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Genscript Biotech Corporation

金斯瑞生物科技股份有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1548)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

ANNUAL RESULTS HIGHLIGHTS

- For the year ended December 31, 2016, the revenue of the Group was approximately US\$114.7 million, representing an increase of 32.3% as compared with approximately US\$86.7 million for the year ended December 31, 2015.
- For the year ended December 31, 2016, the gross profit increased by 33.5% from approximately US\$57.1 million in 2015 to approximately US\$76.2 million.
- For the year ended December 31, 2016, the profit of the Group increased by 51.4% from approximately US\$17.5 million in 2015 to approximately US\$26.5 million. The adjusted net profit was approximately US\$26.5 million, representing an increase of 85.3% from approximately US\$14.3 million in 2015.
- For the year ended December 31, 2016, profit attributable to owners of the Company increased by 49.7% from approximately US\$17.5 million recorded in 2015 to approximately US\$26.2 million. The adjusted net profit attributable to owners of the Company was approximately US\$26.2 million, representing an increase of 83.2% from approximately US\$14.3 million in 2015.

The board of directors (the “**Directors**”) (the “**Board**”) of Genscript Biotech Corporation (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2016 (the “**Reporting Period**”), together with the comparative figures for the year 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended December 31,	
		2016	2015
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
REVENUE	4	114,735	86,709
Cost of sales		(38,506)	(29,631)
Gross profit		76,229	57,078
Other income and gains	4	7,745	12,371
Selling and distribution expenses		(20,867)	(17,642)
Administrative expenses		(30,429)	(28,535)
Other expenses		(159)	(296)
Finance cost	6	(10)	–
PROFIT BEFORE TAX	5	32,509	22,976
Income tax expense	7	(5,974)	(5,472)
PROFIT FOR THE YEAR		26,535	17,504
Attributable to:			
Owners of the parent		26,170	17,504
Non-controlling interests		365	–
		26,535	17,504
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		US1.57 cents	US1.47 cents
Diluted		US1.53 cents	US1.43 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2016	2015
	<i>US\$'000</i>	<i>US\$'000</i>
PROFIT FOR THE YEAR	<u>26,535</u>	<u>17,504</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	–	4
Exchange differences on translation of foreign operations	<u>(10,646)</u>	<u>(5,642)</u>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	<u>(10,646)</u>	<u>(5,638)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(10,646)</u>	<u>(5,638)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>15,889</u>	<u>11,866</u>
Attributable to:		
Owners of the parent	15,769	11,866
Non-controlling interests	<u>120</u>	<u>–</u>
	<u>15,889</u>	<u>11,866</u>

CONSOLIDATED BALANCE SHEET

		Year ended December 31,	
		2016	2015
	Notes	US\$'000	US\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	43,735	37,719
Advance payments for property, plant and equipment		2,181	122
Prepaid land lease payments	11	7,782	7,581
Goodwill	12	1,384	–
Other intangible assets	13	2,130	901
Deferred tax assets		4,911	2,737
Total non-current assets		<u>62,123</u>	<u>49,060</u>
CURRENT ASSETS			
Inventories	14	4,237	2,025
Trade and notes receivables	15	20,022	16,914
Prepayments, deposits and other receivables	16	2,984	10,153
Pledged short-term deposits	17	202	202
Cash and cash equivalents	17	136,464	103,720
Total current assets		<u>163,909</u>	<u>133,014</u>
CURRENT LIABILITIES			
Trade and notes payables	18	4,352	2,414
Other payables and accruals	19	30,326	24,661
Tax payable		4,493	3,786
Government grants	20	44	33
Total current liabilities		<u>39,215</u>	<u>30,894</u>
NET CURRENT ASSETS		<u>124,694</u>	<u>102,120</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>186,817</u>	<u>151,180</u>

		Year ended December 31,	
		2016	2015
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		186,817	151,180
NON-CURRENT LIABILITIES			
Deferred tax liabilities		447	–
Government grants	20	2,349	1,932
Total non-current liabilities		2,796	1,932
NET ASSETS		184,021	149,248
EQUITY			
Equity attributable to owners of the parent			
Share capital	21	1,692	1,600
Reserves		175,921	147,648
Non-controlling interests		177,613	149,248
		6,408	–
Total equity		184,021	149,248

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2016

	Attributable to owners of the parent									
	Share capital <i>US\$'000</i>	Share premium* <i>US\$'000</i>	Merger reserve* <i>US\$'000</i>	Share option reserves* <i>US\$'000</i>	Statutory surplus reserves* <i>US\$'000</i>	Retained earnings* <i>US\$'000</i>	Exchange fluctuation reserve* <i>US\$'000</i>	Total <i>US\$'000</i>	Non-controlling interests <i>US\$'000</i>	Total equity <i>US\$'000</i>
At January 1, 2016	1,600	106,655	(20,883)	8,361	6,417	48,689	(1,591)	149,248	-	149,248
Profit for the year	-	-	-	-	-	26,170	-	26,170	365	26,535
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(10,401)	(10,401)	(245)	(10,646)
Total comprehensive income for the year	-	-	-	-	-	26,170	(10,401)	15,769	120	15,889
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	6,288	6,288
Issuance of shares under the over-allotment option	60	10,024	-	-	-	-	-	10,084	-	10,084
Share issue expenses	-	(517)	-	-	-	-	-	(517)	-	(517)
Equity-settled share option arrangements	-	-	-	1,836	-	-	-	1,836	-	1,836
Exercise of share options	32	1,889	-	(728)	-	-	-	1,193	-	1,193
Transfer from retained earnings	-	-	-	-	2,830	(2,830)	-	-	-	-
At December 31, 2016	<u>1,692</u>	<u>118,051</u>	<u>(20,883)</u>	<u>9,469</u>	<u>9,247</u>	<u>72,029</u>	<u>(11,992)</u>	<u>177,613</u>	<u>6,408</u>	<u>184,021</u>

* These reserve accounts comprise the consolidated reserves of US\$175,921,000 (For the year ended December 31, 2015: US\$147,648,000) in the consolidated statement of financial position.

Year ended December 31, 2015

	Attributable to owners of the parent										
	Share capital <i>US\$'000</i>	Share premium* <i>US\$'000</i>	Merger reserve* <i>US\$'000</i>	Share option reserves* <i>US\$'000</i>	Statutory surplus reserves* <i>US\$'000</i>	Retained earnings* <i>US\$'000</i>	Available-for-sale investment revaluation reserve* <i>US\$'000</i>	Exchange fluctuation reserve* <i>US\$'000</i>	Total <i>US\$'000</i>	Non-controlling interests <i>US\$'000</i>	Total equity <i>US\$'000</i>
At January 1, 2015	50	-	15,002	5,013	3,998	33,604	(4)	4,051	61,714	33	61,747
Profit for the year	-	-	-	-	-	17,504	-	-	17,504	-	17,504
Other comprehensive income for the year:											
Change in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	4	-	4	-	4
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(5,642)	(5,642)	-	(5,642)
Total comprehensive income for the year:	-	-	-	-	-	17,504	4	(5,642)	11,866	-	11,866
Liquidation of a subsidiary	-	-	-	-	-	-	-	-	-	(33)	(33)
Issue of shares	595	8,602	-	-	-	-	-	-	9,197	-	9,197
Issue of shares for acquisition of GS USA and GS HK	559	35,326	(35,885)	-	-	-	-	-	-	-	-
Shares repurchased	(617)	-	-	-	-	-	-	-	(617)	-	(617)
Issue of new shares upon Global Offering	400	67,208	-	-	-	-	-	-	67,608	-	67,608
Capitalization issue	613	(613)	-	-	-	-	-	-	-	-	-
Share issue expenses	-	(3,868)	-	-	-	-	-	-	(3,868)	-	(3,868)
Equity-settled share option arrangements	-	-	-	3,348	-	-	-	-	3,348	-	3,348
Transfer from retained earnings	-	-	-	-	2,419	(2,419)	-	-	-	-	-
At December 31, 2015	<u>1,600</u>	<u>106,655</u>	<u>(20,883)</u>	<u>8,361</u>	<u>6,417</u>	<u>48,689</u>	<u>-</u>	<u>(1,591)</u>	<u>149,248</u>	<u>-</u>	<u>149,248</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Year ended December 31,	
	2016	2015
	<i>US\$'000</i>	<i>US\$'000</i>
Net cash flows from operating activities	<u>33,275</u>	<u>19,636</u>
Net cash flows used in investing activities	<u>(8,315)</u>	<u>(4,099)</u>
Net cash flows from financing activities	<u>8,487</u>	<u>65,168</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,447	80,705
Net foreign exchange difference	(703)	(2,622)
Cash and cash equivalents at beginning of year	<u>103,720</u>	<u>25,637</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>136,464</u></u>	<u><u>103,720</u></u>

NOTES:

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on May 21, 2015 as an exempted company with limited liability under the laws of the Cayman Islands. The address of its registered office was 4th Floor, Harbour Place, 103 South Church Street, George Town, P.O. Box 10240, Grant Cayman KY1-1002, Cayman Islands.

The Company's shares have been listed on the Main Board of the Stock Exchange since December 30, 2015.

The Group is a life sciences research and application service and product provider. The services and products include (i) life sciences research services, (ii) life sciences research catalog products, (iii) preclinical drug development services and (iv) industrial synthetic biology products (the "**Listing Business**").

These consolidated financial statements are presented in United States dollars ("**US\$**"), unless otherwise stated, and were approved for issue by the Board on March 20, 2017.

2. BASIS OF PREPARATION

2.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. These financial statements are presented in United States dollars ("**US\$**") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2. Changes in accounting policy and disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortization</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012–2014 Cycle</i>	Amendments to a number of HKFRSs

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

3. SEGMENT INFORMATION

The segment information for the year ended December 31, 2016, is as follows:

	Life sciences research services <i>US\$'000</i>	Life sciences research catalog products <i>US\$'000</i>	Preclinical drug development services <i>US\$'000</i>	Industrial synthetic biology products <i>US\$'000</i>	Total <i>US\$'000</i>
Segment sales	91,240	5,334	11,157	7,004	114,735
Segment cost of sales	<u>28,030</u>	<u>1,851</u>	<u>3,640</u>	<u>4,985</u>	<u>38,506</u>
Segment gross profit	<u><u>63,210</u></u>	<u><u>3,483</u></u>	<u><u>7,517</u></u>	<u><u>2,019</u></u>	<u><u>76,229</u></u>

The segment information for the year ended December 31, 2015, is as follows:

	Life sciences research services <i>US\$'000</i>	Life sciences research catalog products <i>US\$'000</i>	Preclinical drug development services <i>US\$'000</i>	Industrial synthetic biology products <i>US\$'000</i>	Total <i>US\$'000</i>
Segment sales	76,918	2,469	5,967	1,355	86,709
Segment cost of sales	<u>25,394</u>	<u>878</u>	<u>2,078</u>	<u>1,281</u>	<u>29,631</u>
Segment gross profit	<u><u>51,524</u></u>	<u><u>1,591</u></u>	<u><u>3,889</u></u>	<u><u>74</u></u>	<u><u>57,078</u></u>

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of services provided and goods sold after allowances for returns and trade discounts during the year.

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

	Year ended December 31,	
	2016	2015
	<i>US\$'000</i>	<i>US\$'000</i>
Revenue		
Rendering of services	102,397	82,885
Sale of goods	<u>12,338</u>	<u>3,824</u>
	<u>114,735</u>	<u>86,709</u>
Other income and gains		
Foreign currency exchange gain, net	5,878	3,106
Government grants	1,492	511
Bank interest income	276	60
Gain from the settlement of a dispute on intellectual property infringement	–	8,500
Investment income	–	188
Others	<u>99</u>	<u>6</u>
	<u>7,745</u>	<u>12,371</u>

5. PROFIT BEFORE TAX

	Year ended December 31,	
	2016	2015
	<i>US\$'000</i>	<i>US\$'000</i>
Cost of inventories sold	1,922	972
Cost of services provided	15,552	12,362
Depreciation of items of property plant and equipment	4,964	4,681
Amortization of other intangible assets*	255	166
Amortization of prepaid land lease payments	171	170
Provision for impairment of trade receivables	658	249
Reversal of provision for impairment of other receivables	(129)	(164)
Minimum lease payments under operating leases:		
– Land and buildings	1,250	885
Auditors' remuneration	399	308
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	38,359	31,792
Pension scheme contributions (defined contribution schemes)	4,156	3,697
Equity-settled share option expense	1,361	2,231
	43,876	37,720
Research and development costs	9,467	7,109
Listing expenses	–	5,270
Loss on disposal of items of property, plant and equipment	90	120
Write-down of inventories to net realizable value	505	347

* The amortization of other intangible assets for the year is included in “Administrative expenses” on the face of the consolidated statement of profit or loss.

6. FINANCE COST

Year ended December 31,
2016 2015
US\$'000 *US\$'000*

Interest on bank loans	<u>10</u>	<u>–</u>
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7. INCOME TAX EXPENSE

Year ended December 31,
2016 2015
US\$'000 *US\$'000*

Current income tax expense	7,999	5,999
Deferred income tax expense	<u>(2,025)</u>	<u>(527)</u>
Income tax expense	<u>5,974</u>	<u>5,472</u>

8. DIVIDENDS

2016
US\$'000

Proposed final – HK1.2 cents (2015: Nil) per ordinary share	<u>2,619</u>
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The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,667,244,523 (2015: 1,192,553,021) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	Year ended December 31,	
	2016	2015
	<i>US\$'000</i>	<i>US\$'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	<u>26,170</u>	<u>17,504</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,667,244,523	1,192,553,021
Effect of dilution – weighted average number of ordinary shares: Share options	<u>41,796,461</u>	<u>35,466,939</u>
	<u>1,709,040,984</u>	<u>1,228,019,960</u>

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings US\$'000	Machinery and equipment US\$' 000	Motor vehicles US\$'000	Computer and office equipment US\$' 000	Construction in progress US\$'000	Total US\$'000
At December 31, 2015, and at January 1, 2016:						
Cost	29,259	22,032	311	3,269	1,875	56,746
Accumulated depreciation and impairment	(2,241)	(14,508)	(153)	(2,125)	-	(19,027)
Net carrying amount	<u>27,018</u>	<u>7,524</u>	<u>158</u>	<u>1,144</u>	<u>1,875</u>	<u>37,719</u>
At January 1, 2016, net of accumulated depreciation and impairment						
	27,018	7,524	158	1,144	1,875	37,719
Additions	459	28	-	4	6,491	6,982
Acquisition of a subsidiary (note 22)	3,127	2,786	32	183	505	6,633
Disposals	(9)	(24)	-	(1)	(56)	(90)
Depreciation provided during the year	(1,002)	(3,272)	(39)	(651)	-	(4,964)
Exchange realignment	(1,840)	(498)	(10)	(56)	(141)	(2,545)
Transfers	44	5,873	120	669	(6,706)	-
At December 31, 2016, net of accumulated depreciation and impairment	<u>27,797</u>	<u>12,417</u>	<u>261</u>	<u>1,292</u>	<u>1,968</u>	<u>43,735</u>
At December 31, 2016:						
Cost	31,125	29,675	450	3,995	1,968	67,213
Accumulated depreciation and impairment	(3,328)	(17,258)	(189)	(2,703)	-	(23,478)
Net carrying amount	<u>27,797</u>	<u>12,417</u>	<u>261</u>	<u>1,292</u>	<u>1,968</u>	<u>43,735</u>
At December 31, 2014, and at January 1, 2015:						
Cost	28,347	20,578	330	2,984	1,485	53,724
Accumulated depreciation and impairment	(1,717)	(12,759)	(132)	(1,586)	-	(16,194)
Net carrying amount	<u>26,630</u>	<u>7,819</u>	<u>198</u>	<u>1,398</u>	<u>1,485</u>	<u>37,530</u>
At January 1, 2015, net of accumulated depreciation and impairment						
	26,630	7,819	198	1,398	1,485	37,530
Additions	130	-	-	-	7,391	7,521
Disposals	(118)	-	-	(2)	-	(120)
Depreciation provided during the year	(683)	(3,310)	(30)	(658)	-	(4,681)
Exchange realignment	(1,509)	(357)	(10)	(61)	(594)	(2,531)
Transfers	2,568	3,372	-	467	(6,407)	-
At December 31, 2015, net of accumulated depreciation and impairment	<u>27,018</u>	<u>7,524</u>	<u>158</u>	<u>1,144</u>	<u>1,875</u>	<u>37,719</u>
At December 31, 2015:						
Cost	29,259	22,032	311	3,269	1,875	56,746
Accumulated depreciation and impairment	(2,241)	(14,508)	(153)	(2,125)	-	(19,027)
Net carrying amount	<u>27,018</u>	<u>7,524</u>	<u>158</u>	<u>1,144</u>	<u>1,875</u>	<u>37,719</u>

11. PREPAID LAND LEASE PAYMENTS

	2016	2015
	<i>US\$'000</i>	<i>US\$'000</i>
Carrying amount at January 1	7,746	8,395
Acquisition of a subsidiary (<i>note 22</i>)	911	–
Recognized	(171)	(170)
Exchange realignment	(531)	(479)
	<hr/>	<hr/>
Carrying amount at end of year	7,955	7,746
Current portion included in prepayments, deposits and other receivables	(173)	(165)
	<hr/>	<hr/>
Non-current portion	7,782	7,581
	<hr/> <hr/>	<hr/> <hr/>

As at December 31, 2016, the Group has not obtained certificates of ownership in respect of certain leasehold lands of the Group in China with an aggregate net carrying amounts of US\$3,373,000 (2015: US\$3,679,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned leasehold lands. All the land-use rights of the Group are located in China and are held on leases of 50 years.

12. GOODWILL

	2016 US\$'000
Cost at January 1	–
Acquisition of a subsidiary (<i>note 22</i>)	1,448
Exchange realignment	(64)
	<hr/>
Cost and net carrying amount at December 31, 2016	<u>1,384</u>

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating unit for impairment testing:

- ***Industrial synthetic biology products***

The recoverable amount of the industrial synthetic biology products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12.8% (2015: nil). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 0% (2015: nil), which is the same as the long term growth rate of the industry.

Assumptions were used in the value in use calculation of the industrial synthetic biology products cash-generating units for December 31, 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development of industrial synthetic biology products and discount rates are consistent with external information sources.

13. OTHER INTANGIBLE ASSETS

	Software <i>US\$'000</i>	Patents and licenses <i>US\$'000</i>	Customer relationship <i>US\$'000</i>	Total <i>US\$'000</i>
December 31, 2016				
Cost at January 1, 2016, net of accumulated amortization	874	27	–	901
Additions	95	333	–	428
Acquisition of a subsidiary (<i>note 22</i>)	–	953	156	1,109
Amortization provided during the year	(177)	(70)	(8)	(255)
Exchange realignment	(6)	(41)	(6)	(53)
At December 31, 2016	<u>786</u>	<u>1,202</u>	<u>142</u>	<u>2,130</u>
At December 31, 2016:				
Cost	1,317	1,274	149	2,740
Accumulated amortization	(531)	(72)	(7)	(610)
Net carrying amount	<u>786</u>	<u>1,202</u>	<u>142</u>	<u>2,130</u>
December 31, 2015				
Cost at January 1, 2015, net of accumulated amortization	349	–	–	349
Additions	696	31	–	727
Amortization provided during the year	(162)	(4)	–	(166)
Exchange realignment	(9)	–	–	(9)
At December 31, 2015	<u>874</u>	<u>27</u>	<u>–</u>	<u>901</u>
At December 31, 2015:				
Cost	1,339	31	–	1,370
Accumulated amortization	(465)	(4)	–	(469)
Net carrying amount	<u>874</u>	<u>27</u>	<u>–</u>	<u>901</u>

14. INVENTORIES

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Raw materials	1,892	1,228
Work in progress	1,437	395
Finished goods	1,760	749
	<hr/>	<hr/>
	5,089	2,372
Less: Provision for inventories	(852)	(347)
	<hr/>	<hr/>
	4,237	2,025
	<hr/> <hr/>	<hr/> <hr/>

15. TRADE AND NOTES RECEIVABLES

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Trade receivables	20,037	17,894
Notes receivable	1,050	129
	<hr/>	<hr/>
	21,087	18,023
Less: Impairment of trade receivables	(1,065)	(1,109)
	<hr/>	<hr/>
	20,022	16,914
	<hr/> <hr/>	<hr/> <hr/>

As at December 31, 2016 and 2015, the ageing analysis of the trade receivables based on invoice date was as follows:

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Within 3 months	16,948	14,771
3 to 6 months	1,081	1,510
6 to 12 months	837	634
Over 12 months	1,171	979
	<hr/>	<hr/>
	20,037	17,894
	<hr/> <hr/>	<hr/> <hr/>

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Prepayments	1,475	798
Other receivables	664	8,927
Prepaid expense	371	207
VAT recoverable	344	277
Advance to employees	155	87
	<hr/>	<hr/>
	3,009	10,296
Less: Impairment of other receivables	(25)	(143)
	<hr/>	<hr/>
	2,984	10,153
	<hr/> <hr/>	<hr/> <hr/>

17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Cash and bank balances	136,464	103,720
Pledged short-term deposits	202	202
	<hr/>	<hr/>
	136,666	103,922
Less: Pledged short-term deposits for letters of credit	(202)	(202)
	<hr/>	<hr/>
Cash and cash equivalents	136,464	103,720
	<hr/> <hr/>	<hr/> <hr/>

18. TRADE AND NOTES PAYABLES

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Trade payables	4,304	2,414
Notes payable	48	–
	<u>4,352</u>	<u>2,414</u>

As at December 31, 2016 and 2015, the ageing analysis of the trade payables based on invoice date is as follows:

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Within 3 months	4,068	2,340
3 to 6 months	78	21
6 to 12 months	112	20
Over 1 year	46	33
	<u>4,304</u>	<u>2,414</u>

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

19. OTHER PAYABLES AND ACCRUALS

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Accrued payroll	13,182	7,603
Advances from customers	7,516	6,696
Other payables	3,713	4,923
Payables for purchases of machinery and construction of buildings	2,638	2,150
Accrued expenses	2,105	2,477
Taxes payable other than corporate income tax	1,172	812
	<u>30,326</u>	<u>24,661</u>

20. GOVERNMENT GRANTS

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
At January 1,	1,965	1,840
Grants received during the year	595	616
Amount released	(42)	(397)
Exchange realignment	(125)	(94)
	<hr/>	<hr/>
At end of year	2,393	1,965
	<hr/> <hr/>	<hr/> <hr/>
Current	44	33
Non-current	2,349	1,932
	<hr/>	<hr/>
	2,393	1,965
	<hr/> <hr/>	<hr/> <hr/>

The grants were related to the subsidies received from local government authorities for the purpose of compensation for expenditure on certain facilities, and they were credited to a deferred income account. The grants were released to the statement of profit or loss over the expected useful lives of the relevant assets. The Group also received certain financial subsidies from local government authorities to support local business. There were no unfulfilled conditions or other contingencies attached to these government grants. These government grants were recognized in the statement of profit or loss upon receipt.

21. SHARE CAPITAL AND SHARE PREMIUM

Shares

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>
Authorized:		
Ordinary shares of US\$0.001 each	5,000	5,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
Ordinary shares of US\$0.001 each	1,692	1,600
	<hr/> <hr/>	<hr/> <hr/>

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

	Number of shares in issue	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Total <i>US\$'000</i>
At January 1, 2015	–	–	–	–
Issuance of shares	1,204,125,000	1,204	43,928	45,132
Shares repurchased	(617,500,000)	(617)	–	(617)
Capitalisation issue	613,375,000	613	(613)	–
Issuance of shares for the IPO	400,000,000	400	67,208	67,608
	<u>1,600,000,000</u>	<u>1,600</u>	<u>110,523</u>	<u>112,123</u>
Share issue expenses	–	–	(3,868)	(3,868)
At December 31, 2015 and January 1, 2016	<u>1,600,000,000</u>	<u>1,600</u>	<u>106,655</u>	<u>108,255</u>
Issuance of shares under the over-allotment option	60,000,000	60	10,024	10,084
Share options exercised	31,861,775	32	1,889	1,921
	<u>91,861,775</u>	<u>92</u>	<u>11,913</u>	<u>12,005</u>
Share issue expenses	–	–	(517)	(517)
At December 31, 2016	<u>1,691,861,775</u>	<u>1,692</u>	<u>118,051</u>	<u>119,743</u>

22. BUSINESS COMBINATION

On June 30, 2016, the Group acquired 51% of the equity interest of Jinan Nornoon, an unlisted company engaged in the production of feed enzymes, by way of capital injection in Jinan Nornoon. The acquisition was made as part of the Group's strategy to expand its industrial synthetic biology product lines into other areas of the feed industry. The consideration for the acquisition was in the form of cash, with US\$7,993,000 paid on June 30, 2016.

The fair values of the identifiable assets and liabilities of Jinan Nornoon as at the date of acquisition were as follows:

	<i>Note</i>	Fair value recognized on acquisition <i>US\$'000</i>
Property, plant and equipment		6,633
Prepaid land lease payments		911
Other intangible assets – patents		953
Other intangible assets – customer relationship		156
Inventories		1,494
Trade and notes receivables		1,494
Prepayments, deposits and other receivables		401
Cash and cash equivalents		8,064
Trade payables		(1,378)
Other payables and accruals		(4,642)
Interest-bearing bank borrowings		(1,237)
Tax payable		151
Deferred tax liabilities		(167)
		<hr/>
Total identifiable net assets at fair value		12,833
		<hr/> <hr/>
Non-controlling interests		(6,288)
		<hr/>
Goodwill arising on acquisition	12	1,448
		<hr/>
Satisfied by cash		7,993
		<hr/> <hr/>

The fair values of the trade and notes receivables and prepayments, deposits and other receivables as at the date of acquisition amounted to US\$1,494,000 and US\$401,000, respectively. The gross contractual amounts of the trade and notes receivables and prepayments, deposits and other receivables were US\$1,679,000 and US\$412,000, respectively, of which trade and notes receivables of US\$185,000 and prepayments, deposits and other receivables of US\$11,000 are expected to be uncollectible.

The Group incurred transaction costs of US\$54,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in profit or loss and are part of operating cash flows in the statement of cash flows.

An analysis of the cash flows on acquisition is as follows:

	<i>US\$'000</i>
Cash consideration of the acquisition	(7,993)
Cash and bank balances acquired	<u>8,064</u>
Net cash inflow on acquisition (included in cash flows from investing activities)	<u><u>71</u></u>

The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Jinan Nornoon with those of the Group. The goodwill is not deductible for income tax purposes.

Since the acquisition, Jinan Nornoon contributed US\$3,952,000 to the Group's revenue and US\$669,000 to the consolidated profit for the year ended December 31, 2016.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been US\$117,722,000 and US\$26,425,000, respectively.

POSITIONING OF THE COMPANY

The Group is a well-recognized life sciences research and application service and product provider with comprehensive portfolio coverage in the world. It has achieved world market leadership in the global gene synthesis service market with recognized stature in synthetic biology. The broad and integrated life sciences research and application service and product portfolio comprises four segments, namely, (i) life sciences research services, (ii) life sciences research catalog products, (iii) preclinical drug development services and (iv) industrial synthetic biology products.

“Genscript” is a well-known and trusted brand underpinned by its high quality life sciences research and application services and products. The Company has established a highly diversified customer base, including pharmaceutical and biotech companies, colleges and universities, research institutes, government bodies (including government testing and diagnostic centers) and distributors.

During the Reporting Period, the Group achieved sound operation performance and maintained a stable growth primarily due to (i) the adoption of advanced technologies, which significantly lowered our production cost and increased our production efficiency; and (ii) the increase of sales, which lowered the fixed cost in unit cost. Profit attributable to equity holders of the Company amounted to US\$26.2 million.

BUSINESS REVIEW

During the Reporting Period, the overall revenue of the Group was approximately US\$114.7 million, representing an increase of 32.3% as compared with approximately US\$86.7 million for the year ended December 31, 2015. The gross profit was approximately US\$76.2 million, representing an increase of 33.5% as compared with approximately US\$57.1 million for the year ended December 31, 2015. The increase in both revenue and gross profit margin was primarily attributable to (a) the significant increase in the number of orders of life sciences research services and preclinical drug development services, primarily benefiting from our continuous research and development activities, which resulted in the launch of advanced and/or improved services and products and improvement in our production efficiency, and (b) both the number of customers and their purchase volume of industrial synthetic biology products increased, primarily due to the diversified product lines and enhanced marketing activities since the Company completed the acquisition of Jinan Nornoon Biological Engineering Co., Ltd* (濟南諾能生物工程有限公司) (“**Jinan Nornoon**”) in June 2016.

During the Reporting Period, the profit was approximately US\$26.5 million, representing an increase of 51.4% as compared with approximately US\$17.5 million for the year ended December 31, 2015. The adjusted net profit was approximately US\$26.5 million, representing a year-to-year increase of 85.3% from approximately US\$14.3 million for the year ended December 31, 2015.

The profit attributable to owners of the Company was approximately US\$26.2 million, representing an increase of 49.7% as compared with approximately US\$17.5 million for the year ended December 31, 2015. The adjusted net profit was approximately US\$26.2 million, representing an increase of 83.2% from approximately US\$14.3 million for the year ended December 31, 2015.

During the Reporting Period, the Company generated approximately US\$91.2 million, US\$5.3 million, US\$11.2 million and US\$7.0 million from the four segments, namely, (i) life sciences research services, (ii) life sciences research catalog products, (iii) preclinical drug development services, and (iv) industrial synthetic biology products, representing approximately 79.5%, 4.6%, 9.8% and 6.1% of the total revenue, respectively.

Results Analysis of the Four Business Segments

1. Life sciences research services

Results

During the Reporting Period, the revenue generated from life sciences research services was approximately US\$91.2 million, representing an increase of 18.6% as compared with approximately US\$76.9 million for the year ended December 31, 2015. During the same period, the gross profit was approximately US\$63.2 million, representing an increase of 22.7% as compared with approximately US\$51.5 million for the year ended December 31, 2015. The increase in both revenue and gross profit was primarily attributable to (i) the significant increase in the number of orders, primarily benefiting from our continuous research and development activities, which enabled the launch of advanced or improved services and improvement in our production efficiency, as well as the upgraded online ordering system, (ii) the continuous improvement of production process and technology platforms, which significantly improved the utilization of raw materials and our production efficiency thereby reduced the cost of services, and (iii) the increase in the demand for DNA synthesis (comprising of oligonucleotide synthesis services and gene synthesis services) in the overall market as a result of our more affordable price and broadening applications in life sciences research services.

Development Strategies

The Company intends to (a) increase its research and development force, develop in-house and in-licensing new technologies, and implement novel instruments for the faster provision of gene synthesis services, (b) provide more diverse molecular biology and synthetic biology services and products, as well as expand the applications of synthetic biology technology in pathway assembly, microbial knock-out and knock-in, genome modification and protein/antibody engineering

for biologics drug development application, (c) develop cutting-edge technologies and improve production processes for industry cell line engineering and the antibody and protein production, and (d) invest in strengthening the technical capabilities in providing such services and products.

2. *Life sciences research catalog products*

Results

During the Reporting Period, the revenue generated from life sciences research catalog products was approximately US\$5.3 million, representing an increase of 112.0% as compared with approximately US\$2.5 million for the year ended December 31, 2015. During the same period, the gross profit was approximately US\$3.5 million, representing an increase of 118.8% as compared with approximately US\$1.6 million for the year ended December 31, 2015. The increase in both the revenue and the gross profit margin was primarily attributable to (i) the launch of eStain L1 in March 2016, an improved version of eStain 2.0, which provides better staining result and reduces the cost of each staining process, and (ii) the launch of new and stable cell lines that are able to express the popular immune checkpoint in April 2016, including PD1, PD-L1, VISTA, Tim3 and Lag3.

Development Strategies

The Company intends to (a) expand the off-the-shelf products by leveraging the strength of the life sciences research service segment and building on the current growing product lines in protein expression and analysis, including precast gels, protein purification reagents and recombinant proteins, (b) invest in new product development to differentiate from other competitors by offering cutting-edge products, and (c) devote more resources to the development of catalog antibodies, in particular antibody validation in order to keep abreast of the latest trend in this field.

3. *Preclinical drug development services*

Results

During the Reporting Period, the revenue generated from preclinical drug development services was approximately US\$11.2 million, representing an increase of 86.7% as compared with approximately US\$6.0 million for the year ended December 31, 2015. During the same period, the gross profit was approximately US\$7.5 million, representing an increase of 92.3% as compared with approximately US\$3.9 million for the year ended December 31, 2015. The increase in both revenue and gross profit was primarily attributable to (i) the increase in demand for antibody engineering and assay from pharmaceutical

factories as biotechnology develops, (ii) substantial reduction in the delivery cycle in antibody modification and humanization, which greatly improved our service delivery capacity, and (iii) the specific antibody design, which reduced the immunogenicity and brought higher satisfaction to our customers.

Development Strategies

The Company is upgrading its capability in biologics drug discovery to keep abreast of the standards of the global pharmaceutical community for target validation, lead identification and optimization, and candidate recommendation. It is also constantly acquiring cutting-edge technologies to strengthen its service platform. For example, in addition to humanization of rodent antibodies, it is pursuing technologies that allow it to generate human antibodies directly. In addition, it will continue to extend its platform to multi-targeting therapies with its single domain antibody technology. Furthermore, it is building comprehensive capability in cancer immunotherapy, including the construction of libraries of antibodies as well as cell lines, and the development of well-validated in vitro and in vivo assays.

4. *Industrial synthetic biology products*

Results

During the Reporting Period, the revenue generated from industrial synthetic biology products was approximately US\$7.0 million, representing an increase of 400.0% as compared with approximately US\$1.4 million for the year ended December 31, 2015. During the same period, the gross profit was approximately US\$2.0 million, representing an increase of 1,900.0% as compared with US\$0.1 million for the year ended December 31, 2015. The increase in both revenue and gross profit was primarily attributable to the acquisition of Jinan Nornoon in June 2016, which resulted in the increase in both the numbers of customers and their purchase volumes of industrial synthetic biology products.

Development Strategies

The Company intends to apply synthetic biology principles and techniques to modify and improve the industrial enzyme producing microorganisms, such that microbes are able to produce industrial enzymes with a higher yield and/or better performance properties. It intends to continue research and development on industrial enzymes applied in the food industry, as well as to expand into other fields of applications, such as the feed, pharmaceutical and chemical industries.

FINANCIAL REVIEW

	2016 <i>US\$'000</i>	2015 <i>US\$'000</i>	Change <i>US\$'000</i>
Revenue	114,735	86,709	28,026
Gross profit	76,229	57,078	19,151
Profit after income tax	26,535	17,504	9,031
Net profit excluding investment income, listing and share-based payment expenses	28,371	25,934	2,437
Profit attributable to shareholders of the Company	26,170	17,504	8,666
Profit attributable to shareholders of the Company, excluding investment income, listing and share-based payment expenses	28,006	25,934	2,072
Earnings per share (<i>US cent per share</i>)	1.57	1.47	0.10

Revenue

In 2016, the Group recorded revenue of US\$114.7 million, representing an increase of 32.3% from US\$86.7 million in 2015. This was primarily attributable to (a) the significant increase in the number of orders of life sciences research services and preclinical drug development services, primarily benefiting from our continuous research and development activities, which resulted in the launch of advanced and/or improved services and products and improvement in our production efficiency, and (b) both the number of customers and their purchase volume of industrial synthetic biology products increased, primarily due to the diversified product lines and enhanced marketing activities since the Company completed the acquisition of Jinan Nornoon in June 2016.

Gross Profit

In 2016, the Group's gross profit increased by 33.5% to US\$76.2 million from US\$57.1 million in 2015. This was primarily attributable to the increase of sales. The gross profit margin of the Group maintained at a stable level this year.

Selling and distribution expenses

The selling and distribution expenses increased by 18.8% to US\$20.9 million in 2016 from US\$17.6 million in 2015. This was mainly attributable to the increased compensation package for sales person and the expansion of the sales team.

Administrative expenses

In 2016, the administrative expenses increased by 6.7% to US\$30.4 million (including the research and development expenses) from US\$28.5 million (including the research and development expenses) in 2015. This was mainly due to the continuous investment in research and development activities.

Research and development expenses

The research and development expenses increased by 33.8% to US\$9.5 million in 2016 from US\$7.1 million in 2015.

This was mainly due to our continuous investment in research and development activities to secure and maintain high-level research and development projects, and our participation in certain new challenging research and development projects under the industrial synthetic biology products segment which significantly strengthened our competitiveness in the market and improved our production efficiency.

Income tax expenses

The income tax expenses increased from US\$5.5 million in 2015 to US\$6.0 million in 2016. The actual tax rate decreased from 23.8% in 2015 to 18.4% in 2016. The relative higher effective tax rate in 2015 is mainly due to the impact of IPO costs since it is booked on the Company which is registered in Cayman Islands.

Net profit and unaudited adjusted net profit

Due to the aforementioned reasons, the net annual profit of the Group amounted to US\$26.5 million in 2016, representing an increase of 51.4% from US\$17.5 million in 2015. To supplement the consolidated financial statements which are presented in accordance with the HKFRSs, 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 does not consider indicative of the Group's business performance. The Group's adjusted net profit was approximately US\$26.5 million, representing an increase of 85.3% from approximately US\$14.3 million for the year ended December 31, 2015.

Trade receivables

	2016	2015
Trade receivables turnover (<i>day</i>)	<u>61</u>	<u>65</u>

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

Inventories

	2016	2015
Inventory turnover (<i>day</i>)	<u><u>35</u></u>	<u><u>26</u></u>

The inventory turnover of the Group remained stable with constant control and management.

Property, plant and equipment

Property, plant and equipment include buildings, machinery equipment and construction in progress. As at December 31, 2016, the property, plant and equipment of the Group amounted to US\$43.7 million, representing an increase of US\$6.0 million from the property, plant and equipment of US\$37.7 million as at December 31, 2015. This was mainly due to the purchase of new machinery and equipment to support the increased scale of production.

Intangible assets

Intangible assets include software, patents and license. As at December 31, 2016, the Group's net intangible assets amounted to US\$2.1 million, representing an increase of US\$1.2 million from US\$0.9 million as at December 31, 2015. The increase in intangible assets was mainly due to (i) the upgrade of SAP system, and (ii) the patents and customer relationships generated from the acquisition of Jinan Nornoon.

Working capital and financial resources

As at December 31, 2016, the cash and cash equivalents of the Group amounted to US\$136.5 million (2015: US\$103.7 million). There was no restricted fund or loan.

Cash flow analysis

During the Reporting Period, the Group recorded an annual net cash inflow of US\$33.3 million generated from operating activities.

During the Reporting Period, the annual cash outflow used in investing activities of the Group was US\$8.3 million. This was mainly due to (i) the purchases of items of property, plant and equipment and other intangible assets for the purpose of enlarging production capability of US\$9.0 million, and (ii) the receipt of government grants of US\$0.6 million.

During the Reporting Period, the cash inflow in financing activities of the Group was US\$8.5 million. This was mainly due to (i) the net proceeds of approximately US\$9.7 million from issuance of shares under the over-allotment option, and (ii) the repayment of bank loans of approximately US\$1.2 million.

Capital expenditure

During the Reporting Period, the expenditure of purchasing intangible assets, namely software, patents and license, was US\$0.4 million, while the expenditure of purchasing property, plant and equipment amounted to US\$8.6 million.

Material acquisitions and disposals

On June 30, 2016, the Group completed the acquisition of 51% equity interests in Jinan Nornoon at a total consideration of US\$7,993,000, the details of which was set out in the announcements of the Company dated April 6, 2016, May 18, 2016, and June 30, 2016, respectively. During the Reporting Period, the Company did not have any other material acquisition or disposal of subsidiaries, associates or assets.

Contingent liabilities and guarantees

As at December 31, 2016, the Group did not have any material contingent liabilities or guarantees.

Charges on group assets

As at December 31, 2016, other than the notes receivables of approximately US\$375,000 pledged by a subsidiary of the Company to secure a credit limit up to US\$2,162,000 from a bank, the Group had no charges over its assets.

Current ratio and gearing ratio

As at December 31, 2016, the Group's current ratio (current assets to current liabilities) was approximately 4.2 (as at December 31, 2015: 4.3); and gearing ratio (total liabilities to total assets) was approximately 18.6% (as at December 31, 2015: 18.0%).

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 United States dollar. Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. The Group did not hedge against any fluctuation in foreign currency during the Reporting Period. The management of the Group may consider entering into currency hedging transactions to manage the Group's exposure towards fluctuations in exchange rates in the 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 customers and counterparties. These evaluations focus on the counterparty's financial position and past history of making payments, and they 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. Credit limits were granted to certain customers in consideration of their payment history and business performance. Prepayment agreements were sometimes entered into with certain customers from food companies, colleges, universities and research institutes in China, as well as occasionally with other customers in the United States and Europe. In addition, the Group reviews the recoverable amount of each individual transaction and other receivable balance at the end of the year to ensure that adequate impairment losses are made for irrecoverable amounts.

Prospects

In 2016, the Food and Drug Administration (“**FDA**”) of the United States approved 22 novel drugs as new molecular entities (“**NMEs**”) under new drug applications (“**NDAs**”) or as new therapeutic biologics under biologics license applications. From 2007 through 2015, FDA's Center for Drug Evaluation and Research (“**CDER**”) approved an average of about 36 applications for novel drugs per year. In terms of the PRC market, according to statistics, approvals on investigational new drug (“**IND**”) reached 201, which hit the historical high with an increase of 51 approvals over 2015. Antibody drugs approval accounted for nearly half of all the approvals, and that demonstrated the rapid development of antibody drugs in China.

In 2016, biotech venture funding reached approximately US\$7 billion in the United States market alone. Approximately 500 private biotech companies successfully raised funds last year. We witnessed a number of biotech related IPOs in 2016, including several preclinical companies in the gene editing space. Over 20 burgeoning biotech companies completed IPOs. Pharmaceutical companies continued buying aggressively in 2016, with many significant private mergers and acquisitions deals closings.

The National Institutes of Health (“NIH”), the United States’ medical research agency leading the world in supporting innovative multidisciplinary biomedical and behavioral research, requested US\$31.3 billion budget in 2016, representing an increase of 3.3% as compared with the budget in 2015. In 2016, one of the priorities of the administration of the United States was to invest in innovative biomedical and behavioral research that advances medical science and improves health while stimulating economic growth.

Future Development Strategies

Looking forward to 2017, the Group remains focused on implementing the following business strategies:

- increase investment in research and development projects like cell therapy and other applications to expand our research and application service and product portfolio;
- enhance production capacity to capitalize on the strong demand for our life sciences research and application services and products;
- increase penetration into the overseas and PRC markets by expanding and strengthening our sales and marketing team; and
- pursue strategic acquisitions and cooperation against the cutting-edge techniques to complement organic growth.

EMPLOYEES

As at December 31, 2016, the Group had a total of approximately 1,592 employees. The Group had entered into employment contracts covering positions, employment conditions and terms, salaries, employees' benefits, responsibilities 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 with reference to experience, number of years with the Group and other general factors.

USE OF THE NET PROCEEDS FROM LISTING

Net proceeds from the listing of the Company (after deducting the underwriting fee and relevant expenses) amounted to approximately HK\$527.3 million (equivalent to US\$68.0 million). Such amounts are proposed to be used according to the allocation set out in the prospectus of the Company dated December 17, 2015 (the "**Prospectus**"). Use of net proceeds from the date of listing to December 31, 2016, is set below as follows:

Items	Utilized amount as at December 31, 2016 (US\$ million)
Expand life sciences research and application service and product portfolio	12.5
Expand production capacity	15.0
Enhance information technology capability	0.4
Acquire interests in or business of companies to complement existing operations	8.0
Reinforce the sales and marketing team	0.2
Total	<u>36.1</u>

FINAL DIVIDEND

The Board recommended the payment of final dividend of HK\$0.012 per share for the year ended December 31, 2016 (2015: Nil) to holders of ordinary shares whose names appear on the register of members of the Company on Friday, June 9, 2017. No interim dividend was declared for the financial year of 2016. Subject to the shareholders' approval at the AGM (as define below), the proposed final dividend will be paid to the shareholders of the Company on or around June 21, 2017.

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 Corporate Governance Code and the Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as its own code of corporate governance.

Save as the deviation from code provision A.2.1 of the CG Code, the Company has complied with the applicable code provisions as set out in the CG Code during the year ended December 31, 2016, and up to the date of this announcement. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

The Company deviates from this provision because Dr. Zhang Fangliang has been assuming the roles of both the chairman of the Board and the chief executive officer of the Company since the Listing Date. The Board believes that resting the roles of both the chairman and the chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. Although these two roles are performed by the same individual, certain responsibilities are shared with the executive Directors to balance power and authority. In addition, all major decisions are made in consultation with members of the Board, as well as with the senior management. The Board has three independent non-executive Directors who offer different independent perspectives. Therefore, the Board is of the view that the balance of power and safeguards in place are adequate. The Board would review and monitor the situation on a regular basis, and it would ensure that the present structure would not impair the balance of power in the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own Code for Securities Transaction by Directors and Specified Individuals (the “**Code**”) on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 of the Listing Rules. Specific inquiry has been made to all the Directors, and each of the Directors has confirmed that he/she has complied with the Code during the Reporting Period.

The Code is also applicable to the Company’s 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. No incidents of non-compliance with the Code by the Directors and the relevant employees of the Company were noted by the Company during the Reporting Period.

SHARE OPTION SCHEMES

The Board has reviewed the matters in relation to the exercise of share options granted to the grantees under the share option scheme (the “**Pre-IPO Share Option Scheme**”) adopted on July 15, 2015 and the post-IPO share option scheme (the “**Post-IPO Share Option Scheme**”) adopted on December 7, 2015, details of the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme has been as disclosed in the Prospectus.

During the Reporting Period, options to subscribe for 20,778,137 Shares had been granted under the Post-IPO Share Option Scheme, while no further options has been granted under the Pre-IPO Share Option Scheme after the listing.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”). The Audit Committee currently comprises three members, namely, Mr. Dai Zumian (chairman of the Audit Committee), Ms. Zhang Min and Mr. Guo Hongxin, all being independent non-executive Directors. The principal duties of the Audit Committee are (i) to review and monitor the Company’s financial reporting system, risk management and internal control systems, (ii) to maintain the relations with the external auditor of the Company, and (iii) to review the financial information of the Company.

The Audit Committee has, together with the management and external auditors, reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended December 31, 2016.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting (the “**AGM**”) of the Company is scheduled to be held on Wednesday, May 31, 2017. A notice convening the AGM will be issued and disseminated to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of shareholders to attend and vote at the AGM to be held on Wednesday, May 31, 2017, the register of members of the Company will be closed from Wednesday, May 24, 2017 to Wednesday, May 31, 2017 (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 branch 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 Tuesday, May 23, 2017.

In order to determine the entitlement to the proposed final dividend for the year ended December 31, 2016, the transfer books and register of members of the Company will be closed from Wednesday, June 7, 2017 to Friday, June 9, 2017, both days inclusive, during which period no share transfers can be registered. All share transfer documents accompanied by the relevant share certificates shall be lodged with the Company’s branch 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 not later than 4:30 p.m. on Tuesday, June 6, 2017.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2016 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.genscript.com), and the 2016 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Genscript Biotech Corporation
Dr. Zhang Fangliang
Chairman and Chief Executive officer

Hong Kong, March 20, 2017

As at the date of this announcement, the executive Directors are Dr. ZHANG Fangliang, Ms. WANG Ye and Mr. MENG Jiange; the non-executive Directors are Dr. WANG Luquan, Mr. HUANG Zuie-Chin and Mr. PAN Yuexin; and the independent non-executive Directors are Mr. GUO Hongxin, Mr. DAI Zumian and Ms. ZHANG Min.

* *For identification purposes only*