details of the outstanding options under the Pre-IPO Share Option Scheme:

| Category/ Name of Grantee | Number of Shares under the Scheme Granted | Scheme Type | Date of Grant | Exercise Price per share | Exercised since Date of Grant | Cancelled since Date of Grant | Lapsed since Date of Grant | Outstanding as at 31 December 2014 |
|---|---|---|---|---|---|---|---|---|
| Wang Qisong | 760,776 ordinary shares | A | 16 January 2014 | HK$1.1 | – | – | – | 760,776 ordinary shares |
| Wang Luojia | 805,248 ordinary shares | B | 16 January 2014 | HK$1.1 | – | – | – | 805,248 ordinary shares |
| Wang Zezhou | 174,598 ordinary shares | A | 16 January 2014 | HK$1.1 | – | – | – | 174,598 ordinary shares |
| Min Qijun | 94,256 ordinary shares | A | 16 January 2014 | HK$1.1 | – | – | – | 94,256 ordinary shares |
| Min Qining | 63,624 ordinary shares | A | 16 January 2014 | HK$1.1 | – | – | – | 63,624 ordinary shares |
| Sub-Total | 1,898,502 ordinary shares | – | – | – | – | – | – | 1,898,502 ordinary shares |
| 82 Employees | 17,877,277 ordinary shares | A | 16 January 2014 | HK$1.1 | – | – | 343,767 | 17,533,510 ordinary shares |
| 85 Employees | 9,797,290 ordinary shares | B | 16 January 2014 | HK$1.1 | – | – | 599,377 | 9,197,913 ordinary shares |
| 83 Employees | 343,767 ordinary shares | A | 4 September 2014 | HK$1.1 | – | – | – | 343,767 ordinary shares |
| 74 Employees | 298,535 ordinary shares | B | 4 September 2014 | HK$1.1 | – | – | – | 298,535 ordinary shares |
| **Total** | **30,215,371 ordinary shares** | **–** | **–** | **–** | **–** | **–** | **943,144** | **29,272,227 ordinary shares** |

For further details of the Pre-IPO Share Option Schemes, please refer to Appendix IV "Statutory and General Information" to the Prospectus and note 19 of the Financial Statements.

## B. POST-IPO SHARE OPTION SCHEME

The Company has approved and adopted the Post-IPO Share Option Scheme by resolutions of its shareholders on 8 December 2014. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules. No options were granted under the Post-IPO Share Option Scheme from the date of its adoption to the latest practicable date prior to the publication of this annual report.

For further details of the Post-IPO Share Option Scheme, please refer to Appendix IV "Statutory and General Information" of the Prospectus.

# REPORT OF THE DIRECTORS (CONTINUED)

## SUMMARY OF THE SHARE OPTION SCHEMES

| | Details | Pre-IPO Scheme A | Pre-IPO Scheme B | Post-IPO Share Option Scheme |
|---|---|---|---|---|
| 1. | Purpose | To recognise and acknowledge the contributions that the eligible participants have or may have made to the Group and to provide the eligible participants with an opportunity to have a personal stake in the Company with a view to achieving the following objectives: (1) motivate the eligible participants to optimise their performance efficiency for the benefit of the Group; and (2) attracting and retaining or otherwise maintaining relationships with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. | | To provide participants with the opportunity to acquire proprietary interests in the Company and to encourage such participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its shareholders as a whole. |
| 2. | Participants | (1) Executive Directors, (2) senior management of the Group and (3) other employees of the Group who, in the sole opinion of the Board, have contributed or will contribute to the Company and/or any of the subsidiaries. | | (1) Directors and (2) employees of any member of the Group, as the Board may in its absolute discretion select. |
| 3. | Maximum number of Shares | As of 31 December 2014, options to subscribe for an aggregate of 18,970,531 Shares were outstanding, representing approximately 3.62% of the issued share capital of the Company as of 31 December 2014. No further option could be granted under the Pre-IPO Scheme A. | As of 31 December 2014, options to subscribe for an aggregate of 10,301,696 Shares were outstanding, representing approximately 1.96% of the issued share capital of the Company as of 31 December 2014. No further option could be granted under the Pre-IPO Scheme B. | As of 16 December 2014, the maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme was 52,466,310, representing approximately 10% of the issued share capital of the Company as of 30 December 2014 and as of the date of this annual report. No option has been granted under the Post-IPO Share Option Scheme.<br><br>The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time. |

# REPORT OF THE DIRECTORS (CONTINUED)

| | Details | Pre-IPO Scheme A | Pre-IPO Scheme B | Post-IPO Share Option Scheme |
|---|---|---|---|---|
| 4. | Maximum entitlement of each participant | 10% of the total number of Shares entitled to be subscribed for under each grant of options by the Company; The maximum number of Shares to be subscribed for by each participant for each financial year shall not be more than 1% of the total issued share capital of the Company as at the last financial year end of the Company | | 1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant. |
| 5. | Option period | At any time and from time to time up to the last day of the 5th anniversary of 16 January 2014. | (1) up to 20% of the options so granted to him/her (rounded down to the nearest whole number) at any time commencing from the 1st anniversary of 16 January 2014; (2) up to 40% of the options so granted to him/her (rounded down to the nearest whole number) at any time commencing from the 2nd anniversary of 16 January 2014; (3) up to 60% of the options so granted to him/her (rounded down to the nearest whole number) at any time commencing from the 3rd anniversary of 16 January 2014; (4) up to 80% of the options so granted to him/her (rounded down to the nearest whole number) at any time commencing from the 4th anniversary of 16 January 2014; and (5) such number of unexercised options so granted to him/her at any time commencing from the 5th anniversary of 16 January 2014 until the 6th anniversary of 16 January 2014. | The period of time to be notified by the Board to each grantee at the time of making an offer, which shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.<br><br>The terms of an offer may include any minimum periods for which an option must be held and/ or any minimum performance targets that must be reached, before the options can be exercised in whole or in part, and may include at the discretion of the Board other terms imposed (or not imposed) either on a case by case basis or generally. |

# REPORT OF THE DIRECTORS (CONTINUED)

| | Details | Pre-IPO Scheme A | Pre-IPO Scheme B | Post-IPO Share Option Scheme |
|---|---|---|---|---|
| 6. | Acceptance of offer | On acceptance of the offer of the option, the participant shall execute and return an acceptance letter in accordance with the terms and conditions set by the Company. | | An offer shall remain open for acceptance by the participant concerned for a period of 14 days from the date of the offer. HK$1.00 is payable by the grantee to the Company on acceptance of the offer of the option. |
| 7. | Exercise Price | HK$1.1 per Share | | The subscription price shall not be less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant. |
| 8. | Remaining life of the scheme | They expired on 30 December 2014. | | It shall be valid and effective for a period of ten years commencing on 30 December 2014. |

## REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of Directors and the five highest paid individuals are set out on note 28 to the consolidated financial statements in this annual report

## CHANGES TO INFORMATION OF DIRECTORS

Save as disclosed in this annual report, there has been no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the Listing Date.

# REPORT OF THE DIRECTORS (CONTINUED)

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2014, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, are set out as follows:

| Name of Director | Nature of interest | Number of Shares/ underlying Shares held | Shareholding percentage (%) | Long position/ Short position/ Lending pool |
|---|---|---|---|---|
| Wang Luojia (Notes 1, 2, 3) | Trustee of a trust, interest in a controlled corporation and interests held jointly with another person | 312,221,948 | 59.51 | Long position |
| Wang Jin (Notes 1, 2, 4) | Trustee of a trust and interests held jointly with another person | 312,221,948 | 59.51 | Long position |
| Wang Qisong (Notes 1, 2, 5) | Settlor of trusts and interests held jointly with another person | 312,221,948 | 59.51 | Long position |

Note:

1. Wang J Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, with Wang Qisong as the settlor, Wang Luojia as the trustee and Wang Jin and her children as the beneficiaries. Wang J Family Trust owns 51.15% of the total issued shares of LJ Peace Ltd. and 50% of the total issued shares of LJ Venture Ltd.

2. Wang L Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, with Wang Qisong as the settlor, Wang Jin as the trustee and Wang Luojia and her children as the beneficiaries. Wang L Family Trust owns 48.85% of the issued shares of LJ Peace Ltd. and 50% of the issued shares of LJ Venture Ltd.

3. Wang Luojia (i) is the trustee of Wang J Family Trust which owns 51.15% of the total issued shares of LJ Peace Ltd. and 50% of the total issued shares of LJ Venture Ltd.; (ii) owns 50% of the total issued shares of LJ Hope Ltd. which in turn holds 8,449,833 Shares; (iii) is the grantee of an option granted pursuant to the Pre-IPO Share Option Schemes pursuant to which 805,248 Shares will be issued to Wang Luojia upon exercise of the same and (iv) is a party to the a deed of confirmation ("**Acting in Concert Deed**") dated 4 November 2014 executed by Mr. Wang Qisong, Ms. Wang Luojia and Ms. Wang Jin, pursuant to which each of Wang Qisong, Wang Luojia and Wang Jin has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any shareholders' meeting of the Company in a unanimous manner. Wang Luojia is therefore deemed to be interested in the Shares held by LJ Peace Ltd., LJ Venture Ltd. and LJ Hope Ltd. respectively and the underlying Shares in respect of the options granted to herself and to Wang Qisong pursuant to the Pre-IPO Share Option Schemes under the SFO. Each of Wang Luojia, Wang Jin and Wang Qisong is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

# REPORT OF THE DIRECTORS (CONTINUED)

4. Wang Jin is the trustee of Wang L Family Trust which owns 48.85% of the total issued shares of LJ Peace Ltd. and 50% of the total issued shares of LJ Venture Ltd. Accordingly, Wang Jin, being the trustee of Wang L Family Trust, is deemed to be interested in the Shares held by LJ Peace Ltd. and LJ Venture Ltd. respectively under the SFO. Pursuant to the Acting in Concert Deed, each of Wang Qisong, Wang Luojia and Wang Jin has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any shareholders' meeting of the Company in a unanimous manner and hence each of Wang Luojia, Wang Jin and Wang Qisong is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

5. In light of notes 1 and 2, Wang Qisong, being the settlor of both Wang L Family Trust and Wang J Family Trust, is deemed to be interested in the Shares held by LJ Venture Ltd. and LJ Peace Ltd., respectively. Wang Qisong is also the grantee of an option granted pursuant to the Pre-IPO Share Option Schemes pursuant to which 760,776 Shares will be issued to Wang Qisong upon exercise of the same. Pursuant to the Acting in Concert Deed, each of Wang Qisong, Wang Luojia and Wang Jin has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any shareholders' meeting of the Company in a unanimous manner and hence each of Wang Luojia, Wang Jin and Wang Qisong is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

Save as disclosed above, as at 31 December 2014, none of the Directors or chief executive of the Company had any interests or short positions in the Shares or underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that (i) was recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise (ii) was required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate at any time during the year.

# REPORT OF THE DIRECTORS (CONTINUED)

## SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2014, within the knowledge of the Directors, the following persons (other than the Directors or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

| Name of shareholder | Nature of interest | Number of Shares/ underlying Shares held | Shareholding percentage (%) | Long position/ Short position/ Lending pool |
|---|---|---|---|---|
| LJ Peace Ltd. (Notes 1, 2) | Beneficial owner | 184,156,346 | 35.10 | Long position |
| LJ Venture Ltd. (Notes 1, 2) | Beneficial owner | 118,049,745 | 22.50 | Long position |
| Mai Jun (Note 3) | Interest of a spouse and interest in a controlled corporation | 312,221,948 | 59.51 | Long position |
| Lu Guang Yi (Note 4) | Interest of a spouse | 312,221,948 | 59.51 | Long position |
| Qiming Venture Partners II, L.P. ("**QVP II**") (Note 5) | Beneficial owner and person acting in concert | 82,841,176 | 15.79 | Long position |
| Qiming Venture Partners II-C, L.P. ("**QVP II-C**") (Note 5) | Beneficial owner and person acting in concert | 82,841,176 | 15.79 | Long position |
| Qiming Managing Directors Fund II, L.P. ("**QMDF**") (Note 5) | Beneficial owner and person acting in concert | 82,841,176 | 15.79 | Long position |

Notes:

1. Wang J Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, with Wang Qisong as the settlor, Wang Luojia as the trustee and Wang Jin and her children as the beneficiaries. Wang J Family Trust owns 51.15% of the total issued shares of LJ Peace Ltd. and 50% of the total issued shares of LJ Venture Ltd.

2. Wang L Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, with Wang Qisong as the settlor, Wang Jin as the trustee and Wang Luojia and her children as the beneficiaries. Wang L Family Trust owns 48.85% of the issued shares of LJ Peace Ltd. and 50% of the issued shares of LJ Venture Ltd.

3. Mai Jun is the spouse of Wang Luojia and is deemed to be interested in the Shares which are deemed to be interested by Wang Luojia under the SFO. Mai Jun also owns 50% of LJ Hope Ltd. and is therefore also deemed to be interested in the Shares held by LJ Hope Ltd.

4. Lu Guang Yi is the spouse of Wang Jin. Accordingly, Lu Guang Yi is deemed to be interested in the Shares which are deemed to be interested by Wang Jin under the SFO.

# REPORT OF THE DIRECTORS (CONTINUED)

5. QVP II, QVP II-C and QMDF beneficially hold 75,161,799 Shares, 6,585,871 Shares and 1,093,506 Shares respectively, representing approximately 14.33%, 1.26% and 0.21% respectively of the total issued share capital of the Company. By virtue of QVP II acting in concert with QVP II-C and QMDF, each of QVP II, QVP II-C and QMDF is deemed to be interested in all Shares held by them in aggregate under the SFO.

Save as disclosed above, as at the date of this report, the Directors have not been aware of any person who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Group had not purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 31 December 2014.

## PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands that would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## NON-COMPETING UNDERTAKINGS

Controlling shareholders of the Company, namely Wang Qisong, Wang Jin, Wang Luojia, LJ Peace Ltd. and LJ Venture Ltd. or any of them (the "**Controlling Shareholders**"), have signed the deed of non-competition (the "**Deed of Non-competition**") dated 8 December 2014, pursuant to which, each of our Controlling Shareholders shall, and shall procure that their respective close associates and/or companies controlled by them (other than our Group) (i) not, directly or indirectly, be interested or involved or engaged in or acquire or hold any right or interest (in each case whether as a director or shareholder (other than being a director or shareholder of the Group), partner, agent or otherwise and whether for profit, reward or otherwise) in any business which competes or is likely to compete directly or indirectly with the business currently carried out and from time to time engaged by the Group (including but not limited to the provision of life sciences research products and services) within the PRC or in overseas (the "**Restricted Activity**"); (ii) not solicit any existing employee of the Group for employment by them or their close associates (excluding members of our Group); (iii) not, without the consent from the Company, make use of any information pertaining to the business of the Group which may have come to their knowledge in their capacity as the controlling shareholders for any purpose of engaging, investing or participating in any restricted activity; (iv) if there is any project or new business opportunity that relates to the restricted activity, refer such project or new business opportunity to the Group for consideration; (v) not invest or participate in any restricted activity; and (vi) procure their close associates (excluding our Group) not to invest or participate in any project or business opportunity of the restricted activity. Details of the Deed of Non-competition are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus.

The Company has received the annual confirmation of controlling shareholders in respect of their compliance with the non-competition undertakings under the Deed of Non-competition during the period from the Listing Date to 31 December 2014.

The independent non-executive Directors also reviewed the Controlling Shareholders' compliance with the non-competition undertakings. The independent non-executive Directors confirmed that the Controlling Shareholders were not in breach of the non-competition undertakings during the period from the Listing Date to 31 December 2014.

# REPORT OF THE DIRECTORS (CONTINUED)

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this annual report, in 2014, no Director or any of their close associates had any interests in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

## CONNECTED TRANSACTIONS

During the period from the Listing Date to 31 December 2014, the Company had no connected transactions or continuing connected transactions which was required to be disclosed pursuant to the provisions under Chapter 14A of the Listing Rules. For details on related-party transactions conducted during the year ended 31 December 2014, please refer to note 35 to the financial statement on page 115 of this annual report. None of these related party transactions referred to in the financial statements falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

## CHARITABLE DONATION

During the year ended 31 December 2014, the Group did not make charitable and other donations.

## MATERIAL LEGAL PROCEEDINGS

As at 31 December 2014, the Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened the Group as far as the Directors were aware of.

## AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the annual results announcement for 2014 and the financial statements for the year ended 31 December 2014 prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**").

## CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standards of corporate governance practice. The Company has applied the principles set out in the Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules. Since the Listing Date, the Company has complied with the mandatory code provisions of the CG Code. For details, please refer to the Corporate Governance Report on pages 40 to 51 of this annual report.

## PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company had maintained a sufficient public float of more that 25% of the Company's issued share capital as required under the Listing Rules as at the date of this annual report.

## CONSULTING PROFESSIONAL TAX ADVISERS

The Company's shareholders are recommended to consult professional advisers if they are in any doubt as to the tax implications of the purchasing, holding, disposal of, buying and selling of the Company's Shares or exercising any rights concerned.

# REPORT OF THE DIRECTORS (CONTINUED)

## AUDITORS

PricewaterhouseCoopers was appointed as the auditor to audit the financial statements prepared in accordance with the HKFRS for the year ended 31 December 2014.

PricewaterhouseCoopers shall retire at the forthcoming annual general meeting and is eligible and has offered itself for re-election. The resolution regarding the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

**Wang Qisong**
*Chairman*

Hong Kong, 17 March 2015

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report as set out in the annual report of the Company for the year ended 31 December 2014.

## CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Company has complied with the applicable code provisions as set out in the CG Code since the Listing Date and up to the date of this annual report. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

## THE BOARD

### Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**") and the risk management committee (the "**Risk Management Committee**") (together, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

Under code provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. The Company has arranged an insurance in December 2014 with 12 months' coverage starting from 29 December 2014 in respect of legal actions against its Directors and senior management.

### Board Composition

As at the date of this annual report, the Board comprises 7 members, consisting of 3 executive Directors, 1 non-executive Director and 3 independent non-executive Directors as set out below:

#### Executive Directors

Mr. Wang Qisong *(Chairman)*
Ms. Wang Luojia *(Chief Executive Officer)*
Ms. Wang Jin *(President)*

#### Non-executive Director

Mr. Hu Xubo

#### Independent non-executive Directors

Mr. Xia Lijun
Mr. Ho Kenneth Kai Chung
Mr. Liu Jianjun

# CORPORATE GOVERNANCE REPORT (CONTINUED)

The biographies of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

Since the Listing Date and up to the date of this annual report, the Board met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

Mr. Wang Qisong, executive Director and Chairman, is the father of the Company's executive Directors, Ms. Wang Luojia and Ms. Wang Jin. Save as disclosed in the biographies of the Directors as set out in the section headed "Directors and Senior Management" of this annual report and above, none of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

## INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Group's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

According to the records kept by the Company, all the existing Directors have received continuous and professional development and training as set out below with an emphasis on the roles, functions and duties of directors in listed companies:

| Name of Directors | Attending internal briefings or trainings, participating seminars or reviewing materials |
|---|---|
| **Executive Directors** | |
| Mr. Wang Qisong *(Chairman)* | ✓ |
| Ms. Wang Luojia *(Chief executive officer)* | ✓ |
| Ms. Wang Jin *(President)* | ✓ |
| **Non-executive Director** | |
| Mr. Hu Xubo | ✓ |
| **Independent non-executive Directors** | |
| Mr. Xia Lijun | ✓ |
| Ho Kenneth Kai Chung | ✓ |
| Liu Jianjun | ✓ |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As required by code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

The Chairman and the Chief Executive Officer of the Company, as assumed by Mr. Wang Qisong and Ms. Wang Luojia respectively, are two different positions with expressly stipulated duties. The Chairman is responsible for management and leadership of the Board to formulate overall strategies and business development directions for the Company, to ensure that adequate, complete and reliable information is provided to all Directors in a timely manner, and to ensure that the issues raised at the Board meetings are explained appropriately. The Chief Executive Officer is responsible for managing business activities of the Company, implementing policies, business objectives and plans adopted by the Board, and reporting to the Board on the Company's overall operation.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a fixed term of three years commencing from the Listing Date, which may be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

The non-executive Director has signed an appointment letter with the Company for a term of three years with effect from the Listing Date. His appointment is subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of two years with effect from the Listing Date. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

Save as disclosed above, no Director has entered into a service contract with the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

# CORPORATE GOVERNANCE REPORT (CONTINUED)

Pursuant to the Articles, at each annual general meeting, one-third of the Directors shall retire from office by rotation, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles. The Nomination Committee is responsible for reviewing the Board composition, and making recommendations to the Board on appointment, re-election and succession planning of Directors.

## BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly. Notices of not less than fourteen days are given for regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other committee meetings, at least seven days' notice will be given in writing to all committee members. The meeting notice states the time and place of the meeting. The agenda and accompanying board committee papers will be provided at least three days before the date of meeting to ensure that Directors have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting.

Minutes of the Board meetings and committee meetings will be recorded in sufficient details for the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

During the period from the Listing Date to the date of this annual report, the Board has held a meeting, to consider and review the financial statements for the year ended 31 December 2014 and matters concerning corporate governance and management.

The attendance of the individual Directors at the Board meeting mentioned above is set out below:

| Name of Director | Board meetings attended / eligible to attend |
|---|---|
| Mr. Wang Qisong | 1/1 |
| Ms. Wang Luojia | 1/1 |
| Ms. Wang Jin | 0/1 |
| Mr. Hu Xubo | 1/1 |
| Mr. Xia Lijun | 1/1 |
| Mr. Ho Kenneth Kai Chung | 1/1 |
| Mr. Liu Jianjun | 1/1 |

The Company did not hold any general meeting during the Listing Date to 31 December 2014.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made to all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code from the Listing Date to 31 December 2014.

The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

## DELEGATION BY THE BOARD

The Board reserves for its decision on all major matters of the Group, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Group's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

## CORPORATE GOVERNANCE FUNCTION

The Board recognises that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

1. to develop and review the Group's policies and practices on corporate governance;

2. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

3. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

4. to review the Group's compliance with the CG Code and disclosure in the Corporate Governance Report.

The duty to review and monitor the training record and continuous professional development of the Directors and senior management of the Group has been delegated to the Risk Management Committee.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

## BOARD COMMITTEES

### Nomination Committee

The Nomination Committee currently comprises three members, namely Mr. Liu Jianjun (chairman), Mr. Ho Kenneth Kai Chung and Mr. Xia Lijun, all being independent non-executive Directors.

The principal duties of the Nomination Committee include:

1. to review the structure, size and composition (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, the skills, knowledge and length of service) of the Board at least once a year and make recommendations regarding any proposed changes in the Board in line with the Company's corporate strategy;

2. to identify individuals suitably qualified to become members of the Board, select and nominate candidates of Directors or make recommendations to the Board in this regard;

3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer;

5. to review the board diversity policy, to develop and review measurable objectives for implementing the board diversity policy and to monitor the progress on achieving these objectives; and to ensure that a summary of such policy is disclosed in the Corporate Governance Report as required under the Listing Rules; and

6. where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, to ensure it is set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why the directors of the Company believe he should be elected and the reason why they consider him to be independent.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties. The recommendations of the Nomination Committee will then be put to the Board for decision. The Nomination Committee should report back to the Board on its decisions or recommendations after every Nomination Committee meeting.

Pursuant to code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The Company believes that board diversity can enhance the performance of the Company. After taking into account the Company's own business model and specific needs and upon the recommendation of the Nomination Committee, the Board has adopted a board diversity policy (the "**Policy**") to ensure in designing the Board's composition, board diversity will be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

During the period from the Listing Date to the date of this annual report, the Nomination Committee has held a meeting in which the Nomination Committee has considered the adoption of the Policy and assessed the independence of the independent non-executive Directors.

The attendance of the individual committee members at the Nomination Committee meeting mentioned above is set out below:

| Name of Committee Member | Committee meetings attended/ eligible to attend |
|---|---|
| Mr. Liu Jianjun *(Chairman)* | 1/1 |
| Mr. Xia Lijun | 1/1 |
| Mr. Ho Kenneth Kai Chung | 1/1 |

## Remuneration Committee

The Remuneration Committee currently comprises three members, namely Mr. Ho Kenneth Kai Chung (chairman), Mr. Xia Lijun and Mr. Liu Jianjun, all being independent non-executive Directors.

The principal duties of the Remuneration Committee include:

1. to consult the Chairman of the Board and/or the chief executive officer about the remuneration proposals for other executive Directors;

2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to make recommendations to the Board, on the remuneration packages of individual executive Directors and senior management. The remuneration packages should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

5. to make recommendations to the Board on the remuneration of non-executive Director; and

6. to ensure that no Director or any of his associates (as defined under the Listing Rules) is involved in deciding his own remuneration.

The written terms of reference of the Remuneration Committee are available on the websites of the Hong Kong Stock Exchange and the Company.

During the period from the Listing Date to the date of this annual report, the Remuneration Committee has held a meeting to determine on remuneration policy and structure of Directors and senior management for 2015 and evaluate the remuneration of the Directors and senior management for the year ended 31 December 2014.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

The attendance of the individual committee members at the Remuneration Committee meeting mentioned above is set out below:

| Name of Committee Member | Committee meetings attended/ eligible to attend |
|---|---|
| Mr. Ho Kenneth Kai Chung *(Chairman)* | 1/1 |
| Mr. Liu Jianjun | 1/1 |
| Mr. Xia Lijun | 1/1 |

## Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2014 are set out in note 28 to the financial statements.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. Remuneration paid to the senior management members (excluding the Directors) for the year ended 31 December 2014 is within the range below:

| Range of remuneration (RMB) | Persons |
|---|---|
| Nil to HK$1,000,000 (equivalent to approximately RMB789,000) | 5 |
| Between HK$1,000,000 and HK$2,000,000 (equivalent to approximately RMB789,000 and RMB1,578,000) | 4 |

* Included all senior management members (except Directors)

## Audit Committee

The Audit Committee currently comprises three members, namely Mr. Xia Lijun (chairman), Mr. Ho Kenneth Kai Chung and Mr. Liu Jianjun, all being independent non-executive Directors. The principal duties of the Audit Committee are to review and monitor the Company's financial reporting process and internal control procedures, in order to maintain the relations with the external auditor of the Company and review the financial information of the Company.

The written terms of reference of the Audit Committee are available on the websites of the Hong Kong Stock Exchange and the Company.

During the period from the Listing Date to the date of this annual report, the Audit Committee has held a meeting with all members attended. The Audit Committee has reviewed the financial reporting system, compliance procedures, internal controls (including the adequacy of resources, staff qualifications and experience, training programme and budget of the Group's accounting and financial reporting function), risk management system and procedures and the re-appointment of external auditor. The Board did not have separate opinion on any recommendation and suggestion by the Audit Committee in relation to the appointment of external auditor.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

The attendance record of each Director of the said Audit Committee meeting held by the Company is set out in the table below:

| **Name of Director** | **Committee meetings attended/ eligible to attend** |
|---|---|
| Mr. Xia Lijun *(Chairman)* | 1/1 |
| Mr. Ho Kenneth Kai Chung | 1/1 |
| Mr. Liu Jianjun | 1/1 |

The Audit Committee has also reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2014, as well as the auditor's report prepared by the external auditor relating to accounting issues and major findings in course of audit.

The Audit Committee also met the external auditors once without the presence of the executive Directors.

The Audit Committee is also responsible for the daily execution of anti-corruption measures. Its scope of duties includes reviewing and assessing the Company's anti-corruption measures, reviewing complaints and reports from the external and internal sources with respect to the relevant anti-corruption measures, conducting investigations and undertaking rectification actions accordingly.

After reviewing the anti-corruption measures and standards and internal control policy of the Group, the Audit Committee believed that the Company's anti-corruption measures and standards were fully and effectively implemented during the financial year ended 31 December 2014, while maintained consistent with the anti-corruption laws applicable to the Group.

## Risk Management Committee

The Risk Management Committee currently comprises three members, namely Mr. Liu Jianjun (chairman), Mr. Ho Kenneth Kai Chung and Mr. Xia Lijun, all being independent non-executive Directors.

The principal duties of the Risk Management Committee include:

1. to review the Company's risk management policies and standards, as well as the fundamental concepts and scope of compliance management;

2. to review and provide comment on the overall target and basic policy of the compliance and risk management;

3. to supervise and monitor the Company's exposure to sanctions law risks and implementation of the related internal control policies and procedures adopted by the Company;

4. to supervise and monitor the development of risk and compliance management system of the Company; and

5. to review the settings and responsibilities of the Company's compliance and risk management, and to advise on the same.

The written terms of reference of the Risk Management Committee are available on the websites of the Hong Kong Stock Exchange and the Company.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

The Risk Management Committee will also evaluate the sanctions risks prior to determining whether the Company should embark on any business opportunities in countries which are the targets of economic sanctions as administered by the United States Department of Treasury's Office of Foreign Assets Control, the laws of other countries and under international law, such as Iran, Lebanon, Sudan and Iraq ("**Sanctioned Countries**"). According to the Company's internal control procedures, the Risk Management Committee shall review and approve all relevant business transaction documentation of customers or potential customers from Sanctioned Countries.

During the period from the Listing Date to the date of this annual report, the Risk Management Committee has held a meeting.

The attendance of the individual committee member at the Risk Management Committee meeting mentioned above is set out below:

| Name of Committee Member | Committee meetings attended/ eligible to attend |
|---|---|
| Mr. Liu Jianjun *(Chairman)* | 1/1 |
| Mr. Ho Kenneth Kai Chung | 1/1 |
| Mr. Xia Lijun | 1/1 |

The Group has completely eliminated all its sales to Sanctioned Countries before the Listing. The Risk Management Committee has reviewed the sales of the Group to Sanctioned Countries for the year ended 31 December 2014 and the relevant legal opinions from the Company's PRC legal adviser and legal adviser as to international sanctions laws to monitor the Group's exposure to risks of sanctions violations.

## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2014 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on page 52 of this annual report.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

## INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard Shareholders investments and the Company's assets and reviewing the effectiveness of such system on an annual basis.

The Group's Internal Control Team plays an important role in monitoring the internal governance of the Company. The major duties of the Internal Control Team are regulating and reviewing the internal control and compliance-related matters of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Internal Control Team reports to the Board on a regular basis. The Internal Control Team directly reports to the Board and the Audit Committee when material internal control deficiency is identified.

The Audit Committee has received an internal control report prepared by Internal Control Team and considered the internal control system of the Group remains effective and no material issue is required to be brought to the Board's attention.

## AUDITOR'S REMUNERATION

For the audit of the Group's consolidated financial statements for the year ended 31 December 2014, the total remuneration paid or payable to the Company's auditor, PricewaterhouseCoopers, for audit and audit related services amounted to RMB1.3 million.

## JOINT COMPANY SECRETARIES

Ms. Hu Heng ("**Ms. Hu**"), one of our joint company secretaries, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, and the applicable laws, rules and regulations are followed. In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Ms. Ng Sau Mei ("**Ms. Ng**"), manager of KCS Hong Kong Limited (a company secretarial service provider), as another joint company secretary of the Company to assist Ms. Hu to discharge her duties as company secretary of the Company. Ms. Hu is Ms. Ng's primary corporate contact person of the Company.

Ms. Ng has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules for the year ended 31 December 2014.

As the shares of the Company has not been listed on the Main Board of the Hong Kong Stock Exchange until 30 December 2014, Ms. Hu did not participate in any relevant professional training from the Listing Date to 31 December 2014. Ms. Hu will comply with Rule 3.29 of the Listing Rules and undertake not less than 15 hours of relevant professional training each financial year going forward.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of its information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Company and chairmen of the Board Committees will attend the annual general meeting to answer Shareholders' questions. The external auditor of the Company will also attend the annual general meeting to answer questions about the conduct of the audit, the preparation and contents of the auditors' report, accounting policies and auditor independence.

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website at http://www.bbi-lifesciences.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

## SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Hong Kong Stock Exchange in a timely manner after each general meeting.

## CONVENING OF EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS

In accordance with the Articles, any one or more shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any matter specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Shareholders who intend to put forward their enquiries about the Company to the Board could email their enquiries to the Joint Company Secretary at her email address: huheng@sangon.com.

## CHANGE IN CONSTITUTIONAL DOCUMENTS

The amended and restated memorandum and articles of association of the Company were adopted by the Company on 8 December 2014 and became effective on the Listing Date.

# INDEPENDENT AUDITOR'S REPORT

**To the shareholders of BBI Life Sciences Corporation**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of BBI Life Sciences Corporation (the "Company") and its subsidiaries (together, the "Group") set out on pages 54 to 118, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's consolidated profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 17 March 2015

# CONSOLIDATED BALANCE SHEET

For the year ended 31 December 2014

| | Note | As at 31 December 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *6* | **116,540** | 114,689 |
| Land use rights | *7* | **30,849** | 31,520 |
| Intangible assets | *8* | **2,863** | 641 |
| Investment in an associate | *10* | **–** | 20,425 |
| Deferred income tax assets | *20* | **2,491** | 1,844 |
| Other non-current assets | *13* | **14,063** | 364 |
| | | **166,806** | 169,483 |
| **Current assets** | | | |
| Inventories | *11* | **43,469** | 41,938 |
| Trade and bills receivables | *12* | **54,333** | 41,905 |
| Prepayments, deposits and other receivables | *13* | **138,469** | 8,745 |
| Due from related parties | *14* | **–** | 1,999 |
| Cash and cash equivalents | *15* | **195,821** | 109,556 |
| | | **432,092** | 204,143 |
| **Total assets** | | **598,898** | 373,626 |
| **EQUITY** | | | |
| Share capital | *16* | **4,142** | 89,631 |
| Share premium | *16* | **445,429** | 191,363 |
| Other reserves | *18* | **(74,964)** | (82,416) |
| Retained earnings | *17* | | |
| – proposed final dividend | *32* | **3,311** | – |
| – others | | **116,193** | 90,254 |
| | | **494,111** | 288,832 |
| **Non-controlling interests** | | **39** | 12,921 |
| **Total equity** | | **494,150** | 301,753 |

The notes on page 60 to 118 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

For the year ended 31 December 2014

| | | As at 31 December | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Note* | **RMB'000** | RMB'000 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | *20* | **4,217** | 3,553 |
| Deferred income | *21* | **1,361** | 1,375 |
| | | **5,578** | 4,928 |
| **Current liabilities** | | | |
| Trade payables | *22* | **5,908** | 6,824 |
| Accruals and other payables | *23* | **92,887** | 59,881 |
| Due to related parties | *24* | **–** | 24 |
| Current portion of deferred income | *21* | **375** | 216 |
| | | **99,170** | 66,945 |
| **Total liabilities** | | **104,748** | 71,873 |
| **Total equity and liabilities** | | **598,898** | 373,626 |
| **Net current assets** | | **332,922** | 137,198 |
| **Total assets less current liabilities** | | **499,728** | 306,681 |

The notes on page 60 to 118 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 17 March 2015.

**Wang Qisong**
Director

**Wang Luojia**
Director

# BALANCE SHEET

For the year ended 31 December 2014

| | Note | As at 31 December 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **4** | – |
| Investments in subsidiaries | *9* | **293,365** | 281,543 |
| | | **293,369** | 281,543 |
| **Current assets** | | | |
| Other receivables | *13* | **145,039** | 1,670 |
| Cash and cash equivalents | *15* | **58,477** | – |
| | | **203,516** | 1,670 |
| **Total assets** | | **496,885** | 283,213 |
| **EQUITY** | | | |
| Share capital | *16* | **4,142** | 89,631 |
| Share premium | *16* | **445,429** | 191,363 |
| Other reserves | *18* | **12,286** | 552 |
| Retained earnings/(accumulated losses) | *17* | **13,557** | (149) |
| **Total equity** | | **475,414** | 281,397 |
| **Current liabilities** | | | |
| Other payables | *23* | **21,471** | 1,816 |
| **Total liabilities** | | **21,471** | 1,816 |
| **Total equity and liabilities** | | **496,885** | 283,213 |
| **Net current assets/(liabilities)** | | **182,045** | (146) |
| **Total assets less current liabilities** | | **475,414** | 281,397 |

The notes on page 60 to 118 are an integral part of these financial statements.

Approved by the Board of Directors on 17 March 2015.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Note* | **RMB'000** | RMB'000 |
| Revenue | *5* | **253,193** | 219,988 |
| Cost of sales | *27* | **(122,830)** | (108,898) |
| **Gross profit** | | **130,363** | 111,090 |
| Selling and distribution costs | *27* | **(46,201)** | (36,484) |
| Administrative expenses | *27* | **(66,583)** | (29,393) |
| Other income – net | *25* | **828** | 883 |
| Other losses – net | *26* | **(726)** | (1,283) |
| **Operating profit** | | **17,681** | 44,813 |
| Finance income | | **3,158** | 1,081 |
| Finance costs | | **(1,686)** | (1,020) |
| **Finance income – net** | *29* | **1,472** | 61 |
| Share of profit of an associate | *10* | **1,734** | 4,702 |
| Gain on disposal of an associate | *10* | **26,386** | – |
| **Profit before income tax** | | **47,273** | 49,576 |
| Income tax expense | *30* | **(11,295)** | (7,229) |
| **Profit for the year** | | **35,978** | 42,347 |
| **Other comprehensive income** | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| – Currency translation differences | | **(628)** | (2,023) |
| **Total comprehensive income for the year** | | **35,350** | 40,324 |
| **Total profit attributable to:** | | | |
| Equity holders of the Company | | **33,290** | 40,249 |
| Non-controlling interests | | **2,688** | 2,098 |
| | | **35,978** | 42,347 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **32,670** | 38,439 |
| Non-controlling interests | | **2,680** | 1,885 |
| | | **35,350** | 40,324 |
| **Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)** | | | |
| – Basic | *31* | **0.084** | 0.102 |
| – Diluted | *31* | **0.084** | 0.102 |
| **Dividends** | *32* | **3,311** | – |

The notes on page 60 to 118 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Other reserves | Retained earnings | Total | Non-controlling interests | Total Equity |
| | RMB'000 *(Note 16)* | RMB'000 *(Note 16)* | RMB'000 *(Note 18)* | RMB'000 *(Note 17)* | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2013 | – | – | 127,829 | 54,246 | 182,075 | 11,036 | 193,111 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | – | – | – | 40,249 | 40,249 | 2,098 | 42,347 |
| Currency translation differences | – | – | (1,810) | – | (1,810) | (213) | (2,023) |
| **Total comprehensive income** | – | – | (1,810) | 40,249 | 38,439 | 1,885 | 40,324 |
| **Transactions with owners** | | | | | | | |
| Reorganisation *(Note 1.2)* | 89,631 | 191,363 | (280,994) | – | – | – | – |
| Capital injection by then equity holder of a subsidiary | – | – | 31,730 | – | 31,730 | – | 31,730 |
| Capitalisation of amounts due to then shareholders of a subsidiary | – | – | 36,588 | – | 36,588 | – | 36,588 |
| Appropriation to statutory reserve | – | – | 4,241 | (4,241) | – | – | – |
| **Total transactions with owners** | 89,631 | 191,363 | (208,435) | (4,241) | 68,318 | – | 68,318 |
| **Balance at 31 December 2013** | 89,631 | 191,363 | (82,416) | 90,254 | 288,832 | 12,921 | 301,753 |
| Balance at 1 January 2014 | **89,631** | **191,363** | **(82,416)** | **90,254** | **288,832** | **12,921** | **301,753** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | **–** | **–** | **–** | **33,290** | **33,290** | **2,688** | **35,978** |
| Currency translation differences | **–** | **–** | **(620)** | **–** | **(620)** | **(8)** | **(628)** |
| **Total comprehensive income** | **–** | **–** | **(620)** | **33,290** | **32,670** | **2,680** | **35,350** |
| **Transactions with owners** | | | | | | | |
| Share-based payment | **–** | **–** | **10,508** | **–** | **10,508** | **341** | **10,849** |
| Acquisition of non-controlling interests | **–** | **–** | **(6,476)** | **–** | **(6,476)** | **(14,187)** | **(20,663)** |
| Issue of new shares *(Note 16)* | **345** | **89,286** | **–** | **–** | **89,631** | **–** | **89,631** |
| Repurchase of old shares *(Note 16)* | **(89,631)** | **–** | **–** | **–** | **(89,631)** | **–** | **(89,631)** |
| Dividends declared by the subsidiary of the Group | **–** | **–** | **–** | **–** | **–** | **(1,716)** | **(1,716)** |
| Appropriation to statutory reserve | **–** | **–** | **4,040** | **(4,040)** | **–** | **–** | **–** |
| Capitalisation issue *(Note 16)* | **2,762** | **(2,762)** | **–** | **–** | **–** | **–** | **–** |
| Issue of new shares upon Global Offering *(Note 16)* | **1,035** | **167,542** | **–** | **–** | **168,577** | **–** | **168,577** |
| **Total transactions with owners** | **(85,489)** | **254,066** | **8,072** | **(4,040)** | **172,609** | **(15,562)** | **157,047** |
| **Balance at 31 December 2014** | **4,142** | **445,429** | **(74,964)** | **119,504** | **494,111** | **39** | **494,150** |

The notes on page 60 to 118 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

| | Note | Year ended 31 December 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | *33* | **59,832** | 70,958 |
| Interest paid | | **–** | (335) |
| Income tax paid | | **(9,477)** | (9,577) |
| Net cash generated from operating activities | | **50,355** | 61,046 |
| **Cash flows from investing activities** | | | |
| Purchase of land use rights | | **–** | (621) |
| Purchase of property, plant and equipment | | **(16,255)** | (14,224) |
| Acquisition of intangible assets | *8* | **(2,712)** | (347) |
| Loans to the Controlling Party | *35* | **–** | (1,010) |
| Repayments from the Controlling Party | *35* | **1,984** | 17,366 |
| Proceeds from disposal of an associate | | **19,067** | – |
| Interest received from available-for-sale financial assets | | **1,876** | 786 |
| Proceeds from disposal of property, plant and equipment | *33* | **1,266** | 562 |
| Dividends received from an associate | | **7,579** | 310 |
| Purchases of available-for-sale financial assets | | **(150,000)** | (116,000) |
| Disposal of available-for-sale financial assets | | **150,000** | 116,000 |
| Net cash generated from investing activities | | **12,805** | 2,822 |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of new shares | | **47,844** | – |
| Proceeds from equity holders of certain subsidiaries | | **–** | 31,730 |
| Acquisition of non-controlling interests | | **(23,307)** | – |
| Repayments of bank borrowings | | **–** | (11,000) |
| Repayments to the Controlling Party | *35* | **–** | (30,414) |
| Dividends paid to the non-controlling interest | | **(1,716)** | – |
| Net cash generated from/(used in) financing activities | | **22,821** | (9,684) |
| **Net increase in cash and cash equivalents** | | **85,981** | 54,184 |
| Cash and cash equivalents at beginning of the year | | **109,556** | 55,249 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | **284** | 123 |
| **Cash and cash equivalents at end of the year** | *15* | **195,821** | 109,556 |

The notes on page 60 to 118 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION

### 1.1 General information of the Group

The Company was incorporated in the Cayman Islands on 10 July 2013 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 address of its registered office was Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands. In September 2014, the Company's registered office was changed to Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of the Stock Exchange since 30 December 2014.

The Group is principally engaged in the development, manufacture and sale of various life science products used in scientific research, and the provision of life science related services. The products and services include mainly DNA synthesis products, genetic engineering services, life science research consumables and protein and antibody related products and services (the "Listing Business").

These consolidated financial statements are presented in Renminbi (RMB), unless otherwise stated, and were approved for issue by the Board of Directors on 17 March 2015.

### 1.2 Reorganisation

Prior to the Reorganisation, the Listing Business was conducted through 4 investment holding companies (LJ Venture Ltd., incorporated in Canada, BBI Asia Limited and BBI International Limited, both incorporated in Hong Kong, and Shanghai Qisong Investment Consulting Company Limited ("BBI China"), both incorporated in the PRC) and their subsidiaries. The Listing Business was controlled by Mr. Wang Qisong, Ms. Wang Luojia and Ms. Wang Jin, who were acting in concert (the "Controlling Party"), through LJ Venture Ltd., BBI Asia Limited and BBI China with a controlling shareholding of 74.2% of the Listing Business.

The Group underwent a reorganisation (the "Reorganisation") before its listing on the Main Board of the Stock Exchange, which principally involved:

(a) The Company was incorporated on 10 July 2013 with an initial authorised share capital of NT$1 billion divided into 100 million shares of NT$10.00 each. On the date of incorporation, one share of NT$10.00 was allotted and issued nil paid as subscriber's share to Offshore Incorporations (Cayman) Limited which in turn transferred such one share to LJ Venture Ltd. at par. On the same day, 95 shares, 2 shares and 2 shares of NT$10.00 each were allotted and issued as fully-paid at par to LJ Venture Ltd., LJ Hope Ltd. and LJ Peace Ltd. (LJ Hope Ltd. and LJ Peace Ltd. were incorporated in Canada on 26 June 2013 by the Controlling Party) respectively.

(b) On 25 October 2013, 10,988,730 shares of NT$10.00 each of the Company were allotted and issued to LJ Venture Ltd. in exchange for the transfer of 5,080,640 shares of US$1.00 each of the total issued shares of BBI Asia Limited from LJ Venture Ltd. to the Company pursuant to a share exchange agreement dated 25 October 2013. Upon completion of such share exchange, BBI Asia Limited became direct wholly-owned subsidiary of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 1 GENERAL INFORMATION OF THE GROUP AND REORGANISATION *(CONTINUED)*

### 1.2 Reorganisation *(continued)*

(c) On 22 November 2013, the Controlling Party and the non-controlling shareholders transferred the entire registered capital of BBI China to BBI Asia Limited. The consideration of such transfer was satisfied by way of BBI Asia Limited issued and allotted 7,892,158 shares to the Company, and the Company issued and allotted 934,041 shares, 20,356,608 shares and 2,060,372 shares of NT$10.00 each to LJ Hope Ltd., LJ Peace Ltd. and LJ Venture Ltd. respectively. Upon the completion of such transfers, the entire registered capital of BBI China was owned by BBI Asia Limited, and BBI China became an indirect wholly-owned subsidiary of the Company.

(d) On 31 December 2013, Qiming Venture Partners II L.P. ("QVP II"), Qiming Venture Partners II-C, L.P. ("QVP II-C") and Qiming Managing Directors Fund II, L.P. ("QMDF"), the then shareholders of BBI International Limited transferred their entire interest in the issued share capital of BBI International Limited, which in aggregate consisted of 45,325,655 shares of HK$1.00 each, to the Company in consideration of the Company's allotting and issuing 8,308,372 shares, 728,001 shares and 120,876 shares of NT$10.00 each to QVP II, QVP II-C and QMDF respectively. Upon completion of such share exchange, BBI International Limited became the direct wholly-owned subsidiary of the Company.

Upon completion of the Reorganisation, the Company became the holding company of the Group, and the shareholders of the Company were LJ Hope Ltd., LJ Peace Ltd., LJ Venture Ltd., QVP II, QVP II-C and QMDF. The ultimate controlling party was the Controlling Party with the controlling shareholding of 74.2% of the Group before the listing of the Company's shares on the Main Board of the Stock Exchange.

### 1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is owned and controlled by the Controlling Party. Pursuant to the Reorganisation, the Listing Business was transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owner of the Listing Business remains the same. Accordingly, the consolidated financial statements of the companies comprising the Group are presented using the carrying values of the Listing Business for all periods presented, as if the current group structure had been in existence throughout the years ended 31 December 2013 and 2014 or since the respective dates when these companies first came under the control of the Controlling Party, whichever is the shorter period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap.32) for this financial year and the comparative period.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

#### 2.1.1 Changes in accounting policy and disclosures

*(a) New standards, amendments and interpretations mandatory for the first time for the financial year beginning 1 January 2014 but not currently relevant to the Group (although they may affect the accounting for future transactions and events).*

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| Amendment to HKAS 32 | Financial instruments: Presentation on asset and liability offsetting | 1 January 2014 |
| Amendments to HKFRSs 10, 12 and HKAS 27 | Consolidation for investment entities | 1 January 2014 |
| Amendment to HKAS 36 | Impairment of assets on recoverable amount disclosures | 1 January 2014 |
| Amendment to HKAS 39 | Financial instruments: Recognition and measurement – novation of derivatives | 1 January 2014 |
| HK(IFRIC) 21 | Levies | 1 January 2014 |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.1 Basis of preparation *(continued)*

#### 2.1.1 Changes in accounting policy and disclosures *(continued)*

*(b) New and amended standards have been issued but are not effective for the financial year beginning on or after 1 January 2014 and have not been early adopted.*

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| Amendment to HKAS 19 | Defined benefits | 1 July 2014 |
| Amendments to HKFRS 10 | Consolidated financial statements | 1 January 2016 |
| Amendment to HKFRS 11 | Joint arrangements | 1 January 2016 |
| HKFRS 14 | Regulatory Deferral Accounts | 1 January 2016 |
| Amendments to HKAS 16 | Property, plant and equipment | 1 January 2016 |
| Amendment to HKAS 27 | Consolidated and separate financial statements | 1 January 2016 |
| Amendments to HKAS 28 | Investment in associates | 1 January 2016 |
| Amendments to HKAS 38 | Intangible assets | 1 January 2016 |
| Amendments to HKAS 41 | Agriculture | 1 January 2016 |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2017 |
| HKFRS 9 | Financial Instruments | 1 January 2018 |

Apart from the above, the Hong Kong Institute of Certified Public Accountants has issued the annual improvements project which addresses several issues in the 2010-2012 reporting cycle, 2011-2013 reporting cycle, 2012-2014 reporting cycle, and includes changes to the following standards. The Group has not applied the following revised HKFRSs published in the annual improvements project.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.1 Basis of preparation *(continued)*

#### 2.1.1 Changes in accounting policy and disclosures *(continued)*

*(b)* ***New and amended standards have been issued but are not effective for the financial year beginning on or after 1 January 2014 and have not been early adopted.*** *(continued)*

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKFRS 2 | Share-based payment | 1 July 2014 |
| HKFRS 3 | Business combinations | 1 July 2014 |
| HKFRS 8 | Operating segments | 1 July 2014 |
| HKFRS 9 | Financial instruments | 1 July 2014 |
| HKFRS 13 | Fair value measurement | 1 July 2014 |
| HKAS 16 | Property, plant and equipment | 1 July 2014 |
| HKAS 24 | Related Party Disclosures | 1 July 2014 |
| HKAS 37 | Provisions, contingents liabilities and contingent assets | 1 July 2014 |
| HKAS 38 | Intangible assets | 1 July 2014 |
| HKAS 39 | Financial instrument – recognition and measurement | 1 July 2014 |
| HKAS 40 | Investment property | 1 July 2014 |
| HKFRS 5 | Non-current assets held for sale and discontinued operations | 1 July 2016 |
| HKFRS 7 | Financial instruments: Disclosures | 1 July 2016 |
| HKAS 19 | Employee benefits | 1 July 2016 |
| HKAS 34 | Interim financial reporting | 1 July 2016 |

The Group is assessing the full impact of the amendments and standards, and doesn't expect any significant impact on the consolidated financial statements upon adoption. The Group intends to adopt the amendments no later than the respective effective dates of the amendments.

*(c)* ***New Hong Kong Companies Ordinance (Cap.622)***

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap.622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with Section 358 of the Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap.622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

*(a) Business combinations under common control*

Business combinations under common control refers to combinations where the combining entities are controlled by the same party or parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid is recorded in other reserve. Any direct transaction cost attributable to the business combination is recorded in the consolidated statement of comprehensive income in the current period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

*(b) Business combinations not under common control*

The Group uses the acquisition method of accounting to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.2 Subsidiaries *(continued)*

#### 2.2.1 Consolidation *(continued)*

*(b)* ***Business combinations not under common control*** *(continued)*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### 2.2.2 Separate financial statement

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Associated companies

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in OCI are reclassified to profit or loss where appropriate.

The Group's share of its associated company's post-acquisition profits or losses is recognised in the consolidated statements of comprehensive income, and its share of post-acquisition movements in OCI is recognised in OCI. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'Share of profit of an associate' in the consolidated statements of comprehensive income.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.3 Associated companies *(continued)*

Dilution gains and losses arising in investments in associated companies are recognised in the statement of comprehensive income.

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that makes strategic decisions.

### 2.5 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Consolidated financial statements are presented in RMB, which is the Group's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within "other gains/(losses) – net".

#### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates the transactions); and

(iii) all resulting exchange differences are recognised in OCI.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to OCI. When a foreign operation is partially disposed of or sold, corresponding exchange differences that are recorded in OCI are recognised in the consolidated statement of comprehensive income as part of the gains or losses on sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.6 Property, plant and equipment

Construction-in-progress (the "CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalized borrowing costs. No depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

Other property, plant and equipment are stated at historical cost less depreciation and impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | Years |
|---|---|
| Buildings | 20 years |
| Machinery and equipment | 10 years |
| Office equipments | 3-5 years |
| Other equipments | 3-5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains/(losses) – net" in the consolidated statement of comprehensive income.

### 2.7 Land use rights

All land in the People's Republic of China (the "PRC") is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease periods of 50 years using the straight-line method. The land use rights are stated at historical cost less accumulated amortisation and impairment.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.8 Intangible assets

#### (a) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Acquired computer software licences are capitalized on the basis of costs incurred to acquire and bring to use the specific software. The costs are amortised over their estimated useful lives of 5 years.

#### (b) Patent

Separately acquired patent is shown at historical cost. Patent has finite useful lives and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patent over their estimated useful lives of 5 years.

#### (c) Development costs

Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible assets so that it will be available for use;
- Management intends to complete the intangible assets and use or sell it;
- There is an ability to use or sell the intangible assets;
- It can be demonstrated how the intangible assets will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible assets are available; and
- The expenditure attributable to the intangible assets during its development can be reliably measured.

Development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs recognised as assets are amortised over their estimated useful lives.

### 2.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of an impairment at each reporting date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.10 Financial assets

#### (a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivables", "deposits and other receivables", "due from related parties", "cash and cash equivalents" and "other non-current assets" in the balance sheet.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

#### (b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as `other gains/(losses) – net'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

#### (c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.10 Financial assets *(continued)*

#### (d) Impairment

*Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

*Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.10 Financial assets *(continued)*

#### (d) Impairment *(continued)*

***Assets classified as available for sale (continued)***

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services provided in the ordinary course of business. If collection of trade and other receivables is expected within one year, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

### 2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries or areas where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) Deferred income tax

*Inside basis differences*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.18 Current and deferred income tax *(continued)*

#### (b) Deferred income tax *(continued)*

*Outside basis differences*

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

#### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.19 Employee benefits

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join defined contribution plans, including pension, medical, housing and other welfare benefits, organised by the PRC government. According to the relevant regulations, the monthly contributions that should be borne by the PRC subsidiaries of the Company are calculated based on percentages of the total salary of employees, subject to a certain ceiling. The assets of these plans are held separately from those of the Group in independent funds managed by the PRC government.

The non-PRC employees are covered by other defined contribution pension plans sponsored by respective local governments.

The Group has no further payment obligations once the above contributions have been paid. The Group's contributions to these plans are charged to the consolidated statement of comprehensive income as incurred.

### 2.20 Share-based payments

#### (a) Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plans, under which the entity receives services from directors and employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and an employee remaining on service of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.20 Share-based payments *(continued)*

#### (a) Equity-settled share-based payment transactions *(continued)*

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity on the Company's financial statements.

#### (b) Share-based payments – modification

If the terms of an equity-settled share-based payment transaction are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

### 2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivables for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.22 Revenue recognition *(continued)*

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer and the customer has accepted the products, the collectability of the related receivables is reasonably assumed and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(ii) Service income is recognised when the services have been rendered and it is probable that the economic benefits will flow to the Group and the relevant fees can be measured reliably.

(iii) Dividend income is recognised when the right to receive payment is established.

### 2.23 Interest Income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

### 2.25 Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

### 2.26 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### 2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors where appropriate.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### (a) Market risk

##### *(i) Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has certain trade and bills receivables, cash and cash equivalents and trade payables denominated in HK$, CAD, USD, which is exposed to foreign currency translation risk. Details of the Group's trade and bills receivables, cash and cash equivalents, trade payables are disclosed in Notes 12, 15 and 22 respectively.

Most foreign exchange transactions were denominated in USD. As at 31 December 2014, if RMB had strengthened/weakened by 10% against the USD with all other variables held constant, net profit for the year would have been RMB 591,000 lower/higher (2013: RMB 436,000 lower/higher).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.1 Financial risk factors *(continued)*

#### (a) Market risk *(continued)*

*(ii) Cash flow and fair value interest rate risk*

Except for cash and cash equivalents, the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of cash and cash equivalent are not expected to change significantly.

#### (b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, trade and bills receivables, as well as credit exposures to customers, including outstanding receivables and committed transactions. Certain Group's sales are settled in cash by its customers on delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has policies in place to ensure that trade receivables are followed up on a timely basis.

As at 31 December 2013 and 2014, the Group has no significant concentration risk. The carrying amounts of cash and cash equivalent, trade and bills receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2013 and 2014, all cash and cash equivalents were placed in highly reputable and sizable banks and financial institutions without significant credit risk. The table below shows bank deposits and cash at bank balances by counterparties:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| The Group | | |
| Counterparties | | |
| – Big 4 PRC banks* | **123,945** | 104,606 |
| – Other PRC commercial banks | **4,906** | 1,860 |
| – Non-PRC banks | **66,943** | 3,055 |
| | **195,794** | 109,521 |

* Big 4 PRC banks comprise Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited and China Construction Bank Corporation.

## 3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.1 Financial risk factors *(continued)*

#### (c) Liquidity risk

Cash flow is managed at group level by head office finance department ("Group Finance"). Group Finance monitors the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs at all times and does not breach borrowing limits or covenants on any of its borrowing facilities. Group Finance usually takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

Group Finance mainly invests surplus cash in time deposits and available-for-sale financial assets with appropriate maturities.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | **Within 1 year** RMB'000 | **1-2 years** RMB'000 | **2-5 years** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| **As at 31 December 2014** | | | | |
| Trade payables | **5,908** | **–** | **–** | **5,908** |
| Other payables | **17,966** | **–** | **–** | **17,966** |
| | **23,874** | **–** | **–** | **23,874** |
| **As at 31 December 2013** | | | | |
| Trade payables | 6,824 | – | – | 6,824 |
| Other payables | 663 | – | – | 663 |
| Due to related parties | 24 | – | – | 24 |
| | 7,511 | – | – | 7,511 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's abilities to continue as a going concern in order to provide returns for equity holders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or sell assets to reduce debt.

| | **As at 31 December** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Total bank borrowings | **–** | – |
| Less: Cash and cash equivalents *(Note 15(a))* | **(195,821)** | (109,556) |
| Net cash | **(195,821)** | (109,556) |

Gearing ratio is not applicable since the Group has a net cash position.

### 3.3 Fair value estimation

There are no assets or liabilities that are measured at fair value as at 31 December 2014. The carrying value of cash and cash equivalents, trade and bills receivables less impairment, other receivables, trade and other payables, and due from/to related parties are assumed to approximate their fair values.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

### (ii) Estimated write-downs of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

### (iii) Impairment of trade and other receivables

The Group's management estimates the provision of impairment of trade and other receivables by assessing their recoverability. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivable and impairment charge in the period in which such estimate has been changed.

### (iv) Current tax and deferred tax

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

## 5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on the internal reports provided for review by the Executive Directors. The Executive Directors consider the performance of the Group from a product perspective. The Executive Directors assess the performance of the operating segments based on a measure of gross profit for the year which is consistent with that in the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5 SEGMENT INFORMATION *(CONTINUED)*

The Group's operations are mainly organised under the following business segments: DNA synthesis products, genetic engineering services, life science research consumables and protein and antibody related products and services.

The amounts provided to Executive Directors with respect to total assets, total liabilities and capital expenditure are measured in a manner consistent with that of consolidated financial statements. Executive Directors review the total assets, total liabilities and capital expenditure at Group level, therefore no segment information of total assets, total liabilities and capital expenditure information was presented.

### (a) Revenue

The Group's revenue which represents turnover for the year ended 31 December 2013 and year ended 31 December 2014 is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| DNA synthesis products | **100,812** | 91,117 |
| Genetic engineering services | **49,069** | 41,872 |
| Life science research consumables | **77,453** | 70,838 |
| Protein and antibody related products and services | **25,859** | 16,161 |
| Total | **253,193** | 219,988 |

### (b) Segment information

The segment information for the year ended 31 December 2014 is as follows:

| | **DNA synthesis products** | **Genetic engineering services** | **Life science research consumables** | **Protein and antibody related products and services** | **Total** |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Segment sales | **100,812** | **49,069** | **77,453** | **25,859** | **253,193** |
| Segment cost of sales | **(40,396)** | **(23,630)** | **(41,856)** | **(16,948)** | **(122,830)** |
| Segment gross profit | **60,416** | **25,439** | **35,597** | **8,911** | **130,363** |

## 5 SEGMENT INFORMATION *(CONTINUED)*

### (b) Segment information *(continued)*

The segment information for the year ended 31 December 2013 is as follows:

| | DNA synthesis products RMB'000 | Genetic engineering services RMB'000 | Life science research consumables RMB'000 | Protein and antibody related products and services RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Segment sales | 91,117 | 41,872 | 70,838 | 16,161 | 219,988 |
| Segment cost of sales | (41,226) | (21,661) | (35,181) | (10,830) | (108,898) |
| Segment gross profit | 49,891 | 20,211 | 35,657 | 5,331 | 111,090 |

### (c) Entity-Wide information

Analysis of the Group's sales to external customers in different countries is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| PRC | **192,259** | 165,164 |
| Overseas countries | **60,934** | 54,824 |
| | **253,193** | 219,988 |

The total of non-current assets other than deferred income tax assets located in different countries is as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Total non-current assets other than deferred income tax assets | | |
| –PRC | **147,610** | 149,015 |
| –Overseas countries | **16,705** | 18,624 |
| Deferred income tax assets | **2,491** | 1,844 |
| | **166,806** | 169,483 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 6 PROPERTY, PLANT AND EQUIPMENT – GROUP

| | Land RMB'000 | Buildings RMB'000 | Machinery and equipment RMB'000 | Office equipment RMB'000 | Others RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2013** | | | | | | | |
| Cost | 7,935 | 62,012 | 60,622 | 3,984 | 6,190 | – | 140,743 |
| Accumulated depreciation | – | (10,651) | (12,330) | (2,002) | (1,785) | – | (26,768) |
| Net book amount | 7,935 | 51,361 | 48,292 | 1,982 | 4,405 | – | 113,975 |
| **Year ended 31 December 2013** | | | | | | | |
| Opening net book amount | 7,935 | 51,361 | 48,292 | 1,982 | 4,405 | – | 113,975 |
| Additions | – | 132 | 414 | 634 | 237 | 12,632 | 14,049 |
| Transfers | – | – | 10,731 | 144 | 472 | (1,1347) | – |
| Disposals *(Note 33)* | – | (50) | (926) | (14) | (12) | – | (1,002) |
| Depreciation *(Note 33)* | – | (2,627) | (5,450) | (635) | (1,250) | – | (9,962) |
| Exchange difference | (332) | (1,074) | (911) | (21) | (33) | – | (2,371) |
| Closing net book amount | 7,603 | 47,742 | 52,150 | 2,090 | 3,819 | 1,285 | 114,689 |
| **At 31 December 2013** | | | | | | | |
| Cost | 7,603 | 60,859 | 70,054 | 4,726 | 6,855 | 1,285 | 151,382 |
| Accumulated depreciation | – | (13,117) | (17,904) | (2,636) | (3,036) | – | (36,693) |
| Net book amount | 7,603 | 47,742 | 52,150 | 2,090 | 3,819 | 1,285 | 114,689 |
| **Year ended 31 December 2014** | | | | | | | |
| Opening net book amount | **7,603** | **47,742** | **52,150** | **2,090** | **3,819** | **1,285** | **114,689** |
| Additions | **–** | **20** | **1,928** | **371** | **612** | **13,550** | **16,481** |
| Transfers | **–** | **–** | **6,653** | **206** | **1,055** | **(7,914)** | **–** |
| Disposals *(Note 33)* | **–** | **–** | **(1,266)** | **(42)** | **(97)** | **–** | **(1,405)** |
| Depreciation *(Note 33)* | **–** | **(2,629)** | **(7,041)** | **(745)** | **(1,484)** | **–** | **(11,899)** |
| Exchange difference | **(597)** | **(720)** | **(3)** | **(1)** | **(5)** | **–** | **(1,326)** |
| Closing net book amount | **7,006** | **44,413** | **52,421** | **1,879** | **3,900** | **6,921** | **116,540** |
| **At 31 December 2014** | | | | | | | |
| Cost | **7,006** | **60,144** | **77,105** | **5,087** | **8,015** | **6,921** | **164,278** |
| Accumulated depreciation | **–** | **(15,731)** | **(24,684)** | **(3,208)** | **(4,115)** | **–** | **(47,738)** |
| Net book amount | **7,006** | **44,413** | **52,421** | **1,879** | **3,900** | **6,921** | **116,540** |

## 6 PROPERTY, PLANT AND EQUIPMENT – GROUP *(CONTINUED)*

(a) Depreciation expense has been charged to the consolidated statement of comprehensive income as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Cost of sales | **8,765** | 7,565 |
| Administrative expenses | **2,477** | 1,920 |
| Selling and distribution costs | **657** | 477 |
| | **11,899** | 9,962 |

## 7 LAND USE RIGHTS – GROUP

Land use rights represent the net book amount of prepaid operating lease payments. All the land use rights of the Group are located in the PRC and are held on leases of 50 years.

Movements in land use rights are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Opening | **31,520** | 31,877 |
| Additions | **–** | 621 |
| Amortisation *(Note 33)* | **(671)** | (978) |
| | **30,849** | 31,520 |

(a) Amortisation expense has been charged to "general and administrative expenses" in the consolidated statement of comprehensive income.

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| General and administrative expenses | **671** | 978 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 8 INTANGIBLE ASSETS – GROUP

| | Computer software RMB'000 | Patent RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2013** | | | |
| Cost | 793 | 59 | 852 |
| Accumulated amortisation | (348) | (39) | (387) |
| Net book amount | 445 | 20 | 465 |
| **Year ended 31 December 2013** | | | |
| Opening net book amount | 445 | 20 | 465 |
| Additions | – | 347 | 347 |
| Amortisation *(Note 33)* | (159) | (12) | (171) |
| Closing net book amount | 286 | 355 | 641 |
| **At 31 December 2013** | | | |
| Cost | 793 | 406 | 1,199 |
| Accumulated amortisation | (507) | (51) | (558) |
| Net book amount | 286 | 355 | 641 |
| **Year ended 31 December 2014** | | | |
| Opening net book amount | **286** | **355** | **641** |
| Additions | **2,712** | **–** | **2,712** |
| Amortisation *(Note 33)* | **(160)** | **(330)** | **(490)** |
| Closing net book amount | **2,838** | **25** | **2,863** |
| **At 31 December 2014** | | | |
| Cost | **3,505** | **406** | **3,911** |
| Accumulated amortisation | **(667)** | **(381)** | **(1,048)** |
| Net book amount | **2,838** | **25** | **2,863** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 8 INTANGIBLE ASSETS – GROUP *(CONTINUED)*

Amortisation expense has been charged to the consolidated statement of comprehensive income as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Administrative expenses | **490** | 171 |

## 9 INVESTMENTS IN SUBSIDIARIES – COMPANY

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Unlisted investments, at cost | **282,516** | 281,543 |
| Capital contribution relating to share-based payment | **10,849** | – |
| | **293,365** | 281,543 |

The capital contribution relating to share based payment refers to share options granted by the Company to employees of subsidiary undertakings in the Group. Refer to note 19 for further details on the Group's share option schemes.

During the years ended 31 December 2013 and 2014, the non-controlling interests are Shanghai Shengjie Investment Company Limited and Shanghai Shengji Investment Company Limited, both of which are non-controlling shareholders of Sangon Biotech Engineering (Shanghai) Company Limited ("Sangon Biotech"), the only major operating sub-group of the Group.

## 10 INVESTMENT IN AN ASSOCIATE – GROUP

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At 1 January | **20,425** | 16,033 |
| Disposal | **(14,580)** | – |
| Dividend declared | **(7,579)** | (310) |
| Share of profit | **1,734** | 4,702 |
| At 31 December | **–** | 20,425 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 10 INVESTMENT IN AN ASSOCIATE – GROUP *(CONTINUED)*

In April 2014, the Group disposed its equity interest in Shanghai PrimeGene Bio-Tech Co., Ltd. ("PrimeGene") to a third party company, with the consideration of USD7,114,000 and recorded a disposal gain of RMB26,386,000.

Set out below is the associate of the Group as at 31 December 2013, which, in the opinion of the directors, is material to the Group. The associate as listed below has share capital consisting solely of ordinary shares, which are held directly by the Group and the country of incorporation or registration is also its principal place of business.

Nature of investment in an associate as at 31 December 2013:

| Name of entity | Place of business/ country of incorporation | % of ownership interest | Nature of the relationship | Measurement method |
|---|---|---|---|---|
| PrimeGene | Shanghai, China | 31 | *Note 1* | Equity |

*Note 1*: PrimeGene provides products and services for protein categories.
PrimeGene was strategic to the Group for variety of products the Group provides.
PrimeGene is a private company and there is no quoted market price available for its shares.
There are no contingent liabilities relating to the Group's interest in the associate.

**Summarised balance sheet**

| | **As at 31 December 2013** RMB'000 |
|---|---|
| **Current** | |
| Total current assets | 12,628 |
| Total current liabilities | 1,877 |
| **Non-current** | |
| Total non-current assets | 49,271 |
| Total non-current liabilities | 490 |

## 10 INVESTMENT IN AN ASSOCIATE – GROUP *(CONTINUED)*

**Summarised statement of comprehensive income**

| | **Year ended 31 December 2013** RMB'000 |
|---|---|
| Revenue | 26,849 |
| Profit for the year | 15,166 |
| Total comprehensive income | 15,166 |
| Dividend received from associate | 310 |

**Reconciliation of summarised consolidated financial statements**

Reconciliation of the summarised consolidated financial statements presented to the carrying amount of its interest in the associate:

| | **Year ended 31 December 2013** RMB'000 |
|---|---|
| **Opening net assets 1 January** | 45,366 |
| Profit for the year | 15,166 |
| Dividend | (1,000) |
| **Closing net assets** | 59,532 |
| Interest in the associate (31%) | 18,455 |
| Goodwill | 1,970 |
| **Carrying value** | 20,425 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 11 INVENTORIES – GROUP

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Raw materials | **30,171** | 28,819 |
| Work in progress | **1,201** | 289 |
| Finished goods | **16,431** | 17,146 |
| | **47,803** | 46,254 |
| Less: inventory provision | **(4,334)** | (4,316) |
| | **43,469** | 41,938 |

Inventory provision of RMB 18,000 were recognised for the year ended 31 December 2014 (2013: RMB 1,428,000). Inventory provision has been included in "cost of sales" in the consolidated statement of comprehensive income.

The cost of inventory amounting to approximately RMB 122,812,000 for the years ended 31 December 2014 (2013: RMB 107,470,000) has been recognised as cost of sales.

## 12 TRADE AND BILLS RECEIVABLES – GROUP

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Trade and bills receivables | **56,997** | 45,560 |
| Less: provision for impairment of trade receivables | **(2,664)** | (3,655) |
| Trade and bills receivables – Net | **54,333** | 41,905 |

The carrying amounts of the trade and bills receivables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| RMB | **50,091** | 38,212 |
| CAD | **707** | 713 |
| USD | **6,199** | 6,635 |
| | **56,997** | 45,560 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 12 TRADE AND BILLS RECEIVABLES – GROUP *(CONTINUED)*

The maximum exposure to credit risk at the reporting date is the carrying value of trade and bills receivables, net off the impairment provision. The Group does not hold any collateral as security as at the balance sheet date.

The majority of the Group's sales are on credit with credit terms ranging from 1 month to 6 months. Trade receivables are non-interest bearing.

As at 31 December 2013 and 2014, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Within 3 months | **38,331** | 29,457 |
| 3 to 6 months | **9,477** | 6,872 |
| 6 to 12 months | **7,029** | 6,092 |
| Over 12 months | **2,160** | 3,139 |
| | **56,997** | 45,560 |

As at 31 December 2013 and 2014, trade receivables of RMB13,917,000 and RMB 19,058,000, respectively, were past due but not impaired. These relate to a number of independent customers for whom there were no recent history of default.

As at 31 December 2013 and 2014, trade receivables of RMB 5,324,000 and RMB 4,137,000 were impaired and provided for. The amount of the provision was RMB 3,655,000 and RMB 2,664,000. The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations and are therefore provided for. The ageing analysis of these receivables was as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| 6 to 12 months | **1,977** | 2,185 |
| Over 12 months | **2,160** | 3,139 |
| | **4,137** | 5,324 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 12 TRADE AND BILLS RECEIVABLES – GROUP *(CONTINUED)*

Movements on the Group's provision for impairment of trade and bills receivables are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At 1 January | **3,655** | 4,642 |
| Reversal of provision | **(991)** | (987) |
| At 31 December | **2,664** | 3,655 |

The provision for impaired receivables has been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

## 13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP AND COMPANY

| | As at 31 December | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Non-current: | | | | |
| Receivables for disposal of an associate *(Note 1)* | **13,685** | – | **–** | – |
| Others | **378** | 364 | **–** | – |
| | **14,063** | 364 | **–** | – |
| Current: | | | | |
| Prepayments for purchases of raw materials | **2,979** | 4,143 | **–** | – |
| Receivables for disposal of an associate (Note 1) | **9,441** | – | **–** | – |
| Prepaid value-added tax, current income tax and other taxes | **3,389** | 3,542 | **–** | – |
| Receivable for IPO proceeds *(Note 2)* | **120,733** | – | **120,733** | – |
| Due from subsidiaries | **–** | – | **24,306** | 1,670 |
| Others | **1,927** | 1,060 | **–** | – |
| | **138,469** | 8,745 | **145,039** | 1,670 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP AND COMPANY *(CONTINUED)*

The carrying amount and fair value of non-current other receivables as at the balance sheet date are set out as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Carrying amount | **14,063** | 364 |
| Fair value | **14,063** | 364 |

The fair values of non-current other receivables are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date and are within level 2 of the fair value hierarchy.

*Note 1:* In April 2014, the Group disposed its equity interest in Prime Gene, an associate of the Group, to a third party company. According to the payment terms stipulated in the sales and purchase agreement, the buyer committed to pay USD1,534,000 within 1 year from the transaction date, and pay USD1,240,000 at each of the second and third anniversary of the sales transaction date.

As at 31 December 2014, part of receivables for disposal of an associate amounted to RMB20,975,000 were guaranteed by an affiliate of the acquiring company.

*Note 2:* Part of the net IPO proceeds remained at underwriter's bank account and yet remitted to the Company as at 31 December 2014. All these proceeds were fully wired to the Company's bank account on 9 January 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 14 DUE FROM RELATED PARTIES – GROUP

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Trade related: | | |
| An associate | **–** | 15 |
| Non-trade related: | | |
| The Controlling Party | **–** | 1,984 |
| | – | **1,999** |
| Maximum outstanding receivable balance during the year: | | |
| The Controlling Party | 1,984 | 19,350 |
| | 1,984 | 19,350 |

As at 31 December 2013, amounts due from related parties were unsecured, interest-free and without fixed terms of repayment.

## 15 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

| | As at 31 December | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash at bank and on hand | **195,821** | 47,420 | **58,477** | – |
| Short-term bank deposits | **–** | 62,136 | **–** | – |
| Cash and cash equivalents | **195,821** | 109,556 | **58,477** | – |

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

| | As at 31 December | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **123,654** | 105,091 | **-** | - |
| HK$ | **52,685** | - | **52,685** | - |
| USD | **14,258** | 3,867 | **5,792** | - |
| CAD | **5,224** | 598 | **-** | - |
| | **195,821** | 109,556 | **58,477** | - |

The RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks to conduct foreign exchange transactions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 16 SHARE CAPITAL AND SHARE PREMIUM – GROUP AND COMPANY

| | *Note* | Number of ordinary shares | Nominal value of ordinary shares NT$ | Nominal value of ordinary shares HK$ | Equivalent nominal value of ordinary shares RMB'000 | Share Premium RMB'000 |
|---|---|---|---|---|---|---|
| Authorised: | | | | | | |
| At 10 July 2013 (date of incorporation) and 31 December 2013 | *(i)* | 100,000,000 | 1,000,000,000 | – | 206,062 | – |
| Increase | *(iii)* | 43,497,100 | – | 434,971 | 345 | – |
| Cancellation | *(iii)* | (100,000,000) | (1,000,000,000) | – | (206,062) | – |
| Increase | *(iv)* | 1,956,502,900 | – | 19,565,029 | 15,441 | – |
| At 31 December 2014 | | 2,000,000,000 | – | 20,000,000 | 15,786 | – |
| Issued: | | | | | | |
| At 10 July 2013 (date of incorporation) | *(i)* | 100 | 1,000 | – | – | – |
| Reorganisation | *(ii)* | 43,497,000 | 434,970,000 | – | 89,631 | 191,363 |
| Balance at 31 December 2013 and 1 January 2014 | | 43,497,100 | 434,971,000 | – | 89,631 | 191,363 |
| Issue | *(iii)* | 43,497,100 | – | 434,971 | 345 | 89,286 |
| Repurchase and cancelled | *(iii)* | (43,497,100) | (434,971,000) | – | (89,631) | – |
| Capitalisation issue | *(v)* | 350,000,000 | – | 3,500,000 | 2,762 | (2,762) |
| Issue upon Global Offering | *(vi)* | 131,166,000 | – | 1,311,660 | 1,035 | 167,542 |
| Balance at 31 December 2014 | | 524,663,100 | – | 5,246,631 | 4,142 | 445,429 |

(i) The Company was incorporated on 10 July 2013 with an initial authorised share capital of NT$1 billion divided into 100 million shares of NT$10.00 each. On the date of incorporation, one share of NT$10.00 was allotted and issued nil paid as subscriber's share to Offshore Incorporations (Cayman) Limited which subsequently transferred such one share to LJ Venture Ltd. at par. On the same day, 95 shares, 2 shares and 2 shares of NT$10.00 each were allotted and issued as fully-paid at par to LJ Venture Ltd., LJ Hope Ltd. and LJ Peace Ltd., respectively.

(ii) On 25 October 2013, the Company issued and allotted 10,988,730 shares of NT$10.00 each to LJ Venture Ltd. in exchange for the transfer of 5,080,640 shares of US$1.00 each of the total issued shares of BBI Asia Limited from LJ Venture Ltd. to the Company.

On 22 November 2013, the Company issued and allotted 934,041 shares, 20,356,608 shares and 2,060,372 shares of NT$10.00 each to LJ Hope Ltd., LJ Peace Ltd. and LJ Venture Ltd. respectively, in exchange for 7,892,158 shares issued and allotted by BBI Asia Limited to the Company.

On 31 December 2013, the Company issued and allotted 8,308,372 shares, 728,001 shares and 120,876 shares of NT$10.00 each to Qiming Venture Partners II, L. P. ("QVP II"), Qiming Venture Partners II-C, L. P. ("QVP II-C") and Qiming Managing Directors Fund II, L. P. ("QMDF") respectively, in exchange for the transfer of 45,325,655 shares of HK$1.00 each in BBI International Limited from QVP II, QVP II-C and QMDF, the then shareholders of BBI International Limited to the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 16 SHARE CAPITAL AND SHARE PREMIUM – GROUP AND COMPANY *(CONTINUED)*

(ii) *(continued)*

The share premium represented the difference between the carrying value of the Company's equity interests in the subsidiaries and the par value of ordinary shares issued, net of issuance costs.

(iii) As approved by the Board meeting on 26 September 2014, the authorised share capital of the Company was increased by HK$434,971 divided into 43,497,100 new ordinary shares with a par value of HK$0.01 each. Following the increase of the authorised share capital, the Company issued an aggregate of 43,497,100 new shares to the existing shareholders of the Company at a subscription price of HK$0.01 per share. Together with the issuance of the new shares, the Company repurchased from the existing shareholders of the Company an aggregate of 43,497,100 existing shares of NT$10 each in issue at the same time. The 43,497,100 new shares issued at a subscription price of HK$0.01 each constituted the consideration for the repurchase of the 43,497,100 existing shares of NT$10 each.

All the 43,497,100 existing shares repurchased were cancelled. And following the repurchase, the authorised but unissued share capital with par value of NT$10 each of the Company was cancelled. Following the cancellation, the authorised share capital of the Company became HK$434,971 divided into 43,497,100 ordinary shares of HK$0.01 each, all of which have been issued and allotted.

The difference of the total nominal value between the repurchased shares and the newly issued shares with the amount of RMB89,286,000 was credited as share premium of the Company.

(iv) Pursuant to the written resolution passed by the shareholders of the Company on 8 December 2014, the authorised share capital of the Company increased from HK$434,971 divided into 43,497,100 shares of HK$0.01 each to HK$20,000,000 divided into 2,000,000,000 shares of HK$0.01 each.

(v) On 30 December 2014, pursuant to the written resolution passed by the shareholders of the Company on 8 December 2014, the sum of HK$3,500,000 was capitalized from share premium account of the Company and applied in paying up in full at par of 350,000,000 shares for allotment and issue to the shareholders whose names were on the register of members of the Company at the close of business on 29 December 2014 in proportion to their respective shareholdings.

(vi) On 30 December 2014, the Company issued 131,166,000 shares at HK$1.75 per share in connection with its global offering and raised gross proceeds of approximately HK$229,540,500 (equivalent to approximately RMB181,153,000). A net proceeds of approximately HK$213,686,000 (equivalent to approximately RMB168,577,000) after deducting the capitalized listing expense was credited to share capital and share premium. The Company's shares were listed on the Main Board of the Stock Exchange on the same day.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17 RETAINED EARNINGS/(ACCUMULATED LOSSES) – GROUP AND COMPANY

| | Group<br>Year ended 31 December<br>2014<br>RMB'000 | <br><br>2013<br>RMB'000 |
|---|---|---|
| At 1 January | **90,254** | 54,246 |
| Profit for the year | **33,290** | 40,249 |
| Appropriation to statutory reserve | **(4,040)** | (4,241) |
| At 31 December | **119,504** | 90,254 |

| | Company<br>Year ended<br>31 December<br>2014<br>RMB'000 | Period from<br>10 July 2013 (date<br>of incorporation)<br>to 31 December<br>2013<br>RMB'000 |
|---|---|---|
| At 1 January | **(149)** | – |
| Profit/(loss) for the year/period | **13,706** | (149) |
| At 31 December | **13,557** | (149) |

## 18 OTHER RESERVES – GROUP AND COMPANY

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Capital reserve *(i)* | Statutory reserve *(ii)* | Share-based payment reserve | Currency translation reserve | Others *(iii)* | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2013 | 121,672 | – | 1,401 | 4,756 | – | 127,829 |
| Currency translation differences | – | – | – | (1,810) | – | (1,810) |
| Appropriation to statutory reserve | – | 4,241 | – | – | – | 4,241 |
| Capital injection by then equity holder of a subsidiary | 31,730 | – | – | – | – | 31,730 |
| Capitalisation of amounts due to then shareholders of a subsidiary | 36,588 | – | – | – | – | 36,588 |
| Reorganization | (280,994) | – | – | – | – | (280,994) |
| At 31 December 2013 | (91,004) | 4,241 | 1,401 | 2,946 | – | (82,416) |
| Currency translation differences | – | – | – | (620) | – | (620) |
| Share-based payment *(Note 19)* | – | – | 10,508 | – | – | 10,508 |
| Appropriation to statutory reserve | – | 4,040 | – | – | – | 4,040 |
| Acquisition of non-controlling interests | – | – | – | – | (6,476) | (6,476) |
| At 31 December 2014 | (91,004) | 8,281 | 11,909 | 2,326 | (6,476) | (74,964) |

(i) Capital reserve represents the difference between the share capital and premium issued by the Company for acquisition of the subsidiaries pursuant to the Reorganisation and the aggregate capital of the subsidiaries being acquired at the time of the Reorganisation.

As resoluted by the Board of Directors of BBI International limited on 2 September 2013, BBI International Limited capitalized borrowings of HK$45,316,000 (RMB equivalent 36,588,000) from its then shareholders as share capital.

(ii) In accordance with the PRC regulations and the articles of association of the companies of the Group, before distributing the net profit of each year, companies of the Group registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory reserve. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

(iii) As approved by the Board meeting of BBI China on 3 September 2014, BBI China acquired 4.7084% shares in Sangon Biotech with the consideration of RMB 23,306,580 from Shanghai Shengji Investment Company Limited, a minority shareholder of Sangon Biotech and owned by 28 employees of the Group. After completion of the acquisition, the Company had indirect interest in Sangon Biotech with shareholding percentage of 99.99%.

The excess of consideration paid by BBI China against the fair value of 4.7084% shares of Sangon Biotech of RMB 2,643,550 was regarded as a vested equity settled share base payment to those employees who were the owners of Shanghai Shengji Investment Company Limited, and was fully recorded as employee expenses in the consolidated statement of comprehensive income for the year ended 31 December 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 18 OTHER RESERVES – GROUP AND COMPANY *(CONTINUED)*

| | Company | | |
|---|---|---|---|
| | **Share-based payment reserve** | **Currency translation reserve** | **Total** |
| | RMB'000 | RMB'000 | RMB'000 |
| At 10 July 2013 (date of incorporation) | – | – | – |
| Currency translation differences | – | 552 | 552 |
| At 31 December 2013 | – | 552 | 552 |
| Share-based payment | 10,849 | – | 10,849 |
| Currency translation differences | – | 885 | 885 |
| At 31 December 2014 | 10,849 | 1,437 | 12,286 |

## 19 SHARE-BASED PAYMENT – GROUP

On 16 January 2014, the Board meeting of BBI Life Sciences approved the grant of 3,269,000 share options to the executive directors and certain employees of the Group at an exercise price of NT$38 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The share options are divided into two sub-plans, which are plan A and plan B with 2,097,000 and 1,172,000 share options granted respectively. For plan A, the options are exercisable upon listing of the Company's shares on the GreTai Securities Market of Taiwan Stock Exchange. For plan B, the options are exercisable during the following periods upon listing of the Company's shares on the GreTai Securities Market of Taiwan Stock Exchange:

(a) up to 20% on or after 16 January 2015;

(b) up to 40% on or after 16 January 2016;

(c) up to 60% on or after 16 January 2017;

(d) up to 80% on or after 16 January 2018;

(e) all the remaining options on or after 16 January 2019;

and no later than 16 January 2019 and 16 January 2020 for share options granted under plan A and plan B respectively.

On 16 January 2014, all the directors and employees accepted the share options.

The fair value of share options granted in 2014 determined by using the binominal model was NT$14.8 per option. The significant inputs into the model were share prices at the grant date, the exercise price shown above, volatility of 41.71% to 43.71%, dividend yield of 0.00%, and annual risk-free interest rate of 1.24% to 1.39%. The volatility measured at the standard deviation of the underlying stock over a time period corresponding to the remaining life of the share options.

## 19 SHARE-BASED PAYMENT – GROUP *(CONTINUED)*

As approved by the Board meeting of BBI Life Sciences on 4 September 2014, the share option plans above were modified. According to the modified plans, the exercise price of both plan A and plan B was modified to HK$9.8 per share, and 71,000 additional share options, including 38,000 for plan A and 33,000 for plan B, were granted to certain employees. For plan A, the options are exercisable upon listing of the Company's shares on the Main Board of the Stock Exchange. For plan B, the options are exercisable upon listing of the Company's shares on the Main Board of the Stock Exchange during the same periods of the original plan B.

On 4 September 2014, all the directors and employees accepted the modified share options.

The amount of RMB 2,474,000 which represented the incremental fair value of the issued share options, as measured at the date of modification, was included in the measurement of the amount recognised for the services received over the remainder of the vesting period.

The fair value of share options as measured at the date of modification was determined by using the binominal model. The significant inputs into the model were share prices at the modification date, the modified exercise price shown above, volatility of 41.79% to 43.86%, dividend yield of 0.00%, and annual risk-free interest rate of 1.16% to 1.33%. The volatility measured at the standard deviation of the underlying stock over a time period corresponding to the remaining life of the share options.

On 30 December 2014, pursuant to the written resolution passed by the Company's Board of Directors and shareholders on 8 December 2014, the sum of HK$3,500,000 was capitalized from share premium account of the Company and applied in paying up in full at par of 350,000,000 shares for allotment and issue to the shareholders whose names were on the register of members of the Company at the close of business on 29 December 2014 in proportion to their respective shareholdings. Accordingly, the number of share options and related exercise price under plan A and plan B were adjusted following such capitalisation issue.

Movement in the number of share options outstanding and their related weighted average exercise prices for the year ended 31 December 2014 was as follows:

| | For year ended 31 December 2014 | |
|---|---|---|
| | **Average exercise price in NT$** | **Number of options** |
| At 1 January | – | – |
| Granted | NT$38 | 3,269,000 |
| Forfeited | NT$38 | (71,000) |
| Modification | NT$38->HK$9.8 | – |
| Additional grant | HK$9.8 | 71,000 |
| Forfeited | HK$9.8 | (33,255) |
| Adjustment on capitalization issue | HK$9.8->HK$1.08 | 26,036,482 |
| At 31 December | HK$1.08 | 29,272,227 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 19 SHARE-BASED PAYMENT – GROUP *(CONTINUED)*

Share options outstanding at 31 December 2014 have the following expiry dates and exercise prices:

| Expiry date | Exercise price (HK$ per share) | Number of options 2014 |
|---|---|---|
| 16 January 2019 | 1.08 | 18,970,531 |
| 16 January 2020 | 1.08 | 10,301,696 |
| | | 29,272,227 |

## 20 DEFERRED INCOME TAX – GROUP

| | As at 31 December **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|
| Deferred tax assets: | | |
| – Deferred income tax assets to be recovered within 12 months | **2,491** | 1,844 |
| Deferred tax liabilities: | | |
| – Deferred income tax liabilities to be settled after 12 months | **(4,217)** | (3,553) |

The movements on the deferred income tax assets are as follows:

| | **Write down of inventories to net realisable value** RMB'000 | **Impairment of trade receivables** RMB'000 | **Unpaid wages** RMB'000 | **Others** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2013** | 21 | 350 | 510 | – | 881 |
| Credited to the consolidated statement of comprehensive income | 511 | 178 | 274 | – | 963 |
| At 31 December 2013 | 532 | 528 | 784 | – | 1,844 |
| Credited/(charged) to the consolidated statement of comprehensive income | 85 | (133) | 258 | 437 | 647 |
| **At 31 December 2014** | **617** | **395** | **1,042** | **437** | **2,491** |

## 20 DEFERRED INCOME TAX – GROUP *(CONTINUED)*

The movements of the deferred tax liabilities are as follows:

| | **Withholding tax on unremitted earnings of PRC subsidiaries** RMB'000 |
|---|---|
| At 1 January 2013 | 1,690 |
| Charged to the consolidated statement of comprehensive income | 1,863 |
| At 31 December 2013 | 3,553 |
| Withholding tax paid | (1,559) |
| Charged to the consolidated statement of comprehensive income | 2,223 |
| At 31 December 2014 | 4,217 |

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group did not recognise deferred income tax assets of RMB 2,307,000 (31 December 2013: RMB 1,023,000) in respect of the tax losses amounting to RMB 8,992,000 (as at 31 December 2013: 4,390,000) as at 31 December 2014.

The expiry of related tax losses are analysed as follows:

| | **As at 31 December 2014** RMB'000 |
|---|---|
| Expire year | |
| 2018 | 837 |
| 2020 and thereafter *(i)* | 4,814 |
| | 5,651 |

(i) The amount includes the tax losses of Bio Basic (US) and Bio Basic (Canada), which would be deductible against future taxable profit within the next 20 years.

All profits earned by Sangon Biotech are distributable to its shareholders, other than those profits earned before 2011 that were capitalized. According to Board resolutions, all profits earned by BBI China will be retained in the PRC for future business expansion. Accordingly, no provision of withholding tax was made for the portion of unremitted earnings of Sangon Biotech that attributed to BBI China.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 21 DEFERRED INCOME – GROUP

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Deferred income on government grants | | |
| Current portion | **375** | 216 |
| Non-current portion | **1,361** | 1,375 |
| | **1,736** | 1,591 |

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| As at 1 January | **1,591** | 1,976 |
| Received during the year *(i)* | **670** | 200 |
| Amortisation | **(525)** | (585) |
| As at 31 December | **1,736** | 1,591 |

(i) These mainly represented government grants received from certain municipal governments of the PRC as an encouragement for the Group's purchase of property, plant and equipment relating to R&D activities.

## 22 TRADE PAYABLES – GROUP

As at 31 December 2013 and 2014, the ageing analysis of the trade payables based on invoice date is as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Within 3 months | **5,599** | 6,732 |
| 3 months to 6 months | **258** | 35 |
| 6 months to 1 year | **–** | 1 |
| Over 1 year | **51** | 56 |
| | **5,908** | 6,824 |

## 22 TRADE PAYABLES – GROUP *(CONTINUED)*

The carrying amounts of the Group's trade payables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| RMB | **5,291** | 6,022 |
| USD | **552** | 25 |
| CAD | **65** | 777 |
| | **5,908** | 6,824 |

Trade payables are non-interest bearing and are generally on terms of 30 to 60 days.

## 23 ACCRUALS AND OTHER PAYABLES – GROUP AND COMPANY

| | As at 31 December | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Payables for purchase of property, plant and equipment | **340** | 114 | **–** | – |
| Salary and staff welfare payables | **6,947** | 4,758 | **92** | – |
| Payables for value-added tax and other taxes | **3,037** | 1,811 | **–** | – |
| Advance from customers | **64,937** | 52,649 | **–** | – |
| Payables for listing expenses | **16,991** | – | **13,822** | – |
| Other payables | **635** | 549 | **–** | – |
| Due to a subsidiary | **–** | – | **7,557** | 1,816 |
| | **92,887** | 59,881 | **21,471** | 1,816 |

## 24 DUE TO RELATED PARTIES – GROUP

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Trade related: | | |
| An associate | **–** | 24 |

As at 31 December 2013 and 2014, amounts due to related parties are unsecured, interest-free and without fixed terms of repayment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 25 OTHER INCOME – NET

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Government grants | **303** | 298 |
| Amortisations of deferred income *(Note 21)* | **525** | 585 |
| | **828** | 883 |

## 26 OTHER LOSSES – NET

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Losses on disposal of property, plant and equipment – net *(Note 33)* | **(139)** | (440) |
| Exchange losses, net | **(584)** | (838) |
| Others | **(3)** | (5) |
| | **(726)** | (1,283) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 27 EXPENSES BY NATURE

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Employee benefit expenses *(Note 28)* | **76,282** | 56,444 |
| Raw materials used | **78,881** | 69,657 |
| Changes in inventories of finished goods and work in progress | **(197)** | (1,075) |
| Depreciation and amortisation charges *(Notes 6, 7 & 8)* | **13,060** | 11,111 |
| Reversal of provision for impairment of trade and bills receivables *(Note 12)* | **(991)** | (987) |
| Provision for write-down of inventory *(Note 11)* | **18** | 1,428 |
| Transportation expenses | **7,462** | 6,082 |
| Utilities | **2,880** | 1,952 |
| Professional service fees | **2,194** | 2,336 |
| Research and development expenses | **12,700** | 10,208 |
| Taxes and surcharges | **1,884** | 2,462 |
| Operating leases | **1,286** | 919 |
| Office expenses | **3,179** | 2,241 |
| Auditor's remuneration | **1,385** | 287 |
| Listing expenses | **23,325** | – |
| Other expenses | **12,267** | 11,710 |
| Total cost of sales, selling and distribution costs and administrative expenses | **235,614** | 174,775 |

## 28 EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Fair value of share-based payment | **13,491** | – |
| Wages and salaries | **51,322** | 46,974 |
| Social security costs | **7,791** | 6,383 |
| Staff welfare | **3,678** | 3,087 |
| | **76,282** | 56,444 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 28 EMPLOYEE BENEFIT EXPENSES *(CONTINUED)*

### (a) Directors' emoluments

The remuneration of each director of the Company paid/payable by the Group for year ended 31 December 2014 are set out as follows:

| Name of Directors | Fees | Salary | Bonus | Fair value of share options granted | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Mr. Wang Qisong | – | 216 | – | 275 | 491 |
| Ms. Wang Luojia *(CEO)* | – | 259 | – | 99 | 358 |
| Ms. Wang Jin | – | 366 | – | – | 366 |
| Mr. Hu Xubo | – | – | – | – | – |
| Mr. Xia Lijun | 120 | – | – | – | 120 |
| Mr. Ko Shun-Hsiung* | 90 | – | – | – | 90 |
| Mr. Chen Shih-Ying* | 90 | – | – | – | 90 |
| Mr. Liu Jianjun** | 30 | – | – | – | 30 |
| Mr. Ho Kaichung** | 30 | – | – | – | 30 |
| | 360 | 841 | – | 374 | 1,575 |

The remuneration of each director of the Company paid/payable by the Group for year ended 31 December 2013 are set out as follows:

| Name of Directors | Fees | Salary | Bonus | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Mr. Wang Qisong | – | 206 | – | 206 |
| Ms. Wang Luojia *(CEO)* | – | 303 | – | 303 |
| Ms. Wang Jin | – | 301 | – | 301 |
| Mr. Hu Xubo | – | – | – | – |
| | – | 810 | – | 810 |

* Mr. Chen Shih-Ying and Mr. Ko Shun-Hsiung were appointed as independent non-executive directors of the Company on 16 January 2014, and resigned as directors from the Company on 26 September 2014.

** Mr. Ho Kaichung and Mr. Liu Jianjun were appointed as independent non-executive directors of the Company on 10 October 2014.

For the year ended 31 December 2014, no directors received emoluments (2013: nil) from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

## 28 EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2014 include no director (2013: two), whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining five (2013: three) individuals during the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Basic salary, housing allowances, other allowances and benefit-in-kind | **1,730** | 1,138 |
| Bonuses | **50** | 30 |
| Fair value of employee share options granted | **2,592** | – |
| | **4,372** | 1,168 |

The emoluments of the non-director highest paid employees fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2014** | 2013 |
| Nil to HK$1,000,000 (equivalent to approximately RMB 789,000) | **1** | 3 |
| Between HK$1,000,000 and HK$2,000,000 (equivalent to approximately RMB 789,000 and RMB 1,578,000) | **4** | – |
| | **5** | 3 |

For the year ended 31 December 2014, no emoluments (2013: nil) were paid by the Group to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

## 29 FINANCE INCOME – NET

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Finance costs | | |
| – Interest expense on bank borrowings | **–** | (335) |
| – Net foreign exchange losses | **(417)** | (225) |
| – Other finance costs | **(1,269)** | (460) |
| | **(1,686)** | (1,020) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 29 FINANCE INCOME – NET *(CONTINUED)*

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Finance income | | |
| – Interest income on available-for-sale financial assets | **1,876** | 666 |
| – Interest income on bank deposits | **743** | 415 |
| – Other finance income | **539** | – |
| | **3,158** | 1,081 |
| Net finance income | **1,472** | 61 |

## 30 INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Current income tax | **11,278** | 6,329 |
| Deferred income tax *(Note 20)* | **17** | 900 |
| Income tax expense | **11,295** | 7,229 |

(i) Cayman Islands profits tax

The Company is not subject to any taxation of Cayman Islands income tax.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits.

(iii) PRC corporate income tax

The corporate income tax ("CIT") is calculated based on the statutory profit of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjustments on certain income and expense items, which are not assessable or deductible for income tax purposes.

Pursuant to the PRC Corporate Income Tax Law ("the CIT Law"), the CIT is unified at 25% for all type of entities, effective from 1 January 2008. Sangon Biotech had enjoyed a preferential CIT rate of 15% during a 3 years period from 2013 to 2015, as it was certified as High and New Technology Enterprises ("HNTE").

## 30 INCOME TAX EXPENSE *(CONTINUED)*

(iv) PRC withholding income tax

Pursuant to the CIT Law, a 10% withholding tax will be levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007.

(v) Canada profits tax

Canada profits tax has been provided for at the rate of 28.00% on the estimated assessable profits for the year ended 31 December 2014 (2013: 26.25%).

(vi) The United States profits tax

The United States profits tax has been provided for at the rate of 15% on the estimated assessable profits for the year ended 31 December 2014 (2013: 15%).

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Profit before income tax | **47,273** | 49,576 |
| Tax calculated at applicable statutory tax rates in respective regions | **11,580** | 12,354 |
| Effect of preferential tax rates and tax exemption | **(5,066)** | (4,989) |
| Expenses not deductible for tax purposes | **2,277** | 282 |
| Utilisation of temporary difference not recognized as deferred tax assets | **–** | (739) |
| Tax losses for which no deferred income tax asset was recognised | **1,284** | 7 |
| Utilisation of previously unrecognized tax losses | **(116)** | (92) |
| Share of profit of an associate, which is not subject to tax | **–** | (706) |
| Withholding tax paid/payable on the profits attributable to the investors outside PRC | **2,223** | 1,863 |
| Super-deduction on research and development expenses | **(887)** | (751) |
| Income tax expenses | **11,295** | 7,229 |

The weighted average applicable tax rates were 23.9% for the year ended 31 December 2014 (2013: 14.6%). The increase was caused by share-based payment expenses not deductible for tax purposes and tax losses of certain subsidiaries for which no deferred income tax asset was recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 31 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average numbers of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company has only one category of dilutive potential ordinary shares, which is the share option plan mentioned in Note 19.

For the share option plan, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period when the options are outstanding) based on the monetary value of the subscription rights attached to outstanding options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the options.

| | **Year ended 31 December** | |
|---|---|---|
| | **2014** | 2013 |
| Profit attributable to equity holders of the Company (RMB'000) | **33,290** | 40,249 |
| Weighted average number of ordinary shares in issue ('000) | **394,216** | 393,497 |
| Adjustments for share option plan ('000) | **49** | – |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | **394,265** | 393,497 |
| Basic earnings per share (RMB per share) | **0.084** | 0.102 |
| Diluted earnings per share (RMB per share) | **0.084** | 0.102 |

The calculation of basic and diluted earnings per share for the year ended 2013 has reflected the capitalisation issue of ordinary shares as disclosed in Note 16.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 32 DIVIDENDS

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Proposed final dividend of HK$0.008 (2013: nil) per ordinary share | **3,311** | – |

No dividend was declared by the Company for the year ended 31 December 2014.

The proposed final dividend in respect of the year ended 31 December 2014 of HK$0.008 (2013: nil) per ordinary share, amounting to a total dividend of approximately HK$4,197,000 (equivalent to approximately RMB3,311,000) is based on 524,663,100 ordinary shares in issue as of 31 December 2014, subject to the approval in the forthcoming annual general meeting of the Company. These financial statements do not reflect this dividend payable.

## 33 CASH GENERATED FROM OPERATING ACTIVITIES

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Profit before income tax | **47,273** | 49,576 |
| Adjustments for: | | |
| – Depreciation *(Note 6)* | **11,899** | 9,962 |
| – Amortisation *(Notes 7 and 8)* | **1,161** | 1,149 |
| – Losses on disposal of property, plant and equipment *(Note 26)* | **139** | 440 |
| – Gains on disposal of an associate *(Note 10)* | **(26,386)** | – |
| – Interest expense *(Note 29)* | **–** | 335 |
| – Interest income on available-for-sale financial assets | **(1,876)** | (786) |
| – Net foreign exchange losses | **417** | 225 |
| – Share of profit of an associate | **(1,734)** | (4,702) |
| – (Reversal of)/provision for impairment of receivables and inventory (*Notes 11 and 12)* | **(973)** | 441 |
| – Share-based payment *(Note 28)* | **13,491** | – |
| Change in working capital: | | |
| – Incrcease in inventories | **(1,549)** | (2,246) |
| – Decrease in amounts due from related parties | **15** | 11 |
| – Increase in trade and bills receivables | **(11,437)** | (5,106) |
| – (Increase)/decrease in prepayments, deposits and other receivables | **(1,349)** | 1,008 |
| – (Increase)/decrease in other non-current assets | **(554)** | 78 |
| – (Decrease)/increase in trade payables | **(916)** | 1,923 |
| – Increase in accruals and other payables | **32,090** | 19,640 |
| – Increase/(decrease) in defered income – current portion | **159** | (369) |
| – Decrease in defered income – non current portion | **(14)** | (16) |
| – Decrease in amounts due to related parties | **(24)** | (605) |
| Cash generated from operations | **59,832** | 70,958 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 33 CASH GENERATED FROM OPERATING ACTIVITIES *(CONTINUED)*

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Net book amount *(Note 6)* | **1,405** | 1,002 |
| Losses on disposal of property, plant and equipment *(Note 26)* | **(139)** | (440) |
| Proceeds from disposal of property, plant and equipment | **1,266** | 562 |

Non-cash transactions

Major non-cash transactions for the year ended 31 December 2013 included mainly capitalisation of amount due to then shareholders of a subsidiary with amount of RMB 36,588,000 (Note 18).

## 34 COMMITMENTS

### (a) Capital commitments

Capital expenditure contracted for at each balance sheet date but not yet incurred is as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Property, plant and equipment | **10,157** | 537 |

### (b) Operating lease commitments

The Group's future aggregate minimum lease payments under these non-cancellable operating leases were as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| No later than 1 year | **795** | 577 |
| Later than 1 year and no later than 5 years | **598** | 719 |
| Later than 5 years | **–** | 30 |
| | **1,393** | 1,326 |

## 35 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, has joint control over the party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

Save as disclosed elsewhere in this report, the following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year ended 31 December 2014.

### (a) Name and relationship with related parties

#### (i) Controlling Party

Mr. Wang Qisong, Ms. Wang Luojia, Ms. Wang Jin*

#### (ii) Associates of the Group

PrimeGene**

#### (iii) Controlled by the Controlling Party

LJ Hope Ltd.
LJ Peace Ltd.
LJ Venture Ltd.

#### (iv) Other shareholders

QVP II
QVP II-C
QMDF

* As Mr. Wang Qisong, Ms. Wang Luojia, and Ms. Wang Jin entered into an agreement for acting in concert, they are collectively regarded as the Controlling Party.

** The Group disposed its investment in the associate in April 2014, and since then PrimeGene is no longer a related party of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35 RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(b) The following transactions were carried out with related parties:

(i) Sales of goods and services

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| An associate | **30** | 153 |

(ii) Purchases of goods and services

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| An associate | **1,353** | 2,567 |

(iii) Purchases of property, plant and equipment

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| An associate | **26** | 81 |

The above sale and purchase transactions with related parties are carried out based on mutually agreed prices between respective parties.

(iv) Treasury transactions with related parties

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Loans to the Controlling Party | **–** | 1,010 |
| Repayment from the Controlling Party | **1,984** | 17,366 |
| Repayment to the Controlling Party | **–** | 30,414 |

## 35 RELATED-PARTY TRANSACTIONS *(CONTINUED)*

### (b) The following transactions were carried out with related parties: *(continued)*

#### (iv) Treasury transactions with related parties *(continued)*

*Borrowings guaranteed by related parties*

The Controlling Party provided the guarantee in respect of a credit limit provided by the bank to a subsidiary of the Group as follows:

| **Guarantor** | **Guarantee** | **Value of guarantee** RMB'000 | **Commencement date of guarantee** | **Expiry date of guarantee** |
|---|---|---|---|---|
| The Controlling Party | Sangon Biotech | 20,000 | 2012/6/13 | 2015/6/12 |

On 29 September 2014, the Controlling Party made an agreement with the bank to cease the guarantee, with an immediate effect.

### (c) Key management compensation

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is shown below:

| | **Year ended 31 December** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Salaries and other employee benefits | **6,137** | 2,633 |

## 36 CONTINGENT LIABILITIES

As at 31 December 2013 and 2014, the Group did not have any significant contingent liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 37 PRINCIPAL SUBSIDIARIES

The Group had direct or indirect interests in the following subsidiaries as at 31 December 2014:

| Company name | Country/ Place of incorporation/ operation | Paid in capital (000') as of 31 December 2014 | Effective interests held % | Principal activities |
|---|---|---|---|---|
| **Directly Owned:** | | | | |
| BBI International Limited | HongKong | USD 5,843 | 100 | Investment holding |
| BBI Asia Limited | HongKong | USD 12,973 | 100 | Investment holding |
| **Indirectly Owned:** | | | | |
| Sangon Biotech* | PRC | RMB 90,000 | 99.99 | Manufacturing and sales of various life science products and provide life science related services |
| BBI China | PRC | RMB 52,420 | 100 | Investment holding and management consulting |
| Bio Basic (Canada) | Canada | CAD 3,000 | 100 | Manufacturing and sales of various life science products and provide life science related services |
| Bio Basic (US) | USA | USD 2,000 | 100 | Manufacturing and sales of various life science products and provide life science related services |