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

2016
Annual Report

*For identification purposes only

Genscript Biotech Corporation (the "**Company**" or "**Genscript**", together with its subsidiaries referred to as the "**Group**") is a world leader in the global gene synthesis service market with recognized stature in synthetic biology.

The Group is a well-recognized life sciences research and application service and product provider with comprehensive portfolio coverage in the world. 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. The services and products are primarily used by scientists and researchers for conducting fundamental life sciences research, translational biomedical research, and early stage pharmaceutical development. Its synthetic biology products are also used by industry users of industrial enzymes, such as those in the food industry. With a strong sales and marketing team and strong research and development capabilities, the Company maintains a stable and sustainable growth.

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CORPORATE PROFILE

Genscript Biotech Corporation (the "**Company**" or "**GenScript**", together with its subsidiaries, the "**Group**") is a well-recognized life sciences research and application service and product provider with comprehensive portfolio coverage in the world. We have achieved world market leadership in the global gene synthesis service market with recognized stature in synthetic biology.

Our 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. For the year ended December 31, 2016, we had generated approximately US$91.2 million, US$5.3 million, US$11.2 million, and US$7.0 million from our four segments, representing approximately, 79.5%, 4.6%, 9.8%, and 6.1% of our total revenue, respectively. With a strong sales and marketing team and strong research and development capabilities, the Company maintains a stable and sustainable growth.

Our services and products are primarily used by scientists and researchers for conducting fundamental life sciences research, translational biomedical research, and early stage pharmaceutical development. Our synthetic biology products are also used by industry users of industrial enzymes, such as those in the food industry. As of December 31, 2016, we had 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. For the year ended December 31, 2016, our sales to such categories of customers generated approximately 59.7%, 19.8%, 12.8%, 2.9%, and 4.8% of our total revenue, respectively.

We have established an extensive direct sales network that reaches over 100 countries. We primarily sell our life sciences research and application services and products through our own direct sales force to our customers worldwide, while we also sell our services and products through independent third-party distributors to expand our market presence and facilitate communication with end users. For the year ended December 31, 2016, we had generated approximately US$61.4 million, US$21.7 million, US$18.2 million, US$7.9 million, and US$3.9 million from our sales to customers in United States of America, the PRC, Europe, Asia Pacific (excluding the PRC and Japan), and Japan, representing approximately 53.5%, 18.9%, 15.9%, 6.9%, and 3.4% of our total revenue, respectively.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Zhang Fangliang *(Chairman and Chief Executive Officer)*
Ms. Wang Ye
Mr. Meng Jiange

Non-Executive Directors

Dr. Wang Luquan
Mr. Huang Zuie-Chin *(also known as James Zuie Huang)*
Mr. Pan Yuexin

Independent Non-Executive Directors

Mr. Guo Hongxin
Mr. Dai Zumian
Ms. Zhang Min

AUDIT COMMITTEE

Mr. Dai Zumian *(Chairman)*
Ms. Zhang Min
Mr. Guo Hongxin

REMUNERATION COMMITTEE

Mr. Guo Hongxin *(Chairman)*
Ms. Wang Ye
Mr. Dai Zumian

NOMINATION COMMITTEE

Dr. Zhang Fangliang *(Chairman)*
Ms. Zhang Min
Mr. Dai Zumian

SANCTIONS RISK CONTROL COMMITTEE

Dr. Zhang Fangliang *(Chairman)*
Ms. Wang Ye
Mr. Meng Jiange
Dr. Dong Nan
Mr. Eric Wang
Mr. Shawn Wu

COMPANY SECRETARY

Ms. Wong Wai Ling

AUTHORIZED REPRESENTATIVES

Dr. Zhang Fangliang
Mr. Meng Jiange

HONG KONG LEGAL ADVISERS

Morrison & Foerster
33/F, Edinburgh Tower
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Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
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Central
Hong Kong

COMPLIANCE ADVISER

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Nanjing
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Harneys Services (Cayman) Limited
4th Floor, Harbour Place
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P.O. Box 10240, Grand Cayman KY1-1002
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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Wan Chai
Hong Kong

PRINCIPAL BANKS

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Kowloon Commerce Centre
51 Kwai Cheong Road
Kwai Chung
Hong Kong

Bank of America Scotch Plains Office

336 Park Avenue
Scotch Plains
NJ 07076
USA

Yueyahu Branch of China Merchant Bank

No. 88, Mu Xu Yuan Street
Nanjing
PRC

COMPANY WEBSITES

www.genscript.com
www.bestzyme.com

PLACE OF LISTING OF SHARES

The Stock Exchange of
Hong Kong Limited – main board

STOCK CODE

1548

STOCK NAME

GENSCRIPT BIO

FINANCIAL HIGHLIGHT

- For the year ended December 31, 2016, our revenue 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, our 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.

- For the year ended December 31, 2016, our 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. Our 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.

- For the year ended December 31, 2016, 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. Our 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 for the year ended December 31, 2015.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended December 31,				
	2012	2013	2014	2015	**2016**
	US$ '000				
Operation Results					
Revenue	52,990	60,104	69,994	86,709	**114,735**
Gross profit	35,443	38,258	44,098	57,078	**76,229**
Profit after income tax	9,182	6,000	6,175	17,504	**26,535**
Profit attributable to shareholders of the Company	9,182	6,000	6,175	17,504	**26,170**
Non-controlling interest	–	–	–	–	**365**
Basic earnings per share *(US$)*	0.0078	0.0051	0.0052	0.0147	**0.0157**
Diluted earnings per share *(US$)*	0.0076	0.0050	0.0051	0.0143	**0.0153**
Assets					
Non-current assets	45,490	45,274	48,588	49,060	**62,123**
Current assets	30,099	38,561	43,792	133,014	**163,909**
Current liabilities	30,252	29,885	29,188	30,894	**39,215**
Net current (liabilities)/assets	(153)	8,676	14,604	102,120	**124,694**
Non-current liabilities	1,181	1,387	1,445	1,932	**2,796**
Net assets	44,156	52,563	61,747	149,248	**184,021**
Cash and cash equivalents	18,660	22,457	25,637	103,720	**136,464**
Inventories turnover days *(day)*	20	22	22	26	**35**
Trade receivables turnover days *(day)*	44	56	59	65	**61**
Trade payables turnover days *(day)*	27	30	33	33	**35**

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**"), I am pleased to present the results of the Group for the year ended December 31, 2016 (the "**Year**" and the "**Reporting Period**").

2016 is the first full fiscal year of the Group after the Company's listing on the Main Board of the Stock Exchange. Gradually, the investors have known, studied and understood our business and development this year. The stock performance of GenScript gives us great confidence.

We are a well-recognized life sciences research and application service and product provider with comprehensive portfolio coverage in the world. As of 2016, we continued to hold the world-leading position in the global gene synthesis service market and the global DNA synthesis service market. As gene synthesis is one of the fundamental techniques in synthetic biology and as being a global leader in gene synthesis, we have strong technological advantages in the discipline of synthetic biology, and have successfully developed a number of products and services by applying synthetic biology technologies.

We are a well-recognized and trusted provider of synthetic biology research and application services and products with a broad portfolio coverage. Our competitive advantages are based on the broad and integrated life sciences research and application service and product portfolio of 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. Our services and products are primarily used by scientists and researchers for conducting fundamental life sciences research, translational biomedical research, and early stage pharmaceutical development. Our synthetic biology products are also used by industry users of industrial enzymes, such as those in the food industry.

Our aspiration is to change the world by using breakthrough technologies, including making research easier for scientists by using gene synthesis technology, making our lives better by using synthetic biology technologies and providing better cell therapies to cancer patients.

Originally founded in New Jersey in the United States in 2002, we have established an extensive direct sales network, reaching over 100 countries in North America, Europe, the PRC, Asia Pacific (excluding the PRC and Japan), and Japan. We have 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. Over the 14 years of our service, we believe that we have engendered customers' trust and confidence in the Company. As of December 31, 2016, over 22,610 international peer-reviewed journal articles had cited the use of our life sciences research and application services and products, making the Company a frequently cited life sciences research and application service and product provider. These citations also indicated that many users of our services and products are leading scientists and researchers in the life sciences research industries.

For the year ended December 31, 2016, total revenue from our business recorded a stable growth of 32.3% from the previous year to US$114.7 million. Gross profit increased 33.5% from the previous year to US$76.2 million. The increase in both revenue and gross profit 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. Profit attributable to equity holders of the Company amounted to US$26.2 million.

For the year ended December 31, 2016, our research and development expenses were approximately US$9.5 million, representing 8.3% of our total revenue. We had registered a total of 19 patents and had submitted over 40 patent applications that are material to our business in the United States and the PRC. We intend to continue to leverage our technology and research and development capabilities to broaden our life sciences research and application service and product portfolio as well as to develop novel and enhanced production technologies to keep abreast of the new directions of the life sciences research and application service and product industries.

In the life sciences research services segment, we continue to invest in the CRISPR gene editing technologies and other new technologies. Our new Ribonucleoprotein (RNP) service was launched to address the increasing needs for the more convenient application of CRISPR technology. We had also launched a new high throughput ("**HT**") mammalian protein expression service to form a HT gene-to-antibody platform. This new platform is able to provide one-stop service for customers in antibody drug discovery, at significantly lower cost than that of our competitors.

In the industrial synthetic biology product segment, two industrial leading products that were launched in 2015, namely, alpha-amylase and glucose oxidase, had acquired customers' approbation and achieved a good market share in some key accounts. In 2016, we launched another two new products, namely, fungal alpha-amylase and prolyl endopeptidase. Fungal alpha-amylaseis a key product for maltose syrup production and steamed bread processing, and prolyl endopeptidase is a specific beer clarificant used to replace the traditional chemical clarifying agent.

We had achieved promising results in the research and development in immunotherapy technology for cancer cure. Nanjing Legend Biotechnology Co., Ltd.* (南京傳奇生物科技有限公司) ("**Nanjing Legend**"), a wholly-owned subsidiary of the Group, has been focusing on the research and development of chimeric antigen receptor T ("**CAR-T**") cell technology in immunotherapy. Nanjing Legend has collaborated with a 3A hospital in China and provided proprietary CAR-T cell technology to treat Multiple Myeloma for clinical research, which had yielded promising results. We believe that CAR-T cell technology has significant potential in clinical cancer therapeutics, and the promising clinical research results further supported our plan to capture the growth opportunities in the clinical research services market by continuing our research and development in cancer immunotherapy and expanding into the development and application of CAR-T cell therapy in the future.

To support our expansion and to expand our customer base, we have a strong team of talents and sales managers to provide interactive technical support to our customers and to further personalize our technical solutions to each customer and key accounts, in order to bolster our position in the campaign to capture greater market share.

We believe that the long-term sustainable growth of the Company depends on the knowledge, experience, and development of our employees. As of December 31, 2016, over 64.76% of our employees had obtained a bachelor's or higher degree, with over 6.53% holding Ph.Ds. The level of competition among employers in the PRC and overseas for skilled personnel is high. We continue to improve and upgrade our human resources management. In 2016, we continued to improve the new technical promotion system to retain top technical talents. This new system established the standards for promotion and evaluation, which will motivate our employees to pursue self-learning and career development.

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 of investigational new drug ("**IND**") reached 201, which hit the historical high with an increase of 51 approvals over 2015. Approvals of antibody drugs accounted for nearly half of all the approvals, and that demonstrated the rapid development of antibody drugs in China.

In 2016, biotech venture funding is likely to top US$7 billion in the United States market alone. Approximately 500 private biotech companies successfully raised fund last year. We witnessed a number of biotech IPOs in 2016, including several preclinical companies in the gene editing space. Over 20 burgeoning biotech 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.

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.

To conclude, I thank our employees for their contributions to the Company during the Year. I also extend my deepest appreciation to our stakeholders, partners, customers, and suppliers for their continued commitment to the Company. On the strong foundation we have built, we are confident that the Company will scale new heights in the years ahead.

Thank You.

Dr. Zhang Fangliang
Chairman and Chief Executive Officer

March 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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 attributable to owners of the Company 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

This segment provides comprehensive research services in six key categories, namely, gene synthesis, oligonucleotide synthesis, DNA sequencing, protein production, peptide synthesis, and antibody development. These services and associated products are widely used and are fundamental to life sciences research and application, such as basic biology studies, disease and pharmaceutical research, drug discovery, agriculture, environmental studies, and the food industry.

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

This segment provides pre-packaged, ready-to-use, and off-the-shelf products, such as antibodies, recombinant proteins, reagent products, and small equipment for protein expression and analysis. Examples of products offered by this segment include but are not limited to, cytokines and antibodies, precast protein separation gels, affinity purification resins, desktop instruments for protein staining and protein transfer, and PCR cloning kits.

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 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

This segment provides integrated contract research services in three key categories, namely, antibody and protein engineering, in vitro pharmacology service, and in vivo pharmacology service. These services are applied in disease studies and drug discovery processes. Our service portfolio in this segment enables us to develop new protein and antibody drugs from the initial target validation to drug candidate engineering and optimization, and all the way to preclinical animal model studies.

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

This new segment grows from the leverage over our technical expertise and experience in synthetic biology and enzyme engineering. Our technical experience in protein engineering and synthetic biology facilitates the construction of non-pathogenic microbial strains to produce high-quality industrial enzymes through outsourced suppliers that can be used in a variety of industries, such as the food processing, feed, pharmaceutical, and chemical industries. The Company's first focus in this segment is industrial enzymes used in the food industry.

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	2015	Change
	US$ '000	*US$ '000*	*US$ '000*
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 *(US cents per share)*	**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 (a) our continuous investment in research and development activities to secure and maintain high-level research and development projects, and (b) 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 was mainly due to the impact of IPO costs since it was 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 Hong Kong Financial Reporting Standards (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 *(day)*	**61**	65

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

Inventories	**2016**	2015
Inventory turnover *(day)*	**35**	26

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

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 issue of shares under the over-allotment option, and (ii) the repayment of bank loans of approximately US$1.2 million.

Capital expenditure and capital commitment

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 other 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%).

MARKET RISKS

The Group is exposed to various types of market risks in the ordinary course of business, including foreign exchange risk, cash flow and fair value interest rate risk and credit risk. The Group manages its exposure to such risks and other market risks through regular operation and financial activities.

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 of investigational new drug ("**IND**") reached 201, which hit the historical high with an increase of 51 approvals over 2015. Approvals of antibody drugs accounted for nearly half of all the approvals, and that demonstrated the rapid development of antibody drugs in China.

In 2016, biotech venture funding is likely to top 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.

During the Reporting Period, the Company's total expenses on the remuneration of employees (including the Directors) was approximately US$45.5 million, representing approximately 39.8% of the total revenue of the Company.

On July 15, 2015, the Company adopted the pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**"). On December 7, 2015, the Company adopted the post-IPO share option scheme (the "**Post-IPO Share Option Scheme**", together with the Pre-IPO Share Option Scheme, the "**Share Option Schemes**"). No further share options have been granted under the Pre-IPO Share Option Scheme during the Reporting Period. 8,478,137 and 12,300,000 share options have been granted under the Post-IPO Share Option Scheme on June 22, 2016 and September 23, 2016, respectively.

The number of employees of the Group categorized by function as of December 31, 2016 is set forth as follows:

Function	Number of employees	Percentage of total (%)
Production	926	58.2
Sales and marketing	215	13.5
Administration	214	13.4
Research and development	162	10.2
Management	75	4.7
Total	1,592	100.0

The Group invests in continuing education and training programs for its employees with a view to constantly upgrading their skills and knowledge and providing the employees with an environment that encourages them to develop their career with the Group. The Group has arranged continuous on-the-job training for its employees. These training courses cover a broad spectrum, including technical know-how of various business segments, environmental, health and safety management systems, and mandatory training required by applicable laws and regulations.

In accordance with relevant PRC regulations on social insurance, the Group makes contribution to social insurance fund, including basic pension insurance, medical insurance, unemployment insurance, childbirth insurance, work-related injury insurance funds, and housing reserve fund for its employees.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

Name	Age	Position	Date of Appointment
Executive Directors			
Zhang Fangliang	52	Chairman, executive Director and chief executive officer	May 21, 2015
Wang Ye	48	Executive Director and chief operating officer	May 21, 2015
Meng Jiange	48	Executive Director and vice president of finance	August 24, 2015
Non-executive Directors			
Wang Luquan	47	Non-executive Director	May 21, 2015
Huang Zuie-Chin *(also known as James Zuie Huang)*	51	Non-executive Director	August 24, 2015
Pan Yuexin	59	Non-executive Director	August 24, 2015
Independent non-executive Directors			
Guo Hongxin	53	Independent non-executive Director	August 24, 2015
Dai Zumian	40	Independent non-executive Director	August 24, 2015
Zhang Min	43	Independent non-executive Director	August 24, 2015

Executive Directors

Dr. Zhang Fangliang (章方良), aged 52, is the co-founder, chairman, an executive Director, and chief executive officer of the Company. He was appointed as a Director on May 21, 2015 and redesignated as an executive Director on August 24, 2015. He is primarily responsible for the development, positioning, and strategy planning of the Group. He is one of the founders and a director of Genscript Corporation ("**GS Corp**"). Dr. Zhang is currently the director of all of the Company's subsidiaries (except for GenScript Japan Inc. ("**GS Japan**")), namely, Nanjing Jinsirui Biotechnology Co., Ltd.* (南京金斯瑞生物科技有限公司) ("**GS China**"), Jinsikang Technology (Nanjing) Co., Ltd.* (金斯康科技(南京)有限公司), Nanjing Bestzyme Bioengineering Co., Ltd.* (南京百斯杰生物工程有限公司) ("**Nanjing Bestzyme**"), Hubei Bestzyme Biotechnology Co., Ltd.* (湖北百斯杰生物科技有限公司), Shanghai Jingrui Biotechnology Co., Ltd.* (上海璟睿生物技術有限公司), Bestzyme Biotech Corporation ("**BSJ Cayman**"), Bestzyme Biotech Limited ("**BSJ BVI**"), Bestzyme Biotech USA Incorporated ("**BSJ US**"), Bestzyme Biotech HK Limited (香港百斯杰生物科技有限公司) ("**BSJ HK**"), Nanjing Legend Biotechnology Co., Ltd.* (南京傳奇生物科技有限公司), Legend Biotech Corporation ("**Legend Cayman**"), Legend Biotech Limited ("**Legend BVI**"), Legend Biotech HK Limited (香港傳奇生物科技有限公司) ("**Legend HK**"), Genscript Biotech Limited ("**GS BVI**"), GenScript (Hong Kong) Limited ("**GS HK**"), Genscript International Limited ("**GS International**"), and GenScript USA Incorporated ("**GS USA**"). Dr. Zhang is the chairman of our nomination committee ("**Nomination Committee**") and oversees the sanctions risk control committee ("**Sanctions Risk Control Committee**").

Dr. Zhang has nearly 20 years of experience in the biotechnology industry. Prior to joining the Group, from 1995 to 2002, he worked as a postdoctoral research fellow and an associate principal scientist at Schering-Plough. Dr. Zhang worked in the tumor biology department during his postdoctoral research at Schering-Plough. Dr. Zhang was also one of the key team members for an anti-cancer drug, farnesyl transferase inhibitor. After Dr. Zhang's postdoctoral studies, he was recruited to the department of central nervous system and cardiovascular system at Schering-Plough. He became one of the project leaders focusing on G-protein coupled receptors and led a group of scientists to discover the drug target for a billion-dollar drug. As a result of this discovery, Dr. Zhang won a Presidential Award at Schering-Plough in 2001. From 2002 to the present, Dr. Zhang worked as the chief executive officer of the Group, where he was involved in a variety of key biotechnological research projects and provided guidance and directions to those biotechnological research projects. Dr. Zhang was also awarded the National Thousand Talents Program Distinguished Expert* (國家千人計劃特聘專家) in 2010 and the Jiangsu Province High-Level Creative Talent Strategic Award* (江蘇省高層次創新創業人才引進計劃獎) in 2011. Dr. Zhang has published more than 15 biotechnology related scientific papers in international peer-reviewed journals and has been the inventor for more than five patents in relation to biotechnological products and/or services.

Dr. Zhang obtained a Bachelor of Engineering degree from Chengdu College of Geology* (成都地質學院) (currently known as Chengdu University of Technology* (成都理工大學)) in the PRC in July 1984 and a Master of Science degree from Nanjing University in the PRC in July 1987. He also obtained a Doctor of Philosophy degree from Duke University in the U.S. in September 1995.

He is the brother-in-law of Mr. Chen Zhiqiang, the senior vice president of the Company.

Ms. Wang Ye (王燁), aged 48, is the co-founder, an executive Director and chief operating officer of the Company. She was appointed as a Director on May 21, 2015 and redesignated as an executive Director on August 24, 2015 and is primarily responsible for the Group's strategies and overall operational management. Ms. Wang is currently the director of BSJ Cayman, BSJ BVI, BSJ US, Legend Cayman, Legend BVI, GS BVI, GS HK, GS International and GS USA. Ms. Wang is a member of our remuneration committee ("**Remuneration Committee**").

She joined GS Corp in August 2002 and served as the sales account manager until January 2005. In the Group, she worked as the sales and marketing director from February 2005 to August 2009, vice-president of operations from September 2009 to August 2011, and executive vice-president of operations from September 2011 to March 2014. She has been the chief operating officer of GS Corp since April 2014. Prior to joining the Group, she worked as the environmental monitoring engineer at Shenzhen Futian Environment Protection Surveillance Station* (深圳市福田區環境保護監測站) from July 1993 to July 2000.

Ms. Wang obtained a Bachelor of Science in Microbiology and a Master of Science degree from Wuhan University* (武漢大學) in the PRC in July 1990 and in August 1993, respectively. She also obtained a Master of Science in Computer Sciences degree from Bridgeport University in the United States in December 2003. She obtained an Executive Master of Business Administration degree from the China Europe International Business School* (中歐國際工商學院) in the PRC in August 2014.

Mr. Meng Jiange (孟建革), aged 48, was appointed as an executive Director of the Company on August 24, 2015 and is primarily responsible for the Company's finance matters. He was appointed as the vice president of finance of the Group in April 2010 when he joined the Group.

Mr. Meng has over 25 years of experience in finance and accounting. Prior to joining the Group, from July 1990 to October 1997, Mr. Meng worked at CCCC Guangzhou Dredging Co., Ltd.* (中交廣州航道局有限公司). From January 1999 to May 2000, Mr. Meng worked as the national finance manager at Guangdong Whirlpool Home Appliance Group* (廣東惠而浦家電集團). From May 2000 to July 2004, Mr. Meng worked at Schering-Plough China* (先靈葆雅中國公司) as a branch finance manager and the accounting and IT manager in the head office. From September 2004 to December 2007, Mr. Meng worked as the Asia finance controller of Saint Gobain Grains and Powder Division. From March 2008 to March 2010, Mr. Meng worked as the chief financial officer of Quay Magnesium.

Mr. Meng graduated from Changsha Communications Institute* (長沙交通學院) (currently known as Changsha University of Science Technology* (長沙理工大學)) in the PRC with a Bachelor of Engineering degree in July 1990.

Non-executive Directors

Dr. Wang Luquan (王魯泉), aged 47, is a co-founder and a non-executive Director of the Company. He was appointed as a Director on May 21, 2015 and redesignated as a non-executive Director of the Company on August 24, 2015 and is primarily responsible for the Group's strategies and operational management. From 2003 to 2014, Dr. Wang was the president of GS Corp and is still currently a director of GS Corp. Dr. Wang is currently the director of two of the Company's subsidiaries, namely, GS HK and GS USA.

Dr. Wang has nearly 24 years of experience in the biotechnology industry. Prior to joining the Group, from 1991 to 1996, he worked as a graduate research assistant, and from 1995 to 1996, a bioinformatics staff at Rutgers University in the United States. From 1996 to 2003, Dr. Wang was a senior principal scientist at Schering-Plough Research Institute.

Dr. Wang obtained a Bachelor of Science in Biochemistry degree from Shandong University* (山東大學) in the PRC in July 1991 and a Doctor of Philosophy degree from Rutgers University in the United States in October 1996.

Mr. Huang Zuie-Chin (also known as James Zuie Huang) (黃瑞瑨), aged 51, was appointed as a non-executive Director of the Company on August 24, 2015 and is primarily responsible for the Group's strategies and operational management.

Mr. Huang has 20 years of experience in the pharmaceutical and biotech industry. He joined Kleiner Perkins Caufield & Byers China* (凱鵬華盈中國基金) ("**KPCB China**") as a managing partner in 2011 and was responsible for the firm's life science practice. Prior to joining KPCB China, he joined Vivo Ventures as a managing partner in 2007. From 2002 to 2007, he served as the president of Anesiva, a biopharmaceutical company. He also worked as the vice president of the business development unit at Tularik Inc. from 2000 to 2002, the director of sales unit at GlaxoSmithKline LLC from 1995 to 2000, the senior management of marketing unit at Bristol-Meyers Squibb from 1992 to 1995, and the project manager of the research and development unit at ALZA Corp from 1987 to 1990.

Mr. Huang graduated from University of California, Berkeley in the United States with a Bachelor of Science degree in chemical engineering in May 1988. He obtained a Master of Business Administration degree from the Stanford Graduate School of Business in the United States in June 1992.

Mr. Huang has been a director of CASI Pharmaceuticals, Inc. (Nasdaq: CASI), which is listed on Nasdaq in the United States, since April 2013.

Mr. Pan Yuexin (潘躍新), aged 59, was appointed as a non-executive Director of the Company on August 24, 2015 and is primarily responsible for the Group's strategies and operational management.

Mr. Pan graduated from the Zhejiang Branch of the Open University of China* (中央廣播電視大學浙江分校) with a Chinese language and literature diploma in July 1985. Mr. Pan graduated from the Chinese Academy of Social Sciences* (中國社會科學院) with a business law post graduate degree in July 1987.

Mr. Pan has been a partner of Jun He Law Offices (君合律師事務所) from October 1992 to May 2003 and July 2009 to February 2013, as well as a partner of Shanghai Ridingsheng Equity Investment Services Ltd.* (上海日鼎盛股權投資服務有限公司) since March 2013.

Mr. Pan was the committee member and secretary general of the Education Committee of the All China Lawyers Association, PRC* (中華全國律師協會) from 2001 to 2003. He was also the director of the Hainan and Shanghai branches of Jun He Law Offices (君合律師事務所) from October 1992 to May 2003 and deputy director of the Education Committee of the Shanghai Bar Association* (上海市律師協會) from 2000 to 2003.

Mr. Pan was an independent non-executive director of Jiangling Motors Co., Ltd.* (江鈴汽車股份有限公司, SZSE: 000550), which is listed on the Shenzhen Stock Exchange, from 2005 to 2009, Sinochem International Corporation* (中化國際貿易股份有限公司, SHA: 600500), which is listed on the Shanghai Stock Exchange, from 2002 to 2003, Shanghai Tunnel Engineering Co., Ltd.* (上海隧道工程股份有限公司, SHA: 600820), which is listed on the Shanghai Stock Exchange, from 2009 to 2015, GreatWall Movie and Television Co., Ltd.* (長城影視股份有限公司, SZSE: 002071), which is listed on the Shenzhen Stock Exchange, from 2011 to 2014, and Simei Media Co., Ltd* (思美傳媒股份有限公司, SZSE: 002712) from 2009 to 2012 before it was listed on the Shenzhen Stock Exchange in 2014.

Independent non-executive Directors

Mr. Guo Hongxin (郭宏新), aged 53, was appointed as an independent non-executive Director of the Company on August 24, 2015. Mr. Guo is the chairman of our remuneration committee and a member of our audit committee ("**Audit Committee**").

From July 1983 to March 1998, Mr. Guo was working at the Nanjing School of Chemical Engineering. Since April 1998, he has been the chairman of the board of Sunpower Group Ltd, which was listed on the Singapore Exchange SESDAQ in March 2005 and has been listed on the Singapore Exchange Mainboard since August 2007 (SPWG: Singapore Exchange).

Mr. Guo obtained a Diploma in Chemical Thermal Engineering from Nanjing Chemical Engineering College* (南京化工動力專科學校) (currently known as Nanjing Normal University) in the PRC in July 1983. Mr. Guo obtained a senior engineering qualification from Nanjing University of Chemical Technology* (南京化工大學) (currently known as Nanjing Tech University* (南京工業大學)) in the PRC in March 1997. He also obtained a Doctor of Philosophy in Geotechnical Engineering degree from the Chinese Academy of Sciences* (中國科學院) in the PRC in January 2010. He also obtained an Executive Master of Business Administration degree from Tsinghua University* (清華大學) in the PRC in July 2014.

Mr. Dai Zumian (戴祖勉), aged 40, was appointed as an independent non-executive Director of the Company on August 24, 2015. Mr. Dai is the chairman of the Audit Committee, and a member of the Remuneration Committee and the Nomination Committee.

Mr. Dai is a member of the Chinese Institute of Certified Public Accounts as well as a fellow of Association of Chartered Certified Accountants. From July 1999 to August 2006, he gained over seven years' experience in auditing. His experience in auditing includes that gained at PricewaterhouseCoopers Zhongtian Certified Public Accountants (普華永道中天會計師事務所) from February 2005 to August 2006.

Mr. Dai was the qualified accountant and company secretary of Hisense Kelon Electrical Holdings Limited (海信科龍電器股份有限公司, HKSE: 921, SZSX: 000921), which is listed on the Main Board of the Stock Exchange and the Shenzhen Stock Exchange, from September 2006 to August 2007. Mr. Dai served as the chief financial officer of Shanghai Golden Monkey Food Joint Stock Co., Ltd.* (上海金絲猴食品股份有限公司) from February 2009 to April 2012 and of Xiezhong International Holdings Limited (協眾國際控股有限公司, HKSE: 3663), which is listed on the Main Board of the Stock Exchange, since May 2012.

Mr. Dai graduated from Shanghai University of Finance and Economics* (上海財經大學) in the PRC with a Bachelor of International Business Administration degree in June 1999. He also holds an Executive Master of Business Administration degree from China Europe International Business School* (中歐國際工商學院) in the PRC earned in October 2013.

Ms. Zhang Min (張敏), aged 43, was appointed as an independent non-executive Director of the Company on August 24, 2015. Ms. Zhang is a member of our Audit Committee and Nomination Committee.

Ms. Zhang is currently the chief executive officer of China Lodging Group, which is listed on Nasdaq (Nasdaq: HTHT) in the United States. She served as the vice president of finance, the chief financial officer and president from September 2007 to 2008, from 2008 to 2015 and from January 2015 to May 2015, respectively. Between 2013 and 2015, Ms. Zhang also assumed the role of the chief strategy officer of China Lodging Group. Ms. Zhang was also a director of Synutra International, Inc. (Nasdaq: SYUT), which is listed on Nasdaq in the United States, from February 2011 to November 2015, and China Quanjude (Group) Co., Ltd* (中國全聚德(集團)股份有限公司, SZSE: 002186), which is listed on the Shenzhen Stock Exchange, from July 2014 to July 2016.

Ms. Zhang obtained both her Bachelor in International Business Management and Master in Economics degrees from the University of International Business and Economics* (對外經濟貿易大學) in the PRC in June 1994 and July 1997, respectively. She also obtained a Master in Business Administration degree from Harvard Business School in the United States in June 2003.

Senior management

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

Name	Age	Year of joining the Group	Date of Appointment
Zhang Fangliang	(see above)	(see above)	(see above)
Wang Ye	(see above)	(see above)	(see above)
Meng Jiange	(see above)	(see above)	(see above)
Zhu Li	67	March 1, 2010	March 1, 2010
Chou Chuan-Chu	63	October 1, 2012	January 1, 2014
Chen Zhiqiang	47	August 15, 2004	January 1, 2014
Zhang Chifa	41	June 5, 2005	January 1, 2014

Dr. Zhang Fangliang (章方良), is the co-founder, chairman, the executive Director, and chief executive officer of the Company. Please refer to the previous section headed "Executive Directors" for the biography of Dr. Zhang.

Ms. Wang Ye (王燁), is the co-founder, the executive Director, and chief operating officer of the Company. Please refer to the previous section headed "Executive Directors" for the biography of Ms. Wang.

Mr. Meng Jiange (孟建革), is the executive Director and vice president of finance of the Company. Please refer to the previous section headed "Executive Directors" for the biography of Mr. Meng.

Dr. Zhu Li (朱力), aged 67, has been the vice president of strategy of the Group since 2010. He is responsible for in-license and new business development and is involved in corporate business strategy.

Dr. Zhu worked at Clontech Laboratories, Inc. in California, USA as a director of molecular biology from 1990 to 2000. Dr. Zhu worked at Cathay Biotech, Inc. as a vice president of research from July 2006 to December 2008.

Dr. Zhu obtained a Bachelor of Science of Biology degree from the East China Normal University (華東師範大學) in June 1982 and a Doctor of Philosophy from Stanford University in September 1990.

Dr. Chou Chuan-Chu (周傳初), aged 63, was appointed as the Senior Vice President of Corporate Development of the Company in October 2012 upon joining the Company. In January 2014, Dr. Chou was appointed as the Head of Discovery and Preclinical Services of the Company.

Prior to joining the Company, Dr. Chou was Research Fellow at Schering-Plough where he served from 1988 to 2009. From 2010 to 2011, Dr. Chou was the external collaboration lead of cardiovascular area of the Global Scientific Strategy Division at Merck & Co. (formerly Schering-Plough).

Dr. Chou received a Bachelor of Science degree in Forestry in June 1976 and Master of Science degree in Biochemistry in June 1980 from National Taiwan University (國立臺灣大學). Dr. Chou received Doctor of Philosophy degree in Biology from the University of California at Los Angeles in the United States in June 1986.

Mr. Chen Zhiqiang (陳志強), aged 47, was appointed the senior vice president of the Company in January 2014 and was primarily responsible for the Company's public relations. His position was changed to vice president of the China Business Department in March 2016.

Mr. Chen joined the Group in August 2004 and was since appointed as the senior vice president of our internal safety center of the Company, and was then appointed as the senior vice president of our public relation department in January 2014. Prior to joining the Group, from February 1993 to March 2004, he worked for Wuhan Railway Bureau* (武漢鐵路局) as a trainee and as an electrician.

He graduated with a diploma in Computing Communications and Technology from Hubei Radio & TV University* (湖北廣播電視大學) in July 1992.

He is the brother-in-law of Dr. Zhang Fangliang.

Mr. Zhang Chifa (張遲發), aged 41, was appointed as the department head of the industrial synthetic biology product segment of the Group in January 2014 and is primarily responsible for management of the research and development center and the industrial synthetic biology product segment of the Group. Mr. Zhang joined the Group in June 2005. Mr. Zhang was the manager of the gene unit from June 2005 to July 2009 and vice president of operations, covering some of the departments of the life sciences research service segment and the life sciences research catalog product segment of the Group from August 2009 to January 2014.

Prior to joining the Group, Mr. Zhang worked as the laboratory technician at Daye Special Steel Co., Ltd.* (大冶特鋼股份有限公司) from October 1996 to September 1999. He worked as the manager of sequencing unit at Shanghai Boya Biotechnology Co., Ltd.* (上海博亞生物技術有限公司) from October 1999 to May 2003 and the production manager at Shanghai Connaught Biotechnology Co., Ltd.* (上海華諾生物技術有限公司) from June 2003 to March 2005.

He graduated with a diploma in Chemical Process at Huangshi Technical College* (黃石高等專科學校) (currently known as Hubei Polytechnic University* (湖北理工學院)) in June 1995.

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2016.

CORPORATE INFORMATION AND GLOBAL OFFERING

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 Shares were listed on the Main Board of the Stock Exchange on December 30, 2015 (the "**Listing**" or the "**Listing Date**").

PRINCIPAL ACTIVITIES

The Company is a well-recognized life sciences research and application service and product provider with comprehensive portfolio coverage in the world. 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. The services and products are primarily used by scientists and researchers for conducting fundamental life sciences research, translational biomedical research, and early stage pharmaceutical development. Its synthetic biology products are also used by industry users of industrial enzymes, such as those in the food industry. Our customers are primarily located in North America, Europe, the PRC, Asia Pacific (excluding the PRC and Japan), and Japan. The analysis of the principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

RESULTS AND APPROPRIATIONS

The consolidated results of the Group for the year ended December 31, 2016 are set out on pages 102 and 103 of this annual report.

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.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of shareholders to attend and vote at the forthcoming annual general meeting (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 share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, 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, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, June 6, 2017.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 6 of this annual report. This summary does not form part of the audited consolidated financial statements.

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 have been 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 Listing Date 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	36.1

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

The revenue attributable to the top five customers of 2016 accounted for 12.0% of the Company's operating income for the year ended December 31, 2016. The revenue from the largest single customer accounted for 4.8% of the Company's operating income for 2016.

Major Suppliers

In 2016, the turnover attributable to the top five suppliers accounted for 24.0% of the Company's total purchases for the year ended December 31, 2016. The turnover of the largest single supplier accounted for 10.0% of the Company's total purchases for 2016.

During the Reporting Period, 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 issued share capital) had an interest in any of the Company's top five customers or suppliers.

PROPERTY, PLANT, AND EQUIPMENT

Details of movements in the property, plant, and equipment of the Group during the year are set out in note 13 to the financial statements in this annual report.

SHARE CAPITAL

During the year ended December 31, 2016, 1,691,861,775 ordinary shares were issued. Details of movements in the share capital of the Company during the year ended December 31, 2016 are set out in note 25 to the financial statements in this annual report.

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 pages 106 and 107 in this annual report.

DISTRIBUTABLE RESERVES

As of December 31, 2016, the Company's reserves are available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, Cap 22 (Law 3 of 1961, as consolidated and revised), amounted to US$72,095,000 (as of December 31, 2015: approximately US$48,689,000).

BANK LOANS AND OTHER BORROWINGS

On June 30, 2016, Jinan Nornoon, a subsidiary acquired by the Company on June 30, 2016, borrowed short-term interest-bearing loans from Agricultural Bank of China and Postal Savings Bank of China for a total amount of RMB8,200,000 (equivalent to approximately US$1,237,000), which were secured by charges on certain Jinan Nornoon's lands, property, plant and equipment. Jinan Nornoon used such loans to purchase raw materials and replenish working capital. Such loans were repaid by Jinan Nornoon and the charges were released in July and August 2016.

As of December 31, 2016, the Group did not have any outstanding/unpaid bank loans and/or other borrowings.

DIRECTORS

The Directors during the year ended December 31, 2016 and up to the date of this annual report were:

Executive Directors

Zhang Fangliang *(chairman and chief executive officer)*
Wang Ye *(chief operating officer)*
Meng Jiange *(vice president of finance)*

Non-executive Directors

Wang Luquan
Huang Zuie-Chin *(also known as James Zuie Huang)*
Pan Yuexin

Independent non-executive Directors

Guo Hongxin
Dai Zumian
Zhang Min

Pursuant to the Memorandum and Articles of Association of the Company (the "**Articles**"), each of Guo Hongxin, Dai Zumian and Zhang Min will retire at the AGM and, being eligible, will offer himself or herself for re-election. Biographical details of the Directors to be re-elected at the AGM will be set out in the circular dated April 19, 2017 to the shareholders.

DIRECTORS' PROFILES

Biographical details of Directors and senior management of the Company is set out on pages 24 to 30 in this annual report.

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/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent throughout the year ended December 31, 2016 in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into service contracts with the Company for a fixed term of three years commencing on December 1, 2015, which can be terminated before the expiration of the term by not less than six months' notice in writing served by either party on the other.

Each of the non-executive Directors has signed appointment letters with the Company for a term of three years with effect from August 24, 2015. Their appointments are subject to termination in accordance with their respective terms.

Each of the independent non-executive Directors has signed appointment letters with the Company for a term of three years with effect from August 24, 2015. Their appointments are subject to termination in accordance with their respective terms.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

None of the Company or any of its subsidiaries entered into, whether directly or indirectly, any transactions, arrangements and contracts of significance that a Director of the Company had a material interest in, that was related to the Company's business, and/or that 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.

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 is reviewed by the remuneration committee periodically.

The remuneration of the non-executive Directors is recommended by the Remuneration Committee and is decided by the Board while the remuneration of the executive Directors is decided by the Remuneration Committee, 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 Share Option Scheme and the Post-IPO Share Option Scheme. 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 that 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 December 31, 2016, options to subscribe for 20,778,137 Shares had been granted (of which no Shares had lapsed) under the Post-IPO Share Option Scheme and no option had been granted under the Pre-IPO Share Option Scheme. For details of the Share Option Schemes, please see the paragraph headed "Share Option Schemes" below.

PERMITTED INDEMNITY PROVISION

The Articles provides that every Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities which they may sustain or incur in or about the execution of the duties of their office or otherwise in relation thereto. A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers commencing from January 1, 2016.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Schemes of the Company as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2016.

SHARE OPTION SCHEMES

A. Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme by resolutions of the Board on July 15, 2015. The Pre-IPO Share Option Scheme is 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 are granted under the Pre-IPO Share Option Scheme after the Listing.

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

					Number of share options					
Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share (US$)	Outstanding as at January 1, 2016	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Exercised[1] during the Year	Outstanding as at December 31, 2016
Directors of the Company or its subsidiaries										
Wang Ye	August 10, 2009	December 31, 2010 – January 15, 2018 January 15, 2011 – January 15, 2018 December 31, 2011 – January 15, 2018 December 31, 2012 – January 15, 2018 December 31, 2013 – January 15, 2018	December 31, 2010 – January 15, 2018	0.01	1,603,239	–	–	–	–	1,603,239
	December 31, 2009	December 31, 2010 – December 31, 2019 December 31, 2011 – December 31, 2019 December 31, 2012 – December 31, 2019 December 31, 2013 – December 31, 2019 December 31, 2014 – December 31, 2019	December 31, 2010 – December 31, 2019	0.026	5,344,130	–	–	–	–	5,344,130
	July 15, 2010	July 15, 2011 – July 31, 2019 July 15, 2012 – July 31, 2019 July 15, 2013 – July 31, 2019 July 15, 2014 – July 31, 2019	July 15, 2011 – July 31, 2019	0.103	27,206,480	–	–	–	3,018,000	24,188,480

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share (US$)	Number of share options: Outstanding as at January 1, 2016	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Exercised[1] during the Year	Outstanding as at December 31, 2016
	May 22, 2012	December 31, 2012 – July 31, 2020 December 31, 2013 – July 31, 2020 December 31, 2014 – July 31, 2020	December 31, 2012 – July 31, 2020	0.103	34,008,093	–	–	–	–	34,008,093
	March 20, 2014	December 31, 2014 – July 31, 2025 December 31, 2015 – July 31, 2025 December 31, 2016 – July 31, 2025	December 31, 2014 – July 31, 2025	0.062	68,016,194	–	–	–	–	68,016,194
Meng Jiange	February 20, 2010	April 1, 2011 – December 31, 2020 April 1, 2012 – December 31, 2020 April 1, 2013 – December 31, 2020 April 1, 2014 – December 31, 2020 April 1, 2015 – December 31, 2020	April 1, 2011 – December 31, 2020	0.077	1,943,320	–	–	–	68,000	1,875,320
	May 1, 2013	May 1, 2016 – December 31, 2020 May 1, 2017 – December 31, 2020 May 1, 2018 – December 31, 2020 May 1, 2019 – December 31, 2020 May 1, 2020 – December 31, 2020	May 1, 2016 – December 31, 2020	0.103	1,943,320	–	–	–	–	1,943,320

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share *(US$)*	Outstanding as at January 1, 2016	Number of share options: Granted during the Year	Cancelled during the Year	Lapsed during the Year	Exercised[1] during the Year	Outstanding as at December 31, 2016
	January 30, 2015	January 30, 2016 – July 31, 2025 January 30, 2017 – July 31, 2025 January 30, 2018 – July 31, 2025 January 30, 2019 – July 31, 2025 January 30, 2020 – July 31, 2025	January 30, 2016 – July 31, 2025	0.077	1,943,320	–	–	–	–	1,943,320
Wang Luquan	February 10, 2012	February 10, 2013 – July 31, 2019 February 10, 2014 – July 31, 2019	February 10, 2013 – July 31, 2019	0.103	3,886,640	–	–	–	–	3,886,640
Senior management of the Group										
Zhu Li	January 27, 2010	March 1, 2011 – July 31, 2019 March 1, 2012 – July 31, 2019 March 1, 2013 – July 31, 2019 March 1, 2014 – July 31, 2019 March 1, 2015 – July 31, 2019	March 1, 2011 – July 31, 2019	0.077	1,554,656	–	–	–	–	1,554,656
	March 28, 2014	December 31, 2014 – December 31, 2020 December 31, 2015 – December 31, 2020 December 31, 2016 – December 31, 2020 December 31, 2017 – December 31, 2020 December 31, 2018 – December 31, 2020	December 31, 2014 – December 31, 2020	0.077	1,943,320	–	–	–	–	1,943,320

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share (US$)	Number of share options: Outstanding as at January 1, 2016	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Exercised[1] during the Year	Outstanding as at December 31, 2016
Chou Chuan – Chu	October 1, 2012	October 1, 2016 – July 31, 2025 October 1, 2017 – July 31, 2025 October 1, 2018 – July 31, 2025 October 1, 2019 – July 31, 2025 October 1, 2020 – July 31, 2025	October 1, 2016 – July 31, 2025	0.103	1,943,320	–	–	–	–	1,943,320
	March 28, 2015	December 31, 2015 – December 31, 2020 December 31, 2016 – December 31, 2020 December 31, 2017 – December 31, 2020 December 31, 2018 – December 31, 2020	December 31, 2015 – December 31, 2020	0.077	971,660	–	–	–	–	971,660
Chen Zhiqiang	August 10, 2009	August 10, 2009 – December 31, 2019	August 10, 2009 – December 31, 2019	0.003	10,688,259	–	–	–	5,666,000	5,022,259
	March 28, 2014	December 31, 2014 – December 31, 2020 December 31, 2015 – December 31, 2020 December 31, 2016 – December 31, 2020 December 31, 2017 – December 31, 2020 December 31, 2018 – December 31, 2020	December 31, 2014 – December 31, 2020	0.077	1,943,320	–	–	–	600,000	1,343,320

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share (US$)	Number of share options: Outstanding as at January 1, 2016	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Exercised[(1)] during the Year	Outstanding as at December 31, 2016
Zhang Chifa	July 3, 2009	July 3, 2009 – July 31, 2019	July 3, 2009 – July 31, 2019	0.003	213,765	–	–	–	–	213,765
	July 3, 2009	July 3, 2009 – July 31, 2019	July 3, 2009 – July 31, 2019	0.005	213,765	–	–	–	–	213,765
	July 9, 2012	July 31, 2015 – July 31, 2019	July 31, 2015 – July 31, 2019	0.103	54,413	–	–	–	–	54,413
	March 28, 2014	December 31, 2014 – December 31, 2020 December 31, 2015 – December 31, 2020 December 31, 2016 – December 31, 2020 December 31, 2017 – December 31, 2020 December 31, 2018 – December 31, 2020	December 31, 2014 – December 31, 2020	0.077	1,943,320	–	–	–	–	1,943,320
Other employees										
Employees	October 17, 2005 – March 28, 2015	June 12, 2007 – December 31, 2025	June 12, 2007 – December 31, 2025	0.003 – 0.103	134,896,406	–	–	8,316,664	22,509,775	104,069,967
Total					302,260,940	–	–	8,316,664	31,861,775	262,082,501

Notes:

(1) The weighted average closing price immediately before the dates on which the options were exercised was HK$2.11.

(2) For further details of the Pre-IPO Share Option Scheme, please refer to Appendix V “Statutory and General Information” of the Prospectus and note 26 to the financial statements in this annual report.

B. POST-IPO SHARE OPTION SCHEME

The Company approved and adopted the Post-IPO Share Option Scheme by resolution of its then sole shareholder on December 7, 2015. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules. Options to subscribe for 20,778,137 Shares had been granted (of which no Shares had lapsed) 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.

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

						Number of share options					
Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share *(HK$)*	Closing price per Share immediately before the date of grant *(HK$)*	Outstanding as at January 1, 2016	Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Exercised during the Reporting Period	Outstanding as at December 31, 2016
Other employees	June 22, 2016	June 22, 2016 – June 21, 2026	June 22, 2016 – June 21, 2026	1.204	1.21	–	8,478,137	–	–	–	8,478,137
	September 23, 2016	September 23, 2017 – September 22, 2026	September 23, 2017 – September 22, 2026	2.406	2.30	–	12,300,000	–	–	–	12,300,000
Total				–	–	–	20,778,137	–	–	–	20,778,137

For further details of the Post-IPO Share Option Scheme, please refer to Appendix V "Statutory and General Information" of the Prospectus and note 26 to the financial statements in this annual report.

SUMMARY OF THE SHARE OPTION SCHEMES

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
1.	Purpose	To recognize 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 (1) attract skilled and experienced personnel; (2) incentivize them to remain with the Group; and (3) motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.	To provide participants with the opportunity to acquire proprietary interests in the Company and to encourage 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. The Post-IPO Share Option Scheme will provide the Company with a flexible means of either retaining, incentivizing, rewarding, remunerating, compensating, and/or providing benefits to participants.
2.	Participants	Directors, employees, or consultants of any member of the Group.	The Board may offer to grant an option to any participants as the Board may, in its absolute discretion, select.
3.	Maximum number of Shares to be allotted	As of December 31, 2016, options to subscribe for an aggregate of 262,082,501 Shares were outstanding, representing approximately 15.79% of the issued share capital of the Company as of December 31, 2016. No further option may be granted under the Pre-IPO Share Option Scheme.	The maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme was 160,000,000, representing approximately 9.64% of the issued share capital of the Company as of the date of this annual report.
			The maximum number of Shares that 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.

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
			Options to subscribe for 20,778,137 Shares had been granted (of which no Shares had lapsed) under the Post-IPO Share Option Scheme for the year ended December 31, 2016.
4.	Maximum entitlement of each participant	–	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 December 31, 2025.	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. 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.
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 21 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.

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
7.	Exercise Price	From US$0.003 to US$0.103	The Subscription Price shall be no less than the highest of: (1) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (2) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange); and (3) the nominal value of a Share on the date of grant.
8.	Remaining life of the scheme	The Pre-IPO Share Option Scheme expired on December 30, 2015.	It shall be valid and effective for a period of ten years commencing on December 7, 2015.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of Directors and the five highest paid individuals are set out in note 8 and note 9 to the financial statements in this annual report.

CHANGES TO INFORMATION OF DIRECTORS

Save as disclosed in this annual report, there had 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 during the Reporting Period.

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

As of December 31, 2016, 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:

Long positions in the ordinary shares and underlying Shares of the Company as of December 31, 2016

Name of Director	Capacity/Nature of Interest	Number of Shares held/interested	Approximate Percentage of Shareholding *(%)*
Zhang Fangliang	Interest in controlled corporation*(Notes 1)* and parties acting in concert*(Note 2)*	1,040,948,800	61.53
Wang Luquan	Interest in controlled corporation*(Note 3)*, parties acting in concert*(Note 2)* and beneficial owner*(Note 4)*	1,040,948,800	61.53
Wang Ye	Interest in controlled corporation*(Note 5)*, parties acting in concert*(Note 2)* and beneficial owner*(Note 6)*	1,040,948,800	61.53
Meng Jiange	Beneficial owner*(Note7)*	5,761,960	0.34

Notes:

(1) As of December 31, 2016, Zhang Fangliang held approximately 40.59% of the issued share capital of GS Corp and was deemed, or taken to be interested in, all the Shares held by GS Corp for the purpose of the SFO.

(2) On August 14, 2008, Zhang Fangliang, Wang Luquan, and Wang Ye entered into the GS Corp Shareholder Voting Agreement, whereby Zhang Fangliang, Wang Luquan, and Wang Ye agreed to vote unanimously in the shareholder meetings of GS Corp and, contemporaneously, proxies were conferred by Wang Luquan and Wang Ye to Zhang Fangliang authorizing Zhang Fangliang to vote and exercise all voting and related rights with respect to the shares that each of Wang Luquan and Wang Ye beneficially owned in GS Corp, which held 903,902,024 Shares. On May 29, 2015, Wu Yongmei signed a proxy agreement whereby she conferred all her voting and related rights in relation to all the shares that she owned in GS Corp, i.e. 108,625,000 shares of GS Corp to Zhang Fangliang.

(3) As of December 31, 2016, Wang Luquan held approximately 23.24% in the issued share capital of GS Corp. Pursuant to the GS Corp Shareholder Voting Agreement and for the purpose of the SFO, Wang Luquan was deemed, or taken to be interested in, all the Shares held by GS Corp.

(4) Wang Luquan held 3,886,640 underlying Shares under the options conditionally granted to him under the Pre-IPO Share Option Scheme.

(5) As of December 31, 2016, Wang Ye held approximately 11.76% in the issued share capital of GS Corp. Pursuant to the GS Corp Shareholder Voting Agreement and for the purpose of the SFO, Wang Ye was deemed, or taken to be interested in, all the Shares held by GS Corp.

(6) Wang Ye held 133,160,136 underlying Shares under the options conditionally granted to her under the Pre-IPO Share Option Scheme.

(7) Meng Jiange held 5,761,960 underlying Shares under the options conditionally granted to him under the Pre-IPO Share Option Scheme.

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 spouses 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 spouses or children under 18 years of age, to acquire such rights in any other body corporate at any time during the Year.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As of December 31, 2016, 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 that 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:

Long position in the ordinary shares of the Company as of December 31, 2016

Name	Capacity/Nature of Interest	Number of Shares/ underlying Shares held	Percentage of Shareholding in the Company (%)
GS Corp *(Note 1)*	Beneficial owner	903,902,024	53.43
KPCB China Fund *(Note 2)*	Beneficial owner	216,921,134	12.82
KPCB China Associates Ltd. *(Note 2)*	Interest in controlled corporation	233,198,381	13.78

Notes:

(1) As of December 31, 2016, GS Corp is a company incorporated in the State of Delaware in the United States and owned as to approximately 40.59%, approximately 23.24%, approximately 23.24%, approximately 11.76%, and approximately 1.18% by Zhang Fangliang, Wang Luquan, Wu Yongmei, Wang Ye, and Mu Yingjun, respectively.

(2) KPCB China Fund and KPCB China Founders Fund, L.P. ("**KPCB China Founders Fund**") are exempted limited partnerships established in the Cayman Islands, whose general partner is KPCB China Associates, Ltd. ("**KPCB China**"), a company incorporated in the Cayman Islands. KPCB China has sole voting and investment power over the shares in KPCB China Fund and KPCB China Founders Fund. As of December 31, 2016, KPCB China was deemed to be interested in all 216,921,134 Shares held by KPCB China Fund and 16,277,247 Shares held by KPCB China Founders Fund under the SFO.

Save as disclosed above, as of the date of this annual report, the Directors have not been aware of any person who had interests or short positions in the Shares or underlying Shares that 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 and required to be kept pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION, OR SALE OF THE LISTED SECURITIES

The Group had not purchased, sold, or redeemed any of the Company's listed securities during the year ended December 31, 2016.

PRE-EMPTIVE RIGHTS

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

The controlling shareholders of the Company, namely Zhang Fangliang, Wang Luquan, Wang Ye and GS Corp, or any of them (the "**Controlling Shareholders**"), have signed the deed of non-competition (the "**Deed of Non-competition**") dated December 7, 2015, 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 the Group) (i) not, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm, or company, among other things, carry on, participate, or be interested or engage in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward, or otherwise) any activity or business that competes or is likely to compete, directly or indirectly, with the business of the Group referred to in the Prospectus and any other business from time to time conducted, carried on, or contemplated to be carried on by any member of the Group or in which any member of the Group is engaged or has invested, or which any member of the Group has otherwise publicly announced its intention to enter into, engage in, or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) (the "**Restricted Activity**"), (ii) provide all information requested by the Company that is necessary for an annual review by our independent non-executive Directors of its compliance with the Deed of Non-competition and the enforcement of the Deed of Non-competition, (iii) procure the Company to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition, either through the annual report or by way of announcement(s) to the public, and (iv) make an annual declaration on compliance with its undertaking under the Deed of Non-competition in the annual reports of the Company as our independent non-executive Directors think fit and/or as required by the relevant requirements under the Listing Rules. 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 year ended December 31, 2016.

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 year ended December 31, 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this annual report, as at December 31, 2016, no Director or any of their close associates had any interests in any business that competed or was likely to compete, either directly or indirectly, with the business of the Group.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2016, the Company had no connected transactions or continuing connected transactions that were 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 December 31, 2016, please refer to note 33 to the financial statements in 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 DONATIONS

During the year ended December 31, 2016, donations made by the Group for charitable and community purposes amounted to approximately US$0.3 million.

MATERIAL LEGAL PROCEEDINGS

As of December 31, 2016, the Group was not involved in any material litigation or arbitration, and no material litigation or claim was pending or threatened against 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 2016 and the financial statements for the year ended December 31, 2016 prepared in accordance with the HKFRS.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining the highest standards of corporate governance practices. 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. During the Reporting Period, save as disclosed in the Corporate Governance Report, the Company has complied with the mandatory code provisions of the CG Code. For details, please refer to the Corporate Governance Report on pages 55 to 70 in this annual report.

SUFFICIENCY OF 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 than 25% of the Company's issued share capital as required under the Listing Rules as of 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.

AUDITORS

Ernst & Young, Certified Public Accountants ("**Ernst & Young**") was appointed as the auditors to audit the financial statements prepared in accordance with the HKFRS for the year ended December 31, 2016. Ernst & Young shall retire at the forthcoming AGM and is eligible and has offered itself for re-election. The resolution regarding the re-appointment of Ernst & Young as the auditors, of the Company will be proposed at the forthcoming AGM.

BUSINESS REVIEW PURSUANT TO SCHEDULE 5 OF THE COMPANIES ORDINANCE (CHAPTER 622 OF THE LAWS OF HONG KONG)

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the Reporting Period and the material factors underlying its results and financial position are provided in the section headed "Management Discussion and Analysis" from pages 11 to 22 of this annual report.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group include commercial, operational and financial risks.

Commercial risks

The Group is facing keen competition with other life sciences research and application services and products providers. To maintain the Group's competitiveness, the management uses cost leadership strategy as well as diversifies its business strategies to outperform other competitors.

Operational risks

The Group is exposed to operational risks associated with each business segment of the Group. To manage the operational risks, the senior management regularly reviews the Group's operations to ensure that the Group's risks of losses, whether financial or otherwise, resulting from fraud, errors, omissions and other operational and compliance matters, are adequately managed. The senior management is also responsible for overseeing the implementation of the Group's risk management policies and procedures and shall report any irregularities to the Directors and seek directions. The Group emphasizes ethical values and prevention of fraud and bribery. In this regard, the Directors consider that the Group's operational risks are effectively mitigated.

Financial risks

The principle financial risks are set out in the note 35 to the financial statements in this report headed "Financial Risk Management Objectives and Policies".

Important Events

On December 29, 2016, the Company and (a) China Resources Pharmaceutical Group Limited and (b) China Resources Pharmaceutical Industry Development (Beijing) Co., Ltd. (collectively the "**China Resources Parties**") (both of which China Resources Group is the controlling shareholder) have entered into a further framework agreement (the "**Framework Agreement**") to elaborate certain details of the strategic framework agreement entered into between the Company and China Resources Strategic Investment Company Limited on December 11, 2015. The strategic cooperation between the Company and the China Resources Parties would be conducting research and development of a biotechnology (the "**Project**"). Please refer to the announcement dated December 29, 2016 for details of the Framework Agreement. On March 16, 2017, the Company and the China Resources Parties have entered into a termination agreement (the "**Termination Agreement**") to terminate the Framework Agreement. Please refer to the announcement dated the same date for details of the Termination Agreement.

Future Development

Looking forward to 2017, the Group remains focused on implementing our 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.

Financial Key Performance Indicators

A summary of the results and assets and liabilities of the Company for the last five financial years is set out on page 6 in this annual report. This summary does not form part of the audited consolidated financial statements.

Environmental Policies and Performance

The Group has implemented an internal recycling program pursuant to which waste water will be treated at the internal waste water recycling plant. Recycled water may be reused to save the world's natural resources.

The Group has also adopted a materials saving practice in connection with the production process. Such practice has resulted into a significant reduction on the amount of materials consumption and liquid waste emission when compared with the former production process.

Compliance With Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licenses. The Group has implemented procedures to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators through effective communications. During the year under review, the Group has complied, to the best of our knowledge, with the SFO, the Listing Rules, and other relevant rules and regulations.

Relationships With Employees

The Group encouraged the employees to enhance their competitiveness and ability to innovate new services and products. This raised the momentum in the research and development as well as marketing efforts to increase the revenue of the Group. Through solidifying its business foundation and adjusting its operation directives, the Group is striving to forge ahead under adverse conditions to allow us to achieve new progresses in terms of production and operation under a positive and hardworking work culture.

Relationships With Customers and Suppliers

We had 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. The Group strives to “make research easy” by offering life sciences research and application services and products for conducting fundamental life sciences research, translational biomedical research, and early stage pharmaceutical development. Our synthetic biology products are used by industry users, such as those in the food and feed industries. In 2016, we expanded the range of our services and products and developed new customer accounts. The total number of customers increased by approximately 3.8% compared to the total number of customers in 2015.

Owing to our vast array of services and products, we procure a wide variety of raw materials from a large number of suppliers for our business segments. As of December 31, 2016, we had a total of approximately 280 suppliers of different raw materials for our production that are mostly located in China. In 2016, we maintained sound relationships with our suppliers such that we could meet business challenges and comply with regulatory requirements, thereby deriving cost effectiveness and reaping long term business benefits.

By order of the Board

Dr. Zhang Fangliang
Chairman and Chief Executive Officer

Hong Kong, March 20, 2017

The Board is pleased to present this corporate governance report as set out in the annual report of the Company for the year ended December 31, 2016.

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 in effect from time to time) as its own code of corporate governance.

Save as disclosed in this corporate governance report on pages 57 and 58 regarding the deviation from code provision A.2.1 of the CG Code, the Company has complied with all 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 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 Remuneration Committee, the Nomination Committee, and the Sanctions Risks Control Committee (together, the "**Board Committees**"). The Board has delegated responsibilities to the Board Committees 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.

Board Composition

As of the date of this annual report, the Board comprises nine members, consisting of three executive Directors, three non-executive Directors, and three independent non-executive Directors as set out below:

Executive Directors

Dr. Zhang Fangliang *(chairman and chief executive officer)*
Ms. Wang Ye *(chief operating officer)*
Mr. Meng Jiange *(vice president of finance)*

Non-executive Directors

Dr. Wang Luquan
Mr. Huang Zuie-Chin *(also known as James Zuie Huang)*
Mr. Pan Yuexin

Independent non-executive Directors

Mr. Guo Hongxin
Mr. Dai Zumian
Ms. Zhang Min

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

During the year ended December 31, 2016 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/her independence pursuant to Rule 3.13 of the Listing Rules, and the Company considers each of them to be independent.

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, and the Nomination Committee.

With regards to the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments, as well as their identities and the times involved in 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 the latest developments 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.

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	
Zhang Fangliang	✔
Wang Ye	✔
Meng Jiange	✔
Non-executive Director	
Wang Luquan	✔
Huang Zuie-Chin *(also known as James Zuie Huang)*	✔
Pan Yuexin	✔
Independent non-executive Directors	
Guo Hongxin	✔
Dai Zumian	✔
Zhang Min	✔

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 Company deviates from this provision because Zhang Fangliang has been assuming the roles of both the chairman of the Board and the chief executive officer of the Company during the Reporting Period. 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.

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 December 1, 2015, which can be terminated before the expiration of the term by not less than six months' notice in writing served by either party on the other.

Each of the non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from August 24, 2015. Their appointments are subject to termination in accordance with their respective terms.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from August 24, 2015. Their appointments are subject to termination in accordance with their respective terms.

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

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 by rotation at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company 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 following 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 14 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, a reasonable 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 Board committee meetings will be recorded in sufficient details for the matters considered by the Board and the Board 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 Reporting Period, the Board held five meetings on March 25, 2016, April 6, 2016, June 17, 2016, August 28, 2016 and November 28, 2016 to cover the following aspects:

(a) to consider and review the financial statement for the year ended December 31, 2015 and for the six-month period ended June 30, 2016 and matters concerning corporate governance and management;

(b) to discuss the overall strategies of the Group, monitor the financial and operational performance, and approve the annual and interim results of the Group;

(c) to consider and approve the external investments;

(d) to consider and discuss matters concerning the implementation of the Share Option Schemes; and

(e) to consider and discuss matters relating to sanctions.

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

Name of Directors	Attended/Eligible to attend Board meetings	Attended/Eligible to attend General Meeting
Zhang Fangliang	5/5	1/1
Wang Ye	5/5	1/1
Meng Jiange	5/5	1/1
Wang Luquan	5/5	1/1
Huang Zuie-Chin *(also known as James Zuie Huang)*	4/5	1/1
Pan Yuexin	5/5	1/1
Guo Hongxin	5/5	1/1
Dai Zumian	5/5	1/1
Zhang Min	3/5	0/1

The Company's external auditors also attended the annual general meeting of the Company held on June 1, 2016.

During the Reporting Period, the chairman of the Board met with the independent non-executive Directors without the presence of the other executive Directors to discuss and obtain independent advice on the business operations and financial condition of the Company.

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 than 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.

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 recognizes that corporate governance shall be the collective responsibility of the 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 Remuneration Committee.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee currently comprises three members, including an executive Director, namely, Dr. Zhang Fangliang (chairman of the Nomination Committee) and two independent non-executive Directors, namely, Zhang Min, and Dai Zumian.

The principal duties of the Nomination Committee include:

1. to review the structure, size, composition, and diversity (including but not limited to the gender, age, educational background or professional experience, skills, knowledge, and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

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

4. to make recommendations to the Board on the appointment or reappointment of members of the Board and succession planning for members of the Board; and

5. to review the board diversity policy as appropriate to ensure its effectiveness and if necessary, recommend any revision suggestions to the Board for consideration and approval.

The written terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code and 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 that 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 to the benefits of diversity on the Board.

During the Reporting Period, the Nomination Committee held one meeting on March 25, 2016. The specific agenda of the Nomination Committee covered the following aspects:

(a) to review the structure, size, composition and diversity of the Board;

(b) to review the Company's board diversity policy; and

(c) to assess the independence of the independent non-executive directors of the Company.

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**
Zhang Fangliang *(chairman)*	1/1
Zhang Min	1/1
Dai Zumian	1/1

Remuneration Committee

The Remuneration Committee currently comprises three members, including two independent non-executive directors, namely, Guo Hongxin (chairman of the Remuneration Committee) and Dai Zumian, and an executive director, namely, Wang Ye.

The principal duties of the Remuneration Committee include:

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

2. to make recommendations to the Board of the remuneration of members of the Board who are non-executive Directors;

3. to consult with the chairman and/or the chief executive officer of the Company and, where deemed appropriate, senior management members about the Committee's proposals relating to, and have the delegated responsibility to determine, the specific remuneration packages for the employment of all members of the Board who are executive directors and all senior management members, including benefits in kind, pension rights, and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. to review and approve performance-based remuneration payable to members of the Board who are executive directors, and senior management members by reference to corporate goals and objectives resolved by the Board from time to time and other measures of performance;

5. to review and approve any compensation additional to that provided for in the remuneration packages determined according to paragraph 3 above, which is payable to members of the Board who are executive directors and senior management members in connection with any loss or termination of their offices or appointments to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

6. to review and approve compensation arrangements relating to dismissal or removal of members of the Board who are executive directors and senior management members for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

7. to ensure that no member of the Board or the senior management members or any of his/her associates is involved in deciding his own individual remuneration;

8. to determine the participation of members of the Board who are executive directors, senior management members, and other employees of the Company in any discretionary employee share or other share-based incentive schemes operated by the Company;

9. to determine targets for any Company-wide performance-related payments for members of the Board who are executive directors and senior management members and individual incentives for members of the Board who are executive directors and senior management members;

10. to determine the provision of benefits and settlement of other provisions under the terms of the service agreements or otherwise of members of the Board who are executive directors and senior management members where these are stated as being at the discretion of the Board;

11. to operate and administer the Company's share option schemes or other incentive schemes (if any) as may be from time to time adopted by the Company; and

12. to review and monitor the training record and continuous professional development of the Directors and senior management of the Company.

The written terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code and available on the websites of the Stock Exchange and the Company.

During the Reporting Period, the Remuneration Committee held five meetings on March 25, 2016, June 17, 2016, July 8, 2016, August 28, 2016, and November 28, 2016 to cover the following aspects:

(a) to determine the remuneration policy and structure of Directors and senior management and evaluate and make adjustment to the remuneration of the Directors and senior management; and

(b) to consider and discuss matters concerning the implementation of the Share Option Schemes.

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**
Guo Hongxin *(chairman)*	5/5
Wang Ye	5/5
Dai Zumian	5/5

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended December 31, 2016 are set out in note 8 to the financial statements in this annual report.

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 December 31, 2016 is within the range below:

Range of remuneration	Number of Persons
Nil to HK$1,000,000 (equivalent to approximately US$129,000)	2
Between HK$1,000,000 and HK$2,000,000 (equivalent to approximately US$129,000 and US$258,000)	1
Between HK$2,000,000 and HK$3,000,000 (equivalent to approximately US$258,000 and US$387,000)	1

Audit Committee

The Audit Committee currently comprises three members, namely, Dai Zumian (chairman of the Audit Committee), Zhang Min, and 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 written terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code and available on the websites of the Stock Exchange and the Company.

During the Reporting Period, the Audit Committee held three meetings on March 25, 2016, June 17, 2016 and August 28, 2016. The specific agenda of the Audit Committee covered the following aspects:

(a) to consider and review the financial statement for the year ended December 31, 2015 and for the six-month period ended June 30, 2016; and

(b) to review audit planning, the financial reporting system, compliance procedures, internal audit function, risk management and internal control system and procedures and re-appointment of external auditor.

The requirements for Environment, Social and Governance Reporting were duly noted by the Audit Committee.

The attendance record of each committee member 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
Dai Zumian *(chairman)*	3/3
Zhang Min	2/3
Guo Hongxin	3/3

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

Sanctions Risk Control Committee

The Sanctions Risk Control Committee is headed by Zhang Fangliang (chairman), Wang Ye, Meng Jiange, Dong Nan, Eric Wang, and Shawn Wu as members.

The principal duties of the Sanctions Risk Control Committee include:

1. to effectively monitor the activities that may be subject to economic sanctions;

2. to provide guidance on the compliance with the relevant policies and procedures in relation to economic sanctions;

3. to provide guidance on the compliance with contractual covenants including those made in connection with the Global Offering and Listing; and

4. to ensure the establishment of effective policies in relation to economic sanctions.

During the Reporting Period, the Sanctions Risk Control Committee held four meetings on March 22, 2016, July 12, 2016, August 25, 2016 and November 29, 2016 to cover the following aspects:

(a) to discuss items regarding any sanctions related risks on the Group's commercial or other business activities;

(b) to review the activities that may be subject to economic sanctions;

(c) to review relevant policies and procedures in relation to economic sanctions;

(d) to review guidance on the compliance with contractual covenants; and

(e) to review the use of proceeds from the global offering.

The attendance record of each committee member of the Sanctions Risk and Control Committee meeting held by the Company is set out in the table below:

Name of Committee Member	Committee meetings attended/ eligible to attend
Zhang Fangliang	4/4
Wang Ye	3/4
Meng Jiange	4/4
Dong Nan	4/4
Eric Wang	2/4
Shawn Wu	4/4

The Sanctions Risk Control Committee has reviewed the sales of the Group to the Sanctioned Countries (as defined and disclosed in the Prospectus) for the year ended December 31, 2016 and the relevant legal opinions from the Company's legal adviser as to international sanctions laws to monitor the Group's exposure to risks of sanctions violations.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the consolidated financial statements of the Company for the year ended December 31, 2016, 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 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 have not been aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the independent auditors of the Company regarding their reporting responsibilities for the audit of the consolidated financial statements of the Company is set out in the independent auditors' report on pages 97 to 101 in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Group's internal audit department plays an important role in monitoring the internal governance of the Company. The major duties of internal audit department are to regulate and review the internal control and compliance related matters of the Company and conduct comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Group's internal audit department performs regular evaluation on the effectiveness of risk control measures taken by each operating department and issues an appraisal report which shall be submitted to our Audit Committee for approval.

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

The Company has established a risk management process, pursuant to which each operating department is required to identify any significant risks associated with their work and corporate strategies of the Company. Based on the assessment of the identified risks in terms of their likelihood and potential impact, the Company prioritizes and pairs each risk with a mitigation plan. Furthermore, any emergencies are required to be reported, evaluated and managed in time to mitigate the impact.

The Group has established a three-tier risk control corporate structure in implementing our internal control and risk management policies and procedures. First, the Board and the senior management oversee and manage the overall risks associated with our business operations. Second, the Audit Committee provides the Directors with an independent review of the effectiveness of the financial reporting process, internal controls, and risk management system of the Group. Third, the Group's internal audit department supervises the implementation of our risk management policy at the corporate level and organizes an annual audit progress for regularly evaluating the effectiveness of the risk management and internal control measures taken by each operating department and issues an appraisal report which shall be submitted to the Audit Committee for approval.

The Board is responsible for the management of inside information. Without the approval of the Board, the Company prohibits any inside information from being disclosed to the public.

AUDITORS' REMUNERATION

For the audit of the Group's consolidated financial statements for the year ended December 31, 2016, the total remuneration paid or payable to the Company's extemal auditors, Ernst & Young, for audit and audit related services amounted to US$399,000.

COMPANY SECRETARY

Ms. Wong Wai Ling was appointed as the company secretary of the Company with effect from August 24, 2015. She has over 10 years of experience in providing company secretarial services in Hong Kong. Ms. Wong is an assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. Ms. Wong is an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Wong's primary corporate contact person at the Company is Mr. Meng Jiange, the Vice President of the Finance.

Ms. Wong 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 December 31, 2016.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The annual general meeting of the Company provides an opportunity for shareholders to communicate directly with the Directors. The chairman of the Company and chairmen of the Board Committees, or in their absence, their duly appointed delegates will attend the annual general meeting to answer shareholders' questions. The external auditors 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 auditors independence.

To promote effective communication, the Company adopts a shareholders' communication policy that aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website at www.genscript.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 Stock Exchange in a timely manner after each general meeting.

CONVENING EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS

In accordance with the Articles, extraordinary general meetings shall also be convened on the requisition of one or more Shareholders' holdings, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings.

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

With regards to 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 inquiries about the Company to the Board could email their inquiries to our Investor Relations Department at the email address: investorrelations@genscript.com. The Company will not normally deal with verbal or anonymous inquires.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles of the Company were adopted by the Company on December 7, 2015 and became effective on the Listing Date. There is no significant change in the Company's constitutional documents during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GENSCRIPT ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTS 2016

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ABOUT THIS REPORT

Overview

This report is the first Environment, Social, Governance Report published by Genscript Biotech Corporation (hereinafter "**Genscript**", the "**company**", or "**we**"), which discloses information on our service responsibility, team building and staff development, animal rights, integrity, health and safety, and environmental protection. The reporting year of this report is in alignment with our fiscal year.

Basis for compiling the report

This report was compiled in accordance with the "Environmental, Social and Governance Reporting Guide ("**ESG Guide**") published by the Hong Kong Stock Exchange Limited, with an aim to inform relevant parties and stakeholders of our policies, measures and performance regarding environmental, social and governance ("**ESG**") issues. The content of this report was determined by a set of procedures, including identifying and prioritizing stakeholders, identifying and prioritizing material environmental, social and governance issues, collecting environmental metrics, and verification of the reported metrics.

Reporting scope and boundary

The content and metrics reported in this document cover Genscript Biotech Corporation and its fully-owned subsidiaries.

Sources of data and assurance to reliability

The data and case studies reported in this document were prepared based on our internal statistical reports, internal policy documents and other internal documents. The Board hereby confirms that no false or misleading statements were made in this report. The Board takes full responsibility for the report's authenticity, accuracy and completeness.

Board approval

Upon management review, this report was approved by the Board on March 20, 2017.

During the reporting year of this report, the Company has complied with the "comply or explain" provisions set out in the ESG Guide.

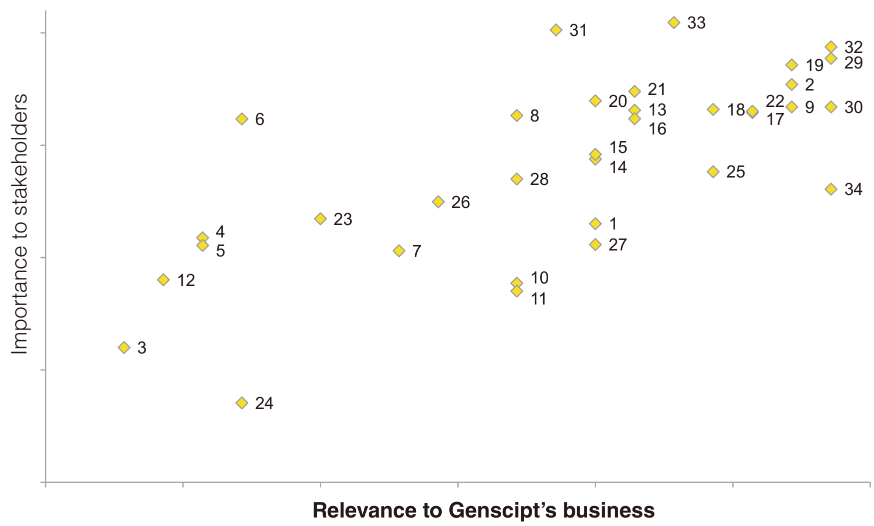
Stakeholder engagement and materiality analysis

We believe comments from our stakeholders will help us to evaluate our performance on environmental, social and governance aspects objectively and comprehensively. As part of our day-to-day operation, we engage our stakeholders through various channels to understand how we can do better on ESG issues.

Since this is the first year of publishing an ESG Report, we have engaged a professional third party to design and implement a specific stakeholder engagement exercise and evaluate how we have been impacting our stakeholders. The targeted stakeholders were employees, customers and suppliers, and were engaged through online surveys and individual interviews. Through an analysis of the findings of the stakeholder engagement, we have summarized how our stakeholders understand and comment on our ESG performance, and their expectations for our future work. Their comments are valuable to our future strategies.

Stakeholder engagement findings and discussion with senior management on the relevance of ESG issues to our business prospects are key to the determination of the materiality of the respective ESG issues. The results are presented as below:

Environmental, Social and Governance Aspects Materiality Matrix for Genscript



The issues blanketed in the shaded area of the Materiality Matrix are important to stakeholders and are more relevant to Genscript's business. Material issues are listed as follows. We will discuss the respective policies, management approach and performance thoroughly in this report:

Number	Subject	ESG aspects
2	Environment	Hazardous waste
9		Compliance with environmental regulations
13	Employment	Employee benefits and remuneration
15		Fair recruitment and reward mechanism
16		Non-discrimination
17		Compliance with labor regulations
18		Employee care and retention
19		Health and safety
20		Training and development
21		Child and forced labor
22	Governance and community	Anti-corruption
25		Animal rights
29	Product responsibility	Intellectual property rights
30		Compliance with product and service-related regulations
31		After-sales services and response to customers
32		Customer privacy
33		Enhancement of product and service quality
34		Biosecurity

Aspects that are not considered material are as follows:

Number	Subject	ESG aspects
1	Environment	Non-hazardous waste
3		Packaging material
4		Energy consumption
5		Carbon footprint
6		Emission of air pollutants
7		Water consumption
8		Discharge of sewage
10		Providing products and services that enhance sustainability
11		Avoiding impact on natural habitats
12		Helping suppliers to limit their environmental impact
14	Employment	Fair working hours and holidays
23	Governance and community	Supply chain ESG management
24		Supplier diversity
26		Community development
27	Product responsibility	Protecting customer health and safety
28		Clear labelling of products

FOREWORD

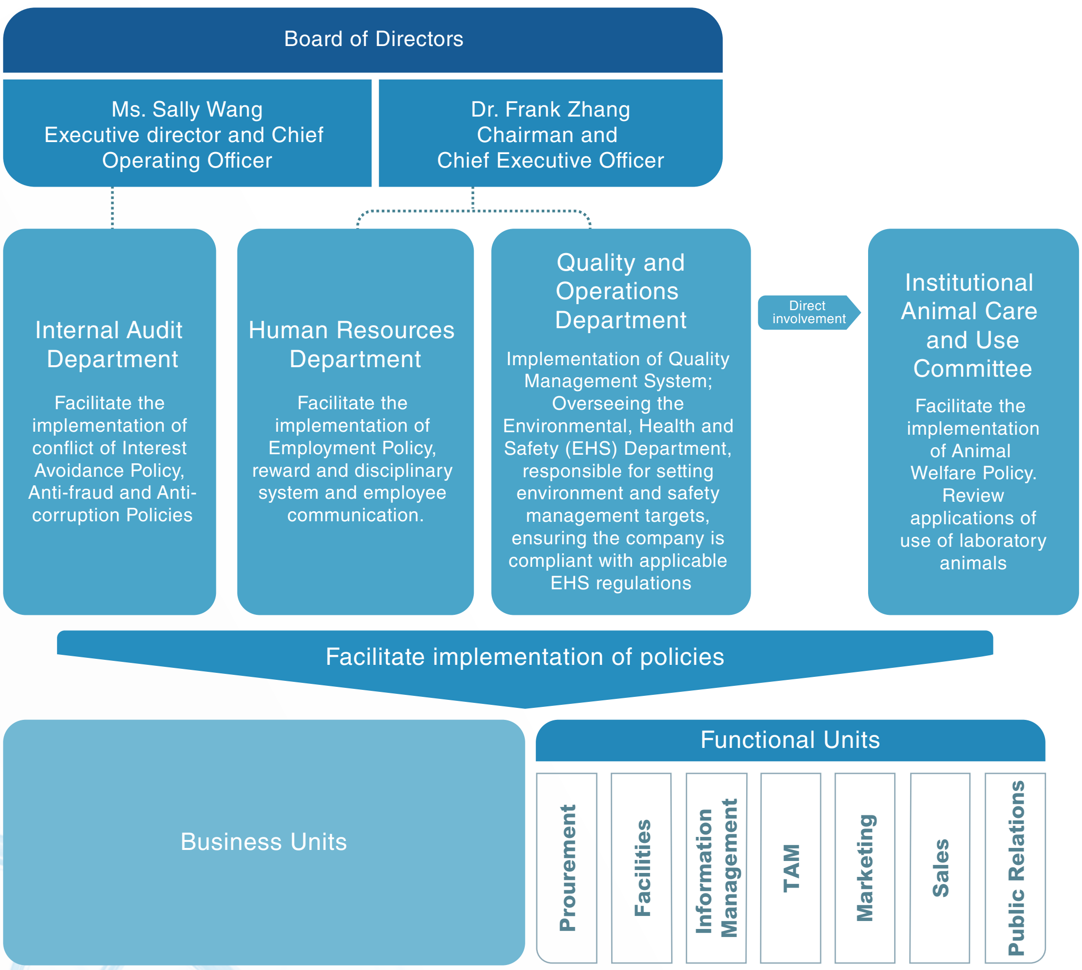
Since our inauguration in 2002, Genscript has been a well-recognized life sciences research and application service and product provider. Our vision is to make life sciences research easy, spearhead development of biotechnology, and create the greatest value for society and our employees. With courage and innovation, in just 15 years we have successfully grown from a start-up to a global leader in the gene synthesis and DNA synthesis service market. Moreover, our success is an outcome of our determination to our vision. We insist on benefitting the environment, society and employees by leveraging our research and production capabilities, and the integrity we uphold. As such, we have won support from our shareholders and stakeholders.

This is the first report in which we discuss our environmental, social and governance aspects in detail. This is an opportunity to be more transparent to our stakeholders, for conveying our ideals, and also for us to reflect on how we perform in environmental and social aspects. In the future, Genscript will continue to enhance our governance on environmental and social performance, so as to become a more respectable business.

OUR GOVERNANCE OF ENVIRONMENTAL AND SOCIAL PERFORMANCE

Our Chief Executive Officer, Dr. Zhang Fangliang, and Chief Operating Officer, Ms. Wang Ye, lead the implementation of ESG programs. The Internal Audit Department, Quality Department and Human Resources Department are responsible for facilitating the implementation of ESG policies at business units and other internal functions.

ESG Management structure of Genscript



BRAVERY IN INNOVATION

A value-creating business – this is what we have aim to be. We achieve this goal by leveraging our biological science research competence to create a positive impact on the world. Our research saves lives by catalyzing bio-pharmaceutical research and development. Our services make biological sciences research more efficient by shortening the time required for biotechnology research procedures. Since we are brave in taking innovative steps, we have contributed to breakthroughs in medical and biological science research over the years – thus living out our value.

Saving lives

As a leading gene synthesis service provider, Genscript has played a key role in accelerating the response to the Zika virus outbreak by swift delivery of DNA constructs to governmental agencies and research institutions. The DNA constructs are being used for the development of a vaccine against the virus. The Zika virus is transmitted primarily through the bite of the Aedes mosquito. Since 2015 viral infections have been on the rise, with the most recent cases appearing in numerous countries across Africa. Evidence suggests that Zika infections in pregnant women are linked to the development of microcephaly, a neurodevelopmental disorder, in newborn children.

Time is of the essence when facing the outbreak of a virus like Zika. It is important to be able to deliver the bio-reagents that researchers need for vaccine development with high quality and rapid speed. Genscript has invested in developing express gene synthesis technologies that can deliver DNA constructs in as quickly as four business days, which is a leading turnaround time in the industry. This technology helps researchers to shorten vaccine development time and significantly improve their response time to pandemics, and thus save lives.

Genscript has a history of providing DNA constructs to researchers at record speed during times of viral outbreak. In response to an H7N9 outbreak in 2013, the company delivered DNA constructs that encoded key vaccine proteins to a clinical vaccine company in just six business days. The constructs were used to expedite the development of an H7N9 vaccine that was ready for pre-clinical trials in just 28 days, less than six weeks after initial reports of H7N9 infections.

Making research easy

In 2016, Genscript launched the new CRISPR-based Yeast Genome Editing Service. We are the first company to provide service of its kind commercially. CRISPR/Cas9 genome-editing technology is used by biologists in nearly every area of genetic research to delete, repair or replace genes. The technology is considered more efficient and more precise than previous gene-editing techniques. However, this technique has yet to be applied to yeast genome. Genscript has made this technique commercially available so as to accelerate research which leverage yeasts as model organisms, which are commonly used. Our delivery of custom yeast strains edited with the precision afforded by CRISPR are poised to advance disease pathway studies, engineering of metabolic pathways, and production of biomolecules.

ACCOUNTABLE TO CUSTOMERS

"Be accountable to customers" is one of the core values of Genscript. Where we see customers' need as our top priority, we are able to maintain a culture to deliver on time with high quality, and to communicate with customers proactively. We have won the trust of our customers, who have driven our rapid growth in the last 15 years.

Robust quality control

Quality is fundamental to a business. We would only be trusted if we are able to deliver our products with quality. Our quality principles are stable, innovative, on time, professional, and continuous improvement. We aim to complete a task well the first time. We implement a quality management system certified to ISO9001. Every process across our production lines is rigorously monitored and checked, so as to ensure we are up to the customers' standards from selection of raw materials to operation of apparatus.

Through robust screening mechanism and testing through mass spectrometry, we select the best raw materials. We have set up project management teams to systematically manage customers' orders. Based on the specific requirements on the order, we conduct careful checks at each production stage, and do not launch the next stage unless we can confirm that specific requirements have been met. We strictly follow the required Standard Operating Procedure (SOP). Apparatuses are maintained by dedicated personnel. The production environment is maintained under the 6S standard to prevent our products from contamination. Finally, before the product is shipped, the quality will be checked again. We do not ship products if they do not pass our quality checks.

Genscript regularly runs quality training for employees and we raise their awareness of quality assurance through assessments. Among teams, there are frequent exchanges on challenges encountered and respective solutions of day-to-day work. As such, we inspire one another to follow an innovative improvement approach to enhance work efficiency and quality.

Offering the best service

Apart from assuring product quality, being attentive to customers' feedback and responding to their needs on time is also a key pillar of building trust. We are well recognized by our customers in this area.

We invite our customers to take our satisfaction survey after the product has been shipped to solicit any comments on our product quality, customer service quality and their overall experience with us. The survey is circulated regularly, and is available within the ordering interface. Our survey is designed for both the overseas and Chinese markets. The Quality Department is responsible for preparing monthly customer satisfactory reports to management.

We welcome customer opinions with an open mind. We treat their comments seriously and identify solutions to improve our work. For example, our international clients commented on how to improve the layout of our online ordering system such that desired information can be more easily spotted. Our IT Department quickly incorporated the comments into system improvements. We have also introduced the FAQ page on our website as per customers' request to give quick reference on professional knowledge.

Customer complaints are opportunities to us. First, we learn from complaints. Second, we are able to build trust if complaints are resolved well. A Customer Relationship Specialist is appointed to process complaints from the International and Chinese markets. All cases will be forward to the relevant departments at headquarters for investigation. The results of the investigation will be passed back to the Complaint Handling Manager, who in turn will respond to the customer.

In 2016, the average customer satisfaction score of Genscript was 87.6.

In 2016, Genscript received 322 customer complaints, all of which were resolved.

Security of confidential information

Genscript is entrusted with confidential information from customers as we process orders. Ensuring we protect confidential information is a crucial part of strengthening customer confidence.

Our Information Management Department is responsible for daily monitoring as to ensure customer data is accessed and used within an appropriate area. The department produces access records to track data daily and detect unauthorized access through regular analysis. Document encryption and strict access authorization effectively controls flow of data and avoids inappropriate use of confidential data. To further protect our computer system from virus and attacks, we are partnering with a third party to analyses and monitor our computers.

Our staff handbook outlines the importance of confidential information protection, and describes in detail the obligation of our employees in securing confidential information. We require our employees to stay alert to confidential information security and handle confidential information with care. Clear guidance on destruction of confidential information and procedures in unfortunate cases of exposure is provided to employees.

UNITED TO WIN

With common goals in mind, Genscript members are empowered to give their best. Genscript focuses on nurturing responsibility and pride for the organization. When we are united as one, we will enjoy the fruits of victory.

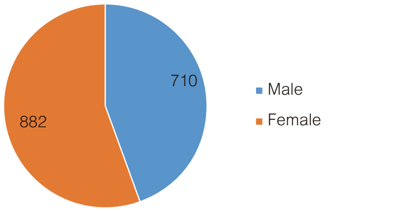
Our people strategy

As the spearhead of the biotechnology field, talents who possess professional knowledge, ethical values and sound experience, and pursue excellence are the cornerstones for Genscript's continuous improvement. The company is committed to offering desirable work and living conditions, reasonable remuneration and comprehensive benefits, and we do our best to become an employer that our employees are proud of.

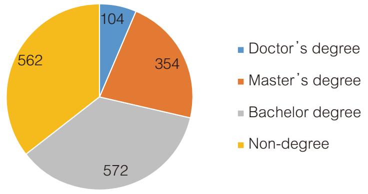
A diverse team is beneficial to Genscript's overall capability development. We have a non-discrimination policy and promote fair recruiting and promotion. We are a champion of gender equality and welcome female colleagues to take managerial roles. We assess the competence of employees through our qualification system, so as to fairly evaluate the actual capability of employees without considering external factors such as academic background, age and gender. Genscript complies with local labor regulations, and our employment policies are available in the staff handbook. Our policies ensure all employees are equally treated in recruitment, promotion, dismissal and offer of benefits and remuneration.

	Male	**Female**	**Total**
Total	710	882	1,592
Breakdown by academic qualification			
Doctors	61	43	104
Masters	142	212	354
Bachelors	272	300	572
Non-degree	235	327	562
Breakdown by age			
< 30	417	585	1,002
30–50	273	280	553
> 50	20	17	37
Breakdown by region			
Mainland China	658	825	1,483
United States	50	53	103
Others	2	4	6
Breakdown by job nature			
Production	388	538	926
Sales and marketing	86	129	215
Research and development	79	83	162
Administration	108	106	214
Management	49	26	75

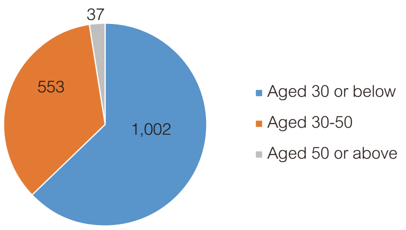
Number of employees of Genscript as at December 31, 2016



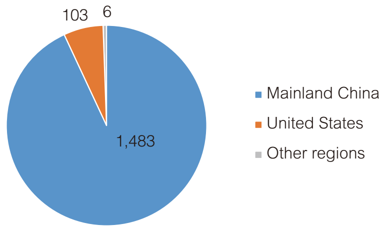
Breakdown by gender



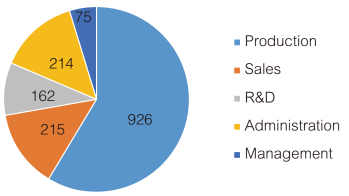
Breakdown by academic qualifications



Breakdown by age



Breakdown by region



Breakdown by job nature

Case: Hiring local labor

As a biotechnology business, we hire talents who have specific qualifications and experience. Yet, as one of the major employers of the Nanjing City, we see creating job for locals and revitalizing the local economy as a social responsibility. Therefore, we hire locals who may have received less academic training and have substantial work experience as laboratory assistants. Their tasks are relatively simple but must operate manually, and professional knowledge is not required for such positions. As of December 31, 2016, Genscript had hired 27 local assistants. We are considering expanding the scale of hiring in the future.

Employee benefits

On top of the statutory labor benefits where we operate, we introduce a caring package of employee benefits. In China, we offer accommodations, travel, meal and festival subsidies, arrange annual health checks and purchase critical illness and incident protection insurance. Our accommodations are offered to employees at a minimal rate. New recruits at entry level even enjoy one year of free accommodations to help them become familiarized with their new working environment and neighborhood. During festivals, we give out gifts as to celebrate the holiday together. Upon 3 years of service, Genscript employees are entitled to one additional day of annual leave every year in accumulation.

Genscript has established the Caring Fund to support employees with critical needs financially, and ease the burden on their families. For employees who suffer from critical illnesses, the Caring Fund will determine the sponsoring plans and offer medical subsidies in different amounts.

Two-way communication

We highly value open and frank exchanges in the company, and highlight the building of trust, empathy and confidence between management and employees. Management is eager to listen to and understand the needs of employees. Therefore, we have established a number of two-way communication channels, enabling employees to speak up and get feedback from management quickly.

"Rui-yi" is the company magazine of Genscript. Edited by the Human Resources Department, it is a key channel for conveying the company's messages to all employees. The magazine covers corporate news, corporate cultural stories, announcements and employee sharing. We request employees to contribute to the magazine regularly, and encourage everyone to share their thoughts and their interesting stories outside work. In the magazine, we also respond to what we have heard from the employees. Where Rui-yi has been mainly a Chinese publication, in recent issues we have introduced English content for employees based in the US.

Our intranet platform is named the “Golden Home”. This is a platform where employees can provide comments anonymously. Genscript management responds to these comments to acquire an understanding of their context. This has effectively enhanced employee confidence in the Company. This platform is primarily in Chinese.

To systematically understand and analyses employee satisfaction, an employee survey is conducted annually. This is another opportunity in which employees can provide comments and suggestions to Genscript. The results are available to department heads, who then make action plans that address specific gaps.

Case: Star Program

The Star Program is a recognition scheme which celebrates employees who live out Genscript’s corporate culture and core values. The Program aims to drive such noble behavior as well. Our core values are “customer first”, “be accountable”, “brave innovation”, and “team spirit”. Departments can nominate awardees by presenting their stories in a Situation, Task, Action and Results format. The Program has run for more than four years. In accumulation, we have received over 6,000 stories, which have all been displayed in public areas of the Nanjing headquarters.

Promoting work-life balance

One should strive for a balance between work and personal life. Sufficient rest results in high work efficiency. It is not our policy to encourage overtime work, and we limit the overtime working hours allowed. In case of overtime work, we require the respective departments to arrange leave as compensation to avoid burn-out. We also do not encourage long business trips and limit the allowable period of business trips.

Beside, we also organize cultural and recreational activities to enrich the lives of our employees. Activities include anniversary events, sports galas, annual dinners and spring picnics. For US-based employees, the company celebrates the Mid-Autumn Festival, Thanksgiving and Christmas.

Case: Keep running!

Our CEO Dr. Zhang Fangliang ("**Frank**") loves running. In a management meeting in May 2014, Frank suggested everyone attending the October Strategic Meeting, who are mostly middle managers and above, go running before the meeting – 5,000m for males and 3,000m for females. Everyone managed to finish that. This kick started the managers' tradition of running.

In a meeting in May 2015, our COO Ms. Wang Ye ("**Sally**") announced that everyone, regardless the gender, needs to run 10km before the October Strategic Meeting. Managers were assigned to groups with friendly inter-group competition. In order to not to let anyone down, the managers started to practice running in their leisure time. Everyone managed to finish the 10km run.

Finally, during the Annual Dinner in January, Frank called for all employees to run for 60km per month. Frank, Sally and our Vice President of Strategy Dr. Zhu Li, who was over 60, have set an example by running at least 1,000km per year.

From 2016 onwards, all departments have responded to Frank's call and encourage their team members to go running. It is absolutely voluntary. Although there is no penalty for not participating, we do give out gifts to those who run more. Every department has their own way to promote running.

Today, a voluntary running culture has been established. Where everyone cheers for one another to achieve their own running targets, and the team spirit has been very much enhanced.

Staff development

If people are the cornerstones of Genscript, professional knowledge and skills would be our pillars. Knowledge and innovation are our competitive edge. A well-rounded training, assessment and promotion system is essential for Genscript's development. As we offer training and career development opportunities, our employees enjoy a sense of accomplishment as well.

Our development system is credit-based. Each employee is allocated with required training credits based on their rank, so as to make sure that all employees have received sufficient training that meets their job requirement. Our dual-pathway development system provides employees (through an incubation period) with both technical and management skills. The amount of training credits earned by employees links to their promotion opportunities. Employees that have passed qualification tests are eligible for moving up the career ladder.

We provide orientation training to all new recruits, in which we introduce the company background and operation, to help them to quickly adapt to the new working environment. For current employees, on-the-job training on technical and managerial skills is designed and provided according to departmental training needs. Professional skill development is a high priority to us. Genscript rigorously reviews the content of technical training and only selects tutors who have sound professional knowledge and experience in delivering training. All training courses are evaluated by the trainee. Genscript assesses whether trainees have mastered the required skills, and may decide to arrange hands-on practice sessions if needed. This year, Genscript has invited renowned professionals in the industry to introduce the latest knowledge and technology. Other than technical training, training on managerial and leadership skills is also our training focus.

	Male	Female	All employees
Average training hours	7.5	8.9	8.3
Breakdown by job nature			
Production	7	9	8
Sales and marketing	13	13	13
Research and development	6	8	7
Administration	3	4	4
Management	12	15	13

BUSINESS ETHICS

As the leader of the gene synthesis market, we strive to become the most respected and trusted figure in the global biotechnology field and academia. Integrity and our image in the industry are important assets of the Company. Therefore, we enshrine the ethical standards of the field by meeting animal welfare expectations, avoiding conflict of interest and fighting fraud and corruption. We collaborate with peers around the world to avoid inappropriate use of synthesized genes.

Animal welfare

Genscript's work advances the science and technology of antibody production in order to aid the biomedical research and product development. We understand that the continued use of animals, such as mice and rabbits, for research and product development is necessary. Careful consideration has been given to the study design to meet the purpose of the study and to promote the best possible humane treatment of animals. Laboratory animals at Genscript are maintained and utilized in a proper and humane manner. It is our policy to refine tests and reduce and replace the use of laboratory animals. We continuously improve the living conditions of laboratory animals, strictly review proposals for laboratory animal use, and enhance the transparency of laboratory animal purchases and use.

Genscript's Institutional Animal Care and Use Committee (IACUC) is responsible for auditing and monitoring Genscript's treatment of laboratory animals during the processes of research, feeding, breeding and transportation, whether the design and implementation of experiments meets animal care principles, and whether the safety of experiment personnel is ensured. All studies using animals must be approved and audited by the IACUC. We require all personnel involved in studies using animals to be knowledgeable and skilled in the procedures to be used and trained in the humane care and use of animals in compliance with all applicable animal welfare laws and rules. Studies are designed to attain maximum productivity using the least number of animals with due regard for minimizing pain or distress. Our investigators make all efforts to prevent the repetition of any study resulting from inadequate planning, inappropriate species or diet and disease. Our veterinarians intervene in studies to provide appropriate treatment to minimize pain and discomfort. When surgical procedures are necessary, the investigator and veterinarian work together to assure the appropriate technique is used and that the anesthetics and postoperative analgesia are appropriate for the species used. When meaningful scientific data can no longer be obtained from an animal, euthanasia, appropriate for the species, shall be implemented according to current guidelines.

Our animal housing facilities in Nanjing headquarters are accredited by the Association for Assessment and Accreditation of Laboratory Animal Care International (AAALAC) and assured by the Office of Laboratory Animal Welfare of the National Institutes of Health of the United States (OLAW). Subcontracted laboratories are required to be either accredited by AAALAC or certified by Chinese government agencies.

What we have done to reduce the number of animals used and their suffering

We are committed to search for new experiment techniques to reduce the number of animals used in studies, and to reduce their pain. In 2016, we have developed a number of new approaches, such as adopting an *in vitro* roller-bottle approach for antibody production instead of the *in vivo* approach which harvests antibodies from laboratory animals, adopting KLH-conjugated peptides for immunization and the *in vivo* imaging system, so as to significantly reduce the use of laboratory animals. Also, Genscript has invested in the development of a novel proprietary adjuvant to replace traditional Freund's Adjuvant to reduce the suffering of laboratory animals. As laboratory rabbits may suffer from foot dermatitis, we provide special mats to avoid inflammation.

Upholding ethical values

Genscript puts great emphasis on conduct as professionals. It is the Board's responsibility to maintain an ethical culture and ensure the Company complies with anti-corruption regulations in all markets we operate in. We have a robust internal control and monitoring mechanism in place. Through Conflict of Interest Avoidance and Anti-fraud Procedure, and Anti-corruption Management Procedure, we regulate and monitor employee behavior. We proactively convey messages of anti-corruption across the Company. For example, we put up posters on anti-corruption, and share corruption case studies on WeChat. We have established anonymous whistle-blowing channels. The procurement team receives anti-fraud training. New suppliers are required to sign an integrity declaration.

In 2016, we did not identify any incidents regarding conflict of interest, fraud and bribery.

Collaboration for biosecurity

Genscript plays an active role in safeguarding biosecurity. Recognizing the security concerns associated with synthetic DNA, we collaborate with our peers in preventing the misuse of gene synthesis technology. In 2009, we cofounded the International Gene Synthesis Consortium ("**IGSC**") with four other major global gene synthesis providers. IGSC advocates the just application of genetic synthesis technology. Genscript screens the gene sequence ordered by customers with our internal operational platform, in which the IGSC's database of viral and toxin gene sequence is embedded. We will be flagged for any risky sequence scanned and request more background information on the customers. If a risky sequence detected, the department directors will be informed and the case will be recorded.

Our internal system can also identify whether a customer is on the trade embargo list of the USA. If a customer is confirmed to be on the list, we immediately terminate their order.

GREEN AND SAFE PRODUCTION

Our major operational activity is gene synthesis and development of preclinical drugs. Hazardous chemicals, virus and laboratory animals are used as we operate. These could bring potential environmental, health and safety hazards. Therefore, we have established the Environmental, Health and Safety (EHS) Department and the EHS Policy. We have strict requirements for our waste management, emission management, and laboratory safety management.

Green production

Our production sites are located in China. Genscript handles our emissions with utmost care. The EHS Department is responsible for directing and implementing management approaches, as to ensure that we are compliant with the Chinese environmental regulations.

We have clear procedural guidelines for management of hazardous waste, such as organic solvent, animal corpses, laboratory waste and reagent bottles, arising from the production process. Dedicated bins for medical waste, laboratory waste and domestic waste are installed at laboratories. Medical waste and laboratory waste are collected and treated by authorized bodies, who in turn create reports according to the national requirement. We store our hazardous waste following the national standard. In 2016, we have improved our production process to reduce generation of hazardous liquid waste.

Sewage containing chemicals and organic matter is discharged from animal housing facilities. Such sewage must be well treated and monitored to avoid polluting the environment. At our Nanjing headquarters, sewage is first treated in our own sewage treatment facility, so that the sewage discharged from our site meets the national standard before it is further treated at the district sewage treatment plant. Our treatment facilities treat over 200 cubic meters of sewage per day. Sewage quality and quantity is closely monitored at the sewage outfall. In 2016, the greywater system at the Nanjing headquarters was enabled. Greywater is used for cleaning at animal housing facilities. The system saves us around 1,000 cubic meters of freshwater per month.

Activated carbon air emission treatment facility is installed to ensure we are compliant with the national emission standard. The facility is regularly maintained. Our emission data is available from our website.

Genscript invests in energy saving initiatives, not only to reduce costs, but also to demonstrate our commitment to the natural environment. A solar-powered system has been installed at the animal housing facility for warming, which saves us 1,500 cubic meters of gas. Street lamps at our Nanjing campus are controlled by natural light. 372 fluorescent lamps have been replaced by energy efficient LED lights.

Sewage statistics (Headquarters only)	**2016**
Sewage treated *(cubic meters)*	60,116
Number of non-compliance of sewage COD content	0
Annual average COD content of sewage treated *(mg/l)*	40.61

Water consumption statistics	**2016**
Water consumed *(cubic meters)*	117,368
Water recycled *(cubic meters)* (Greywater reuse system is only installed at the headquarters at Jiangning District, Nanjing)	7,341
Water consumption intensity *(cubic meters/USD10,000 revenue)*	10.6

Energy consumption and carbon emission	2016
Energy consumption *(MWh)*	9,662
Energy intensity *(kWh/USD 10,000 revenue)*	872
Greenhouse gas emission *(tons CO_2-e)* (Scope 2 only)	7,589
Carbon intensity *(kg CO_2-e/USD10,000 revenue)* (Scope 2 only)	685

Waste generated (Headquarters only)	2016
Domestic waste generated *(tons)*	2
Hazardous waste (excl. medical waste) *(tons)*	50
Medical waste *(tons)*	172

Safe production

Genscript is committed to protecting our employees at work. Safety hazards identified include poisoning, chemical hazards, electric shock, radioactive exposure, frostbite and fire. The EHS Department is responsible for identifying safety hazards and mitigating risk. Through collaboration of departments, we continuously improve our techniques, upgrade our facilities, regularly check and maintain apparatuses and equipment and provide training so as to reach our zero incident goal.

We have designed safety awareness training which comes with assessments for all ranks of employees. Trainings including Electrical Safety, Elevator Safety, Use and Storage of Hazardous Chemicals, Safe Use of Pressure Vessel, Safe Handling of Poisonous Substances, Hazardous Waste Management, Preventing Occupational Hazards and Evacuation and Fire Drill.

Safety personnel of each department and EHS management officials conduct safety checks at production sites, employee accommodations and canteens every month based on different managerial principles, in order to exercise prompt examinations and remedies. We are also under safety checks by the government, and quickly correct any non-compliance with safety requirements.

We have strict guidelines on using hazardous substances. Extraction of hazardous substances must be performed by at least two employees who supervise each other, to minimize the catastrophic consequence that would potentially arise. Our guidelines also specify that only professional personnel with appropriate qualifications can handle hazardous substances. Warning signs are well displayed at storage sites of hazardous substances.

Volatile reagents may cause health hazards. We have enhanced our ventilation systems in the laboratories to improve indoor air quality. We are introducing more gas detectors at various locations in the workplace. These detectors can alert the control room in case of emergency. This enables immediate rescue and evacuation.

Given our efforts, the incident rate has been kept low.

Safety statistics	**2016**
Number of incidents	2
Number of days lost due to incidents	77

CREATING VALUE FOR SOCIETY

Education has been our strategic focus as we create value for society. We understand our influence on the global bio-science research community, and leverage such influence to nurture talents for the biotechnology field.

Nurturing talent

Genscript mentors youths who are interested in the biotechnology field. In China, we closely partner with tertiary institutions in organizing events, such as arranging for sector leaders to give lectures and share the latest developments in the biotechnology market. We also have invited tertiary students to visit our company to gain a first-hand understanding of biotechnology engineering. We also arrange for our colleagues to provide in-kind career guidance.

iGEM

Organized by the Massachusetts Institute of Technology, the International Genetically Engineered Machine (iGEM) competition is the largest undergraduate Synthetic Biology competition. Each year, there are over 200 teams representing top universities. Since 2009, GenScript, as a leading company in the synthetic biology field, has continued sponsoring selected iGEM teams by providing superior quality gene synthesis services to facilitate the teams building better biofuels, bio-medicines, and various bio-chemicals, which are solutions to contemporary global problems. Our sponsored teams have won gold and silver medals in past competitions. iGEM not only triggers the invention of useful tools in the bio-synthetic field and inspires innovation in biotechnology, but also advocates biosecurity. This competition has been a pivotal event for nurturing the next generation of biotechnology talents.

Giving back

We offer a helping hand to victims of natural disasters. In case of unfortunate disasters in China, we initiate fundraising campaigns and encourage employees to donate clothes to victims.

In 2016, Genscript donated approximately US$0.3 million to non-profit organizations.

ESG REPORTING INDEX

Aspect/General disclosure/KPI	Description	Disclosed in	Remarks
Aspect A1: Emissions			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Green production	
KPI A1.1	The types of emissions and respective emissions data	Green production	The Chinese website of Genscript also discloses emission information.
KPI A1.2	Greenhouse gas emissions in total (in tons) and, where appropriate, intensity	Green production	
KPI A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity	Green production	
KPI A1.4	Total non-hazardous waste produced (in tons) and, where appropriate, intensity	Green production	
KPI A1.5	Description of measures to mitigate emissions and results achieved	Green production	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Green production	Our environmental management targets mainly focus on appropriate treatment of hazardous waste as hazardous waste has a higher impact on the environment. Regarding the reduction of generation of hazardous waste, we rely on improving the production technique. We have not accounted for the quantity of hazardous waste reduced.

Aspect/General disclosure/KPI	Description	Disclosed in	Remarks
Aspect A2: Use of Resources			
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Green production	
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity	Green production	
KPI A2.2	Water consumption in total and intensity	Green production	
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Green production	
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Green production	Genscript does not have any problems in sourcing water that is fit for purpose.
KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced	Not applicable	Genscript does not produce physical goods which require packaging in large quantities.
Aspect A3: The Environmental and Natural Resources			
General disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Not material	"Providing products and services that enhance sustainability" is not considered a material aspect to Genscript.
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Not material	"Providing products and services that enhance sustainability" is not considered a material aspect to Genscript.

Aspect/General disclosure/KPI	Description	Disclosed in	Remarks
Aspect B1: Employment			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	United to win	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Our people strategy	
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Not disclosed	This figure is considered confidential.
Aspect B2: Health and Safety			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Safe production	
KPI B2.1	Number and rate of work-related fatalities		In 2016, there were no work-related casualties.
KPI B2.2	Lost days due to work injury	Safe production	
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Safe production	
Aspect B3: Development and Training			
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Staff development	
KPI B3.1	The percentage of employees trained by gender and employee category		All employees must receive training.
KPI B3.2	The average training hours completed per employee by gender and employee category	Staff development	

Aspect/General disclosure/KPI	Description	Disclosed in	Remarks
Aspect B4: Labor Standards			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor	Not applicable	Genscript mainly employs individuals who have higher education background, with solid work experience or with professional qualifications. Our risk of engaging child and forced labor is considered insignificant. This aspect is considered immaterial and thus is not disclosed.
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor	Not applicable	
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Not applicable	
Aspect B5: Supply Chain Management			
General disclosure	Policies on managing environmental and social risks of the supply chain	Not material	"Supplier environmental and social performance" is not considered a material aspect to Genscript.
KPI B5.1	Number of suppliers by geographical region	Not material	"Supplier environmental and social performance" is not considered a material aspect to Genscript.
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Not material	"Supplier environmental and social performance" is not considered a material aspect to Genscript.
Aspect B6: Product Responsibility			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Accountable to customers	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons		In 2016, there were no product recalls due to safety and health reasons.
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Offering the best service	

Aspect/General disclosure/KPI	Description	Disclosed in	Remarks
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Security of confidential information	
KPI B6.4	Description of quality assurance process and recall procedures	Control to quality	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Security of confidential information	
Aspect B7: Anti-corruption			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Upholding ethical values	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Upholding ethical values	
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Upholding ethical values	
Aspect B8: Social Investment			
General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Creating value for society	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Creating value for society	
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	Creating value for society	

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Genscript Biotech Corporation
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Genscript Biotech Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 102 to 179, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	**How our audit addressed the key audit matter**
Revenue recognition	
Revenue recognition has been identified as a risk, particularly in respect of the occurrence and accuracy of a significant volume of transactions and the timing of revenue recognition for sales of goods and rendering of services with deliveries occurring at or around the year-end. Due to the significant volume of transactions, minor errors could, in aggregate, have a material impact on the financial statements. The Group's disclosure about accounting policies of revenue recognition is included in Note 2.4 *Summary of significant accounting policies* and about revenue breakdown in Note 5 *Revenue, other income and gains*.	We carried out testing relating to internal controls. On a sample basis, we examined deliveries during the year to the supporting documentation to assess that the revenue recognition criteria were met for recognised sales of goods and the rendering of services. We performed sales cut-off test to check to the goods delivery note and client acceptance note for sales of goods and check to the service report download record for rendering of services. We also performed testing on journal entries to test for any management override of internal controls related to revenue recognition.
Business combination of Jinan Nornoon	
On 30 June 2016, the Group acquired 51% of the equity interests of Jinan Nornoon Biological Co., Ltd. ("Jinan Nornoon") at a total consideration of RMB53 million in the form of capital injection to Jinan Nornoon. For this acquisition, the Group, assisted by its external valuation specialists, made a purchase price allocation in which the considerations was allocated to the various assets and liabilities of the acquired company. The audit of the purchase price allocation is a key audit matter given the magnitude of the amount and since significant management judgement is required to determine the allocation of the purchase price to property, plant and equipment, prepaid land lease payments, intangible assets and deferred tax liabilities. The Group's disclosure about accounting policies of business combinations is included in Note 2.4 *Summary of significant accounting policies* and details of the business combination are included in Note 29 *Business combination*.	In our audit of the accounting of the acquisition, we assessed the investment agreement and tested the capital injection to the acquired company. We tested the identification of acquired assets (e.g. valuation of customer relationships and patents) and liabilities based on our understanding of the business of the acquired company and the explanations of the Group's management that supported this acquisition. Subsequently, we tested the allocated values of the acquired assets and liabilities based on common valuation models. We involved our valuation specialists in our audit of the fair values and the competence, capabilities and objectivity of the external valuation specialists. Furthermore, we assessed the disclosures in the financial statements regarding the acquisition by comparing them with requirements in the financial reporting standards.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirement 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is SIU FUNG TERENCE HO.

Ernst & Young
Certified Public Accountants
Hong Kong
20 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
REVENUE	5	**114,735**	86,709
Cost of sales		**(38,506)**	(29,631)
Gross profit		**76,229**	57,078
Other income and gains	5	**7,745**	12,371
Selling and distribution expenses		**(20,867)**	(17,642)
Administrative expenses		**(30,429)**	(28,535)
Other expenses		**(159)**	(296)
Finance cost	7	**(10)**	–
PROFIT BEFORE TAX	6	**32,509**	22,976
Income tax expense	10	**(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	12		
Basic		**US1.57 cents**	US1.47 cents
Diluted		**US1.53 cents**	US1.43 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 US$'000	2015 US$'000
PROFIT FOR THE YEAR	**26,535**	17,504
OTHER COMPREHENSIVE INCOME		
Other comprehensive income 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	**(10,646)**	(5,642)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(10,646)**	(5,638)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(10,646)**	(5,638)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**15,889**	11,866
Attributable to:		
Owners of the parent	**15,769**	11,866
Non-controlling interests	**120**	–
	15,889	11,866

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 US$'000	2015 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**43,735**	37,719
Advance payments for property, plant and equipment		**2,181**	122
Prepaid land lease payments	14	**7,782**	7,581
Goodwill	15	**1,384**	–
Other intangible assets	16	**2,130**	901
Deferred tax assets	24	**4,911**	2,737
Total non-current assets		**62,123**	49,060
CURRENT ASSETS			
Inventories	17	**4,237**	2,025
Trade and notes receivables	18	**20,022**	16,914
Prepayments, deposits and other receivables	19	**2,984**	10,153
Pledged short-term deposits	20	**202**	202
Cash and cash equivalents	20	**136,464**	103,720
Total current assets		**163,909**	133,014
CURRENT LIABILITIES			
Trade and notes payables	21	**4,352**	2,414
Other payables and accruals	22	**30,326**	24,661
Tax payable		**4,493**	3,786
Government grants	23	**44**	33
Total current liabilities		**39,215**	30,894
NET CURRENT ASSETS		**124,694**	102,120
TOTAL ASSETS LESS CURRENT LIABILITIES		**186,817**	151,180

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2016

	Notes	2016 US$'000	2015 US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**186,817**	151,180
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	**447**	–
Government grants	23	**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	25	**1,692**	1,600
Reserves	27	**175,921**	147,648
		177,613	149,248
Non-controlling interests		**6,408**	–
Total equity		**184,021**	149,248

Zhang Fangliang
Director

Wang Ye
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent									
	Share capital US$'000 (note 25)	Share premium* US$'000 (note 25)	Merger reserve* US$'000	Share option reserves* US$'000 (note 26)	Statutory surplus earnings* US$'000	Retained earnings* US$'000	Exchange fluctuation reserve* US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 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 31 December 2016	1,692	118,051	(20,883)	9,469	9,247	72,029	(11,992)	177,613	6,408	184,021

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

	Attributable to owners of the parent										
	Share capital *US$'000* *(note 25)*	Share premium* *US$'000* *(note 25)*	Merger reserve* *US$'000*	Share option reserves* *US$'000* *(note 26)*	Statutory surplus reserves* *US$'000*	Retained earnings* *US$'000*	Available-for-sale investment revaluation reserve* *US$'000*	Exchange fluctuation reserve* *US$'000*	Total *US$'000*	Non-controlling interests *US$'000*	Total equity *US$'000*
At 1 January 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
Capitalisation 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 31 December 2015	1,600	106,655	(20,883)	8,361	6,417	48,689	–	(1,591)	149,248	–	149,248

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**32,509**	22,976
Adjustments for:			
Provision provided for trade receivables and other receivables		**529**	85
Write-down of inventories to net realisable value	17	**505**	347
Depreciation of property, plant and equipment	13	**4,964**	4,681
Amortisation of other intangible assets	16	**255**	166
Amortisation of land use rights	14	**171**	170
Loss on disposal of items of property, plant and equipment	6	**90**	120
Interest income	5	**(276)**	(60)
Investment income	5	**–**	(188)
Finance cost	7	**10**	–
Equity-settled share option expense		**1,836**	3,348
		40,593	31,645
Increase in trade and notes receivables		**(2,519)**	(5,006)
Decrease/(increase) in prepayments, deposits and other receivables		**6,502**	(8,683)
Increase in inventories		**(1,223)**	(595)
Decrease in an amount due from the ultimate holding company		**–**	34
Decrease in an amount due to the ultimate holding company		**–**	(2,570)
Decrease in government grants		**(42)**	(397)
Increase/(decrease) in trade and notes payables		**806**	(455)
Decrease in an amount due to a related party		**–**	(1)
Receipt of pledged short-term deposits	20	**–**	143
(Decrease)/increase in other payables and accruals		**(3,965)**	7,723
Cash generated from operations		**40,152**	21,838
Interest received		**276**	60
Income taxes paid		**(7,153)**	(2,262)
Net cash flows from operating activities		**33,275**	19,636

Year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Net cash flows from operating activities		**33,275**	19,636
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale investments		**–**	(4,087)
Proceeds from disposal of available-for-sale investments		**–**	6,810
Purchases of items of property, plant and equipment		**(8,553)**	(6,711)
Purchases of other intangible assets		**(428)**	(727)
Receipt of government grants		**595**	616
Acquisition of a subsidiary by capital injection	29	**71**	–
Net cash flows used in investing activities		**(8,315)**	(4,099)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**11,277**	76,188
Share issuance expenses		**(1,543)**	(2,842)
Repayment of bank loans		**(1,237)**	–
Repayment to a related party		**–**	(8,178)
Interest paid		**(10)**	–
Net cash flows from financing activities		**8,487**	65,168
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	20	**103,720**	25,637
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**136,464**	103,720
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**85,361**	103,720
Non-pledged time deposits with original maturity of less than three months when acquired		**51,103**	–
Cash and cash equivalents as stated in the statement of financial position	20	**136,464**	103,720
Cash and cash equivalents as stated in the statement of cash flows		**136,464**	103,720

1. CORPORATE INFORMATION

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

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the manufacturing and sale of life sciences research products and services. The products and services mainly include life sciences research services, preclinical drug development services, life sciences research catalogue products and industrial synthetic biology products. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 December 2015.

In the opinion of the Directors, the ultimate holding company of the Company is Genscript USA Corporation ("GS Corp"), which is incorporated in the United States of America.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company	Place and date of incorporation/registration and place of business	Issued ordinary shares/ paid-up capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Genscript (Hong Kong) Limited ("GS HK")	Hong Kong 8 January 2009	HK$155,000	–	100	Sale of life sciences research products and services
Nanjing Jinsirui Biotechnology Co., Ltd. ("Nanjing Jinsirui")*	China 12 March 2009	US$58,020,000	–	100	Manufacturing and sale of life sciences research products and services
Genscript USA Incorporated ("GS USA")	United States of America 26 March 2009	US$1	100	–	Manufacturing and sale of life sciences research products and services
Jinsikang Technology (Nanjing) Co., Ltd. ("Nanjing Jinsikang")*	China 30 April 2009	RMB132,550,600	–	100	Manufacturing and sale of life sciences research products and services
Genscript Japan Inc.	Japan 7 July 2011	JPY8,300,000	–	100	Sale of life sciences research products and services
Nanjing Bestzyme Bioengineering Co., Ltd.*	China 6 June 2013	US$29,000,000	–	100	Manufacturing and sale of life sciences research products and services

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows (continued):

Company	Place and date of incorporation/registration and place of business	Issued ordinary shares/ paid-up capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Nanjing Legend Biotechnology Co., Ltd.*	China 17 November 2014	US$2,500,000	–	100	Manufacturing and sale of life sciences research products and services
Shanghai Jingrui Biotechnology Co., Ltd.*	China 6 March 2015	RMB1,000,000	–	100	Manufacturing and sale of life sciences research products and services
Jinan Nornoon Biological Engineering Co., Ltd. ("Jinan Nornoon")*	China 19 August 2009	RMB24,648,000	–	51	Manufacturing and sale of life sciences research products and services
Jiangsu Genscript Biotech Co., Ltd.*	China 31 August 2016	US$5,000,000	–	100	Manufacturing and sale of life sciences research products and services

* Registered as domestic companies with limited liabilities under the law of the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Company and its subsidiaries (the "Group"). To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements 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 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.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

The Group is currently assessing the impact of these standards.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2%
Machinery and equipment	20% to 33⅓%
Motor vehicles	10%
Computer and office equipment	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents equipment under installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Software	2 to 5 years
Patents and licenses	5 to 10 years
Software	10 years

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Available-for-sale investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets, if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Available-for-sale investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to the ultimate holding company and related parties and interest-bearing loans and borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance cost in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance cost in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the rendering of services, 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The employees of the Group's subsidiaries which operate in China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in United States dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain PRC and Japan established subsidiaries are currencies other than the United States dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into United States dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of the PRC and Japan established subsidiaries are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the PRC and Japan established companies which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The outcome of their actual utilisation may be different. The carrying value of deferred tax assets relating to recognised deductible temporary differences at 31 December 2016 was US$4,911,000 (2015: US$2,737,000). The amount of unrecognised tax losses at 31 December 2016 was US$1,939,000 (2015: US$1,959,000). Further details are contained in note 24 to the financial statements.

Income tax

The Group is subject to income taxes in various regions. As a result, certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised. The income tax expense for the year ended 31 December 2016 was US$5,974,000 (2015: US$5,472,000).

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment losses over the period in which such estimate has been changed. At 31 December 2016, the provision for impairment of trade and other receivables was US$1,090,000 (2015: US$1,252,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

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 management will write off or write down technically obsolete or non-strategic assets that have been abandoned.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at each reporting date. At 31 December 2016, the net carrying value of inventories was US$4,237,000 (2015: US$2,025,000).

Share-based compensation

The fair value of most share options granted by the Group is estimated using the binomial model. The use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Management estimates expected volatility based on the historical volatility of the stock of comparable companies. Expiration date is the basis for determining the expected life of an option. The risk-free interest rate is based on treasury yield curve rates with a remaining term which approximates the expected life assumed at the date of grant. Changes in these input variables would affect the amount of expense associated with share-based compensation. The compensation expense recognised for all share-based awards is net of estimated forfeitures. The Company estimates forfeiture rates based on historical analysis of option forfeitures. If actual forfeitures vary from estimated forfeitures, adjustments to compensation expense may be required. For the year ended 31 December 2016, the equity-settled share option expense was US$1,836,000 (2015: US$3,348,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) Life sciences research services, comprising gene and peptide synthesis, DNA/primer synthesis, DNA sequencing, custom antibody production, protein expression, and stable cell line production;

(b) Preclinical drug development services, comprising integrated services in three areas, namely protein and antibody engineering, in vitro drug studies, and in vivo drug studies;

(c) Life sciences research catalogue products, comprising antibodies, recombinant proteins, products for protein isolation and analysis, molecular biology reagents, peptide, biochemicals, and stable cell lines; and

(d) Industrial synthetic biology products, comprising industrial enzyme development and production.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of segment revenue less segment cost of sales.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

Year ended 31 December 2016

	Life sciences research services *US$'000*	Preclinical drug development services *US$'000*	Life sciences research catalogue products *US$'000*	Industrial synthetic biology products *US$'000*	Total *US$'000*
Segment revenue					
External customers	91,240	11,157	5,334	7,004	114,735
Segment results	63,210	7,517	3,483	2,019	76,229
Other income and gains					7,745
Selling and distribution expenses					(20,867)
Administrative expenses					(30,429)
Other expenses					(159)
Finance cost					(10)
Profit before tax					32,509

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2015

	Life sciences research services *US$'000*	Preclinical drug development services *US$'000*	Life sciences research catalogue products *US$'000*	Industrial synthetic biology products *US$'000*	Total *US$'000*
Segment revenue					
External customers	76,918	5,967	2,469	1,355	86,709
Segment results	51,524	3,889	1,591	74	57,078
Other income and gains					12,371
Selling and distribution expenses					(17,642)
Administrative expenses					(28,535)
Other expenses					(296)
Profit before tax					22,976

Geographic information

(a) Revenue from external customers

	2016 ***US$'000***	2015 *US$'000*
United States of America	**61,421**	43,565
China	**21,735**	12,250
Europe	**18,181**	17,023
Asia Pacific (excluding China and Japan)	**7,899**	6,566
Japan	**3,927**	3,652
Others	**1,572**	3,653
Total	**114,735**	86,709

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

(b) Non-current assets

	2016	2015
	US$'000	*US$'000*
China	**56,670**	45,891
Other countries	**542**	432
Total	**57,212**	46,323

The non-current asset information above is based on the locations of assets and excludes deferred tax assets.

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2016 and 2015.

5. 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:

	2016	2015
	US$'000	*US$'000*
Revenue		
Rendering of services	**102,397**	82,885
Sale of goods	**12,338**	3,824
	114,735	86,709
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	**99**	6
	7,745	12,371

6. PROFIT BEFORE TAX

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

	Notes	2016 US$'000	2015 US$'000
Cost of inventories sold		**1,922**	972
Cost of services provided		**15,552**	12,362
Depreciation of items of property plant and equipment	13	**4,964**	4,681
Amortisation of other intangible assets*	16	**255**	166
Amortisation of prepaid land lease payments	14	**171**	170
Provision for impairment of trade receivables	18	**658**	249
Reversal of provision for impairment of other receivables	19	**(129)**	(164)
Minimum lease payments under operating leases:			
– Land and buildings		**1,250**	885
Auditors' remuneration		**399**	308
Employee benefit expense (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 realisable value		**505**	347

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

7. FINANCE COST

	2016	2015
	US$'000	*US$'000*
Interest on bank loans	**10**	–

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383 (1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016	2015
	US$'000	*US$'000*
Fee	**124**	40
Other emoluments:		
Salaries, allowances and benefits in kind	**797**	751
Performance related bonuses	**257**	148
Equity-settled share option expense	**475**	1,117
Pension scheme contributions	**12**	12
	1,541	2,028
	1,665	2,068

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016	2015
	US$'000	*US$'000*
Mr. Guo Hongxin	**31**	10
Mr. Dai Zumian	**31**	10
Ms. Zhang Min	**31**	10
	93	30

There were no other emoluments payable to the independent non-executive directors during the year (2015: nil).

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind*	Performance related bonuses	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
2016						
Executive directors:						
Mr. Zhang Fangliang	–	283	104	–	6	393
Ms. Wang Ye	–	421	122	421	–	964
Mr. Meng Jiange	–	93	31	54	6	184
	–	797	257	475	12	1,541
Non-executive director:						
Mr. Pan Yuexin	31	–	–	–	–	31
2015						
Executive directors:						
Mr. Zhang Fangliang	–	242	–	–	6	248
Ms. Wang Ye	–	401	116	1,044	–	1,561
Mr. Meng Jiange	–	108	32	73	6	219
	–	751	148	1,117	12	2,028
Non-executive director:						
Mr. Pan Yuexin	10	–	–	–	–	10

* The benefits in kind include contributions made for directors' U.S. social security and medical insurance paid by the Group.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2015: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 US$'000	2015 US$'000
Salaries, allowances and benefits in kind	397	662
Performance related bonuses	60	160
Equity-settled share option expense	10	86
	467	908

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
HK$1,000,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$3,000,000	1	2
	2	3

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The subsidiary of the Group operating in Japan was subject to income tax at a rate ranging from 15% to 25.5% depending on its earnings during the year.

The subsidiary of the Group operating in the United States of America was subject to federal tax at a rate of 34% and state tax at a rate of 9% during the year.

The provision for China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in China which are granted tax concession and are taxed at preferential tax rates.

Nanjing Jinsirui is qualified as a High and New Technology Enterprise and Advanced Technology Service Enterprise and Nanjing Jinsikang is qualified as an Advanced Technology Service Enterprise; both of them were subject to income tax at a preferential tax rate of 15% for the year.

Jinan Nornoon is qualified as a High and New Technology Enterprise and was subject to income tax at a preferential tax rate of 15% for the reporting period.

	2016	2015
	US$'000	*US$'000*
Current – China	**4,937**	4,174
Current – Elsewhere	**3,062**	1,825
Deferred	**(2,025)**	(527)
Total tax charge for the year	**5,974**	5,472

10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2016	2015
	US$'000	*US$'000*
Profit before tax	**32,509**	22,976
At the PRC's statutory income tax rate of 25%	**8,127**	5,744
Effect of tax rate differences in other countries	**427**	1,725
Preferential income tax rates applicable to subsidiaries	**(3,084)**	(2,848)
Effect of withholding tax on the distributable profit of subsidiaries	**135**	–
Additional deductible allowance for research and development expenses	**(589)**	(500)
Effect of non-deductible expenses	**547**	928
Tax losses not recognised	**475**	488
Others	**(64)**	(65)
Tax charge at the Group's effective rate	**5,974**	5,472

11. DIVIDEND

	2016
	US$'000
Proposed final – HK1.2 cent (2015: nil) per ordinary share	**2,619**

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the 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, as adjusted to reflect the rights 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:

	2016	2015
	US$'000	*US$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	**26,170**	17,504

	Number of shares	
	2016	2015
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	**41,796,461**	35,466,939
	1,709,040,984	1,228,019,960

13. 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
31 December 2016						
At 31 December 2015 and at 1 January 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	27,018	7,524	158	1,144	1,875	37,719
At 1 January 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 29)*	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 31 December 2016, net of accumulated depreciation and impairment	27,797	12,417	261	1,292	1,968	43,735
At 31 December 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	27,797	12,417	261	1,292	1,968	43,735

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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
31 December 2015						
At 31 December 2014 and at 1 January 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	26,630	7,819	198	1,398	1,485	37,530
At 1 January 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 31 December 2015, net of accumulated depreciation and impairment	27,018	7,524	158	1,144	1,875	37,719
At 31 December 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	27,018	7,524	158	1,144	1,875	37,719

14. PREPAID LAND LEASE PAYMENTS

	2016	2015
	US$'000	*US$'000*
Carrying amount at 1 January	**7,746**	8,395
Acquisition of a subsidiary *(note 29)*	**911**	–
Recognised	**(171)**	(170)
Exchange realignment	**(531)**	(479)
Carrying amount at end of year	**7,955**	7,746
Current portion included in prepayments, deposits and other receivables	**(173)**	(165)
Non-current portion	**7,782**	7,581

At 31 December 2016, the Group has not obtained certificates of ownership in respect of certain leasehold lands of the Group in China with 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.

15. GOODWILL

	2016
	US$'000
Cost at 1 January	**–**
Acquisition of a subsidiary *(note 29)*	**1,448**
Exchange realignment	**(64)**
Cost and net carrying amount at 31 December 2016	**1,384**

15. GOODWILL (CONTINUED)

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 31 December 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.

16. OTHER INTANGIBLE ASSETS

	Software	Patents and licenses	Customer relationship	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
31 December 2016				
Cost at 1 January 2016, net of accumulated amortisation	874	27	–	901
Additions	95	333	–	428
Acquisition of a subsidiary *(note 29)*	–	953	156	1,109
Amortisation provided during the year *(note 6)*	(177)	(70)	(8)	(255)
Exchange realignment	(6)	(41)	(6)	(53)
At 31 December 2016	786	1,202	142	2,130
At 31 December 2016:				
Cost	1,317	1,274	149	2,740
Accumulated amortisation	(531)	(72)	(7)	(610)
Net carrying amount	786	1,202	142	2,130
31 December 2015				
Cost at 1 January 2015, net of accumulated amortisation	349	–	–	349
Additions	696	31	–	727
Amortisation provided during the year *(note 6)*	(162)	(4)	–	(166)
Exchange realignment	(9)	–	–	(9)
At 31 December 2015	874	27	–	901
At 31 December 2015:				
Cost	1,339	31	–	1,370
Accumulated amortisation	(465)	(4)	–	(469)
Net carrying amount	874	27	–	901

17. INVENTORIES

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

Inventory provision of US$505,000 was recognised for the year ended 31 December 2016 (2015: US$347,000). Inventory provision has been included in "cost of sales" in the consolidated statement of profit or loss.

18. TRADE AND NOTES RECEIVABLES

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

The Group's trading terms with its customers are mainly on credit. The credit period is 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

18. TRADE AND NOTES RECEIVABLES (CONTINUED)

Movements in the provision for impairment of trade receivables were as follows:

	Total
	US$'000
At 1 January 2016	**1,109**
Acquisition of a subsidiary	**185**
Impairment losses recognized	**658**
Amount written off as uncollectible	**(887)**
At 31 December 2016	**1,065**
At 1 January 2015	860
Impairment losses recognised	249
At 31 December 2015	1,109

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in payments and only a portion of the receivables is expected to be recovered.

An ageing analysis of the trade receivables as at the end of the year, based on the invoice date, is as follows:

	2016	2015
	US$'000	*US$'000*
Within 3 months	**16,948**	14,771
3 months to 6 months	**1,081**	1,510
6 months to 12 months	**837**	634
Over one year	**1,171**	979
	20,037	17,894

18. TRADE AND NOTES RECEIVABLES (CONTINUED)

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 US$'000	2015 US$'000
Neither past due nor impaired	11,294	9,847
Less than 3 months past due	6,356	5,911
Over 3 months past due	1,322	1,027
	18,972	16,785

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The notes receivable were due within six months. No notes receivable were discounted or endorsed as at 31 December 2016 and 2015. A subsidiary has pledged notes receivable of approximately US$375,000 (2015: nil) to secure a credit limit up to US$2,162,000 from a bank.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

(i) The Group's domestic sales of goods and rendering of services are subject to China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is mainly the net difference between output and deductible input VAT.

Movements in the provision for impairment of other receivables were as follows:

	Individually impaired
	US$'000
At 1 January 2016	**143**
Acquisition of a subsidiary	**11**
Impairment losses reversed	**(129)**
At 31 December 2016	**25**
At 1 January 2015	307
Impairment losses reversed	(164)
At 31 December 2015	143

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

The ageing analysis of the prepayments, deposits and other receivables that are not considered to be impaired is as follows:

	2016 US$'000	2015 US$'000
Neither past due nor impaired	2,984	10,153

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 US$'000	2015 US$'000
Cash and bank balances	136,464	103,720
Pledged short-term deposits	202	202
	136,666	103,922
Less: Pledged short-term deposits for letters of credit	(202)	(202)
Cash and cash equivalents	136,464	103,720
Denominated in US$	64,832	21,719
Denominated in HKD	53,169	65,214
Denominated in RMB	16,727	12,295
Denominated in EUR	932	1,842
Denominated in JPY	503	621
Denominated in GBP	301	2,029
Cash and cash equivalents	136,464	103,720

At the end of the year, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$16,727,000 (2015: US$12,295,000). The RMB is not freely convertible into other currencies, however, under Mainland China'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 authorised to conduct foreign exchange business.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are pledged for letters of credit. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

21. TRADE AND NOTES PAYABLES

	2016 US$'000	2015 US$'000
Trade payables	4,304	2,414
Notes payable	48	–
	4,352	2,414

An ageing analysis of the trade payables as at the end of the year, based on the invoice date, is as follows:

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

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

22. OTHER PAYABLES AND ACCRUALS

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

23. GOVERNMENT GRANTS

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

The grants were related to the subsidies received from local government authorities for the purpose of compensation for expenditure on certain facilities and 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 and other contingencies attached to these government grants. These government grants were recognised in the statement of profit or loss upon receipt.

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of a subsidiary	Withholding tax	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
At 1 January 2016	**55**	**–**	**–**	**55**
Acquisition of a subsidiary	**–**	**328**	**–**	**328**
Deferred tax (credited)/charged to the statement of profit or loss during the year	**(18)**	**3**	**135**	**120**
Exchange realignment	**–**	**(15)**	**(4)**	**(19)**
Gross deferred tax liabilities at 31 December 2016	**37**	**316**	**131**	**484**
At 1 January 2015	214	–	–	214
Deferred tax credited to the statement of profit or loss during the year	(159)	–	–	(159)
Gross deferred tax liabilities at 31 December 2015	55	–	–	55

24. DEFERRED TAX (CONTINUED)

Deferred tax assets

	Accrued expenses	Decelerated depreciation for tax purposes	Impairment of assets	Unrealised profit from intercompany transactions	Government grants	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2016	**950**	**621**	**623**	**303**	**295**	**2,792**
Acquisition of a subsidiary	**131**	**–**	**30**	**–**	**–**	**161**
Deferred tax credited/(charged) to the statement of profit or loss during the year	**1,385**	**254**	**485**	**(65)**	**86**	**2,145**
Exchange realignment	**(65)**	**(48)**	**(15)**	**–**	**(22)**	**(150)**
Gross deferred tax assets at 31 December 2016	**2,401**	**827**	**1,123**	**238**	**359**	**4,948**
At 1 January 2015	831	641	343	483	220	2,518
Deferred tax credited/(charged) to the statement of profit or loss during the year	157	17	283	(180)	91	368
Exchange realignment	(38)	(37)	(3)	–	(16)	(94)
Gross deferred tax assets at 31 December 2015	950	621	623	303	295	2,792

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2016	2015
	US$'000	*US$'000*
Net deferred tax liabilities recognised in the consolidated statement of financial position	**447**	–
Net deferred tax assets recognised in the consolidated statement of financial position	**4,911**	2,737

24. DEFERRED TAX (CONTINUED)

The Group has tax losses arising in Hong Kong of US$109,000 (2015: US$25,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group has tax losses arising in Mainland China of US$1,830,000 (2015: US$1,934,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2016	2015
	US$'000	*US$'000*
Tax losses	**1,939**	1,959

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL AND SHARE PREMIUM

Shares

	31 December 2016	31 December 2015
	US$'000	*US$'000*
Authorised:		
Ordinary shares (of US$0.001 each)	**5,000**	5,000
Issued and fully paid:		
Ordinary shares (of US$0.001 each)	**1,692**	1,600

25. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

Shares (Continued)

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

	Number of shares in issue	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 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
	1,600,000,000	1,600	110,523	112,123
Share issue expenses	–	–	(3,868)	(3,868)
At 31 December 2015 and 1 January 2016	1,600,000,000	1,600	106,655	108,255
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
	91,861,775	92	11,913	12,005
Share issue expenses	–	–	(517)	(517)
At 31 December 2016	1,691,861,775	1,692	118,051	119,743

a. On 26 January 2016, 60,000,000 ordinary shares (the "Over-allotment Shares") were issued by fully exercising the over-allotment option at a price of HK$1.31 per share for a total consideration, before listing expenses, of approximately HK$78,600,000 (equivalent to approximately US$10,084,000).

26. SHARE OPTION SCHEME

On 22 June 2016, under the Company's Post-IPO share option scheme adopted on 7 December 2015, 8,478,137 share options to subscribe for an aggregate of 8,478,137 ordinary shares of US$0.001 each of the Company were granted to 6 employees with vesting date from 22 June 2016 to 22 June 2023 and an exercise price of HK$1.204. The expiration date of the options granted is 10 years after the grant date.

On 23 September 2016, under the Company's Post-IPO share option scheme adopted on 7 December 2015, 12,300,000 share options to subscribe for an aggregate of 12,300,000 ordinary shares of US$0.001 each of the Company were granted to 17 employees with vesting dates from 23 September 2017 to 23 September 2021 and an exercise price of HK$2.406. The expiration date of the options granted is 10 years after the grant date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding during the year:

	2016		2015	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	US$ per share	***'000***	*US$ per share*	*'000*
At 1 January	**0.0718**	**302,261**	0.1362	127,463
Granted during the year	**0.2469**	**20,778**	0.1549	28,600
Forfeited during the year	**0.0806**	**(8,316)**	0.1500	(525)
Exercised during the year	**0.0374**	**(31,862)**	–	–
Adjustment on Pre-IPO reorganisation issue and capitalisation issue	**–**	**–**	–	146,723
At 31 December	**0.0883**	**282,861**	0.0718	302,261

26. SHARE OPTION SCHEME (CONTINUED)

The exercise prices and exercise periods of the share options outstanding as at the end of the year are as follows:

31 December 2016 Number of options exercisable *'000*	Exercise price* *US$ per share*	Exercise period
5,236	0.0026	2008/05/12–2019/12/31
342	0.0046	2009/07/03–2019/07/31
964	0.0072	2008/03/03–2019/07/31
1,710	0.0103	2010/03/28–2018/01/15
524	0.0139	2011/12/08–2019/07/31
2,564	0.0154	2012/12/20–2019/12/20
634	0.0185	2010/01/05–2019/07/31
1,520	0.0206	2012/12/31–2019/08/10
5,344	0.0257	2010/12/31–2019/12/31
146	0.0515	2013/08/10–2025/07/31
68,016	0.0617	2014/12/31–2025/07/31
60,569	0.0772	2010/12/31–2025/07/31
65,003	0.1029	2011/07/15–2025/07/31
82	0.1552	2016/06/22–2026/06/21
212,654		

26. SHARE OPTION SCHEME (CONTINUED)

31 December 2015 Number of options exercisable *'000*	Exercise price* *US$ per share*	Exercise period
12,270	0.0026	2008/05/12–2019/12/31
2,672	0.0031	2007/12/31–2016/10/01
2,672	0.0041	2007/12/31–2016/10/01
770	0.0046	2009/07/03–2019/07/31
1,389	0.0072	2008/03/03–2019/07/31
2,993	0.0077	2010/01/15–2019/12/31
1,710	0.0103	2010/03/28–2018/01/15
823	0.0139	2011/12/08–2019/07/31
4,532	0.0154	2010/01/01–2019/12/20
898	0.0185	2010/01/05–2019/07/31
1,607	0.0206	2012/12/31–2019/08/10
5,450	0.0257	2010/12/31–2019/12/31
394	0.0515	2013/08/10–2025/07/31
45,279	0.0617	2014/12/31–2025/07/31
48,585	0.0772	2009/12/31–2025/07/31
67,941	0.1029	2011/07/15–2025/07/31
199,985		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was US$2,210,304 (US$0.106 each) (2015: US$3,647,751, US$0.130 each), of which the Group recognised a share option expense of US$1,836,000 (2015: US$3,348,000) during the year ended 31 December 2016.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2016	2015
Dividend yield *(%)*	**–**	–
Expected volatility *(%)*	**42–43**	43–48
Risk-free interest rate *(%)*	**0.93–1.15**	1.50–1.94
Expected life of options *(year)*	**10**	2.88–5.38
Weighted average share price *(HK$ per share)*	**1.18–2.30**	1.86

26. SHARE OPTION SCHEME (CONTINUED)

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of comparable listed companies in the same industry.

At 31 December 2016, the Company had 282,860,638 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 282,860,638 additional ordinary shares of the Company, an additional share capital of approximately US$282,861 and a share premium of approximately US$24,698,529 (before issue expenses).

At the date of approval of these financial statements, the Company had 280,062,718 share options outstanding under the share option scheme, which represented approximately 16.5% of the Company's shares in issue as at that date.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 106 to 107 of the financial statements.

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with a functional currency other than US$.

28. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests is set out below:

	2016
Percentage of equity interest held by non-controlling interests:	
Jinan Nornoon Biological Co., Ltd	49%

	2016 *US$'000*
Profit for the year allocated to non-controlling interests:	
Jinan Nornoon Biological Co., Ltd	365
Accumulated balances of non-controlling interests at the reporting date:	
Jinan Nornoon Biological Co., Ltd	6,408

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	Jinan Nornoon *US$'000*
2016	
Revenue	6,544
Total expenses	(5,815)
Profit for the year	729
Total comprehensive income for the year	229
Current assets	8,996
Non-current assets	8,555
Current liabilities	(6,350)
Net cash flows used in operating activities	(3,280)
Net cash flows used in investing activities	(854)
Net cash flows used in financing activities	(1,247)
Net foreign exchange difference	(234)
Net decrease in cash and cash equivalents	(5,615)

29. BUSINESS COMBINATION

On 30 June 2016, the Group acquired 51% of the equity interest of Jinan Nornoon, an unlisted company engaged in the production of the 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 30 June 2016.

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

	Notes	**Fair value recognised on acquisition** *US$'000*
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)
Total identifiable net assets at fair value		12,833
Non-controlling interests		(6,288)
Goodwill arising on acquisition	*15*	1,448
Satisfied by cash		7,993

29. BUSINESS COMBINATION (CONTINUED)

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:

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

The goodwill recognised 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 31 December 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.

30. PLEDGE OF ASSETS

Details of the Group's bank drafts issued to several suppliers, which are secured by the notes receivable of the Group, are included in note 18 to the financial statements.

31. OPERATING LEASE COMMITMENTS

The Group leases certain of its production and office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to seven years. At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
	US$'000	*US$'000*
Within one year	**1,024**	878
In the second to fifth years, inclusive	**2,734**	3,506
After five years	**–**	110
	3,758	4,494

32. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the year:

	2016	2015
	US$'000	*US$'000*
Contracted, but not provided for:		
Plant and machinery	**4,016**	47

33. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Company	**Relationship**
Chongyang Jinrui Rabbit Breeding Limited ("Jinrui Rabbit")	An entity controlled by an immediate family of the controlling shareholder

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2016 US$'000	2015 US$'000
Purchases of raw materials from Jinrui Rabbit	(i)	**18**	23

Notes:

(i) The prices are mutually agreed after taking into account the prevailing market prices.

(b) Outstanding balances with a related party:

The Group had the following significant balances with its related party during the year:

(i) Due to a related party

	2016 US$'000	2015 US$'000
Jinrui Rabbit	**1**	–

The balance is unsecured, interest-free and has no fixed terms of repayment.

(c) Compensation of key management personnel of the Group:

	2016 US$'000	2015 US$'000
Short-term employee benefits	**1,777**	1,559
Pension scheme contributions	**23**	25
Equity-settled share option expense	**541**	1,216
Total compensation paid to key management personnel	**2,341**	2,800

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions in respect of items in note 33(a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows:

As at 31 December 2016

Financial assets

	Loans and receivables *US$'000*
Trade and notes receivables	20,022
Financial assets included in prepayments, deposits and other receivables	514
Cash and cash equivalents	136,464
Pledged short-term deposits	202
	157,202

Financial liabilities

	Financial liabilities at amortised cost *US$'000*
Trade and notes payables	4,352
Financial liabilities included in other payables and accruals	7,392
	11,744

34. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows (continued):

As at 31 December 2015

Financial assets

	Loans and receivables *US$'000*
Trade and notes receivables	16,914
Financial assets included in prepayments, deposits and other receivables	8,784
Cash and cash equivalents	103,720
Pledged short-term deposits	202
	129,620

Financial liabilities

	Financial liabilities at amortised cost *US$'000*
Trade and notes payables	2,414
Financial liabilities included in other payables and accruals	7,471
	9,885

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and notes payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 4% (2015:3%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 2% (2015: 2%) of costs were denominated in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in rate of foreign currency	**Increase/ (decrease) in profit before tax**
	%	*US$'000*
Year ended 31 December 2016		
If US$ strengthens against RMB	5	2,726
If US$ weakens against RMB	(5)	(2,726)
Year ended 31 December 2015		
If US$ strengthens against RMB	5	698
If US$ weakens against RMB	(5)	(698)

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged short-term deposits, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 18 and 19 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables, other financial assets) and projected cash flows from operations.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

Year ended 31 December 2016

	On demand US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
Trade and notes payables	156	4,196	–	–	–	4,352
Other payables and accruals	407	6,985	–	–	–	7,392
	563	11,181	–	–	–	11,744

Year ended 31 December 2015

	On demand US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
Trade and notes payables	41	2,373	–	–	–	2,414
Other payables and accruals	424	7,047	–	–	–	7,471
	465	9,420	–	–	–	9,885

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is total liabilities divided by total assets. The gearing ratios as at the end of the years were as follows:

	2016	2015
	US$'000	*US$'000*
Total liabilities	**42,011**	32,826
Total assets	**226,032**	182,074
Gearing ratio*	**18.6%**	18.0%

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016	2015
	US$'000	*US$'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**46,082**	44,246
CURRENT ASSETS		
Due from subsidiaries	**31,520**	8,520
Prepayments, deposits and other receivables	**128**	50
Cash and cash equivalents	**53,012**	65,148
Total current assets	**84,660**	73,718
CURRENT LIABILITIES		
Due to subsidiaries	**7,753**	3,607
Other payables and accruals	**245**	3,356
Total current liabilities	**7,998**	6,963
NET CURRENT LIABILITIES	**76,662**	66,755
TOTAL ASSETS LESS CURRENT LIABILITIES	**122,744**	111,001
Net assets	**122,744**	111,001
EQUITY		
Share capital	**1,691**	1,600
Reserves *(note)*	**121,053**	109,401
Total equity	**122,744**	111,001

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY(CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium *US$000*	Share option reserve *US$'000*	Accumulated losses *US$'000*	Total *US$'000*
At 1 January 2015	–	5,013	–	5,013
Total comprehensive income for the year	–	–	(5,615)	(5,615)
Issuance of shares	43,928	–	–	43,928
Capitalisation issue	(613)	–	–	(613)
Issuance of shares for the IPO	67,208	–	–	67,208
Share issuance expenses	(3,868)	–	–	(3,868)
Equity-settled share option arrangements	–	3,348	–	3,348
At 31 December 2015	106,655	8,361	(5,615)	109,401
Total comprehensive income for the year	–	–	(852)	(852)
Issuance of shares under the over-allotment option	10,024	–	–	10,024
Share options exercised	1,889	(728)	–	1,161
Share issuance expenses	(517)	–	–	(517)
Equity-settled share option arrangements	–	1,836	–	1,836
At 31 December 2016	118,051	9,469	(6,467)	121,053

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2017.

GENSCRIPT BIOTECH CORPORATION
金斯瑞生物科技股份有限公司*