

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

[●] August 2015

The Directors
Genscript Biotech Corporation
Haitong International Capital Limited

Dear Sirs,

We set out below our report on the financial information of Genscript Biotech Corporation (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the combined statements of profit or loss, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 (the “Relevant Periods”), and the combined statements of financial position of the Group as at 31 December 2012, 2013 and 2014 and 30 June 2015, and the statement of financial position of the Company as at 30 June 2015, together with the notes thereto (the “Financial Information”), and the comparative combined statement of profit or loss, combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended 30 June 2014 (the “Interim Comparative Information”), prepared on the basis of preparation in note 2.1 of Section II below, for inclusion in the document of the Company dated [●] August 2015 (the “Document”) in connection with the [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 21 May 2015. Pursuant to a group reorganisation (the “2015 Reorganisation”) as set out in note 1 of Section II below, the Company became the holding company of the other subsidiaries comprising the Group on 23 July 2015. Apart from the 2015 Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the combined financial statements of the Group (the “Underlying Financial Statements”) in accordance with

APPENDIX I

ACCOUNTANTS' REPORT

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 (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and a review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 [REDACTED] issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Company as at 30 June 2015 and the Group as at 31 December 2012, 2013 and 2014 and 30 June 2015 and of the combined results and cash flows of the Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

I. FINANCIAL INFORMATION

The following is the Financial Information and the Interim Comparative Information of the Group for the Relevant Periods prepared on the basis set out in note 2.2 of Section II:

Combined statements of profit or loss

		Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
	Notes	US\$'000	US\$'000	US\$'000	US\$'000 (Unaudited)	US\$'000
REVENUE	5	52,990	60,104	69,994	33,521	41,050
Cost of sales		(17,547)	(21,846)	(25,896)	(12,089)	(14,192)
Gross profit		35,443	38,258	44,098	21,432	26,858
Other income and gains	5	1,603	1,182	1,468	1,217	737
Selling and distribution expenses		(10,339)	(12,813)	(15,538)	(7,570)	(8,357)
Administrative expenses		(15,018)	(16,855)	(21,446)	(9,714)	(11,325)
Other expenses		(415)	(1,906)	(335)	(5)	(17)
Finance costs	7	(170)	(337)	(411)	(215)	–
PROFIT BEFORE TAX	6	11,104	7,529	7,836	5,145	7,896
Income tax expense	10	(1,922)	(1,529)	(1,661)	(1,099)	(2,150)
PROFIT FOR THE YEAR/PERIOD		<u>9,182</u>	<u>6,000</u>	<u>6,175</u>	<u>4,046</u>	<u>5,746</u>
Attributable to:						
Owners of the parent		9,182	6,000	6,175	4,046	5,746
Non-controlling interests		–	–	–	–	–
		<u>9,182</u>	<u>6,000</u>	<u>6,175</u>	<u>4,046</u>	<u>5,746</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	12					
Basic and diluted (US\$)						
– For profit for the year/period		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Details of the dividends payable and proposed for the year/period are disclosed in note 11 to the Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

Combined statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
PROFIT FOR THE YEAR/PERIOD	<u>9,182</u>	<u>6,000</u>	<u>6,175</u>	<u>4,046</u>	<u>5,746</u>
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Fair value change on available-for-sale investments	(15)	20	(9)	4	4
Exchange differences on translation of foreign operations	<u>219</u>	<u>1,937</u>	<u>(266)</u>	<u>(750)</u>	<u>106</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:	<u>204</u>	<u>1,957</u>	<u>(275)</u>	<u>(746)</u>	<u>110</u>
Other comprehensive income for the year/period, net of tax	<u>204</u>	<u>1,957</u>	<u>(275)</u>	<u>(746)</u>	<u>110</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u>9,386</u>	<u>7,957</u>	<u>5,900</u>	<u>3,300</u>	<u>5,856</u>
Attributable to:					
Owners of the parent	9,386	7,957	5,900	3,300	5,856
Non-controlling interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>9,386</u>	<u>7,957</u>	<u>5,900</u>	<u>3,300</u>	<u>5,856</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Combined statements of financial position

		As at 31 December			As at 30 June
		2012	2013	2014	2015
	Notes	US\$'000	US\$'000	US\$'000	US\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	38,636	38,271	37,530	38,416
Advance payments for property, plant and equipment		910	529	185	595
Prepaid land lease payments	14	4,385	4,425	8,220	8,140
Other intangible assets	15	211	264	349	358
Deferred tax assets	25	1,348	1,785	2,304	2,893
Total non-current assets		45,490	45,274	48,588	50,402
CURRENT ASSETS					
Inventories	18	1,244	1,404	1,777	2,136
Trade and notes receivables	19	7,908	9,010	12,157	13,940
Prepayments, deposits and other receivables	20	1,586	1,235	1,316	1,772
Due from the ultimate holding company	33	34	34	34	34
Due from the related party	33	100	115	–	–
Available-for-sale investments	16	303	4,105	2,526	–
Pledged short-term deposits	21	264	201	345	202
Cash and cash equivalents	21	18,660	22,457	25,637	25,684
Total current assets		30,099	38,561	43,792	43,768
CURRENT LIABILITIES					
Trade and notes payables	22	1,895	1,848	2,869	2,193
Other payables and accruals	23	18,776	15,437	15,132	17,285
Tax payable		1,266	1,858	49	1,652
Due to the ultimate holding company	33	2,577	2,532	2,570	2,570
Due to related parties	33	4,943	7,390	8,173	–
Government grants	24	795	820	395	39
Total current liabilities		30,252	29,885	29,188	23,739
NET CURRENT (LIABILITIES)/ ASSETS					
		(153)	8,676	14,604	20,029
TOTAL ASSETS LESS CURRENT LIABILITIES					
		45,337	53,950	63,192	70,431

APPENDIX I

ACCOUNTANTS’ REPORT

		As at 31 December			As at 30 June
		2012	2013	2014	2015
	Notes	US\$'000	US\$'000	US\$'000	US\$'000
NON-CURRENT LIABILITIES					
Deferred tax liabilities	25	56	–	–	–
Government grants	24	1,125	1,387	1,445	1,436
Total non-current liabilities		1,181	1,387	1,445	1,436
NET ASSETS		44,156	52,563	61,747	68,995
EQUITY					
Equity attributable to owners of the parent					
Share capital	26	364	364	364	364
Reserves	28	43,792	52,166	61,350	68,631
		44,156	52,530	61,714	68,995
Non-controlling interests		–	33	33	–
Total equity		44,156	52,563	61,747	68,995

ACCOUNTANTS' REPORT

— I-7 —

— I-8 —

— I-9 —

— I-10 —

* These reserve accounts comprise the combined reserves of US\$43,792,000, US\$61,350,000 and US\$68,631,000 in the combined statements of financial position as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

Combined statements of cash flows

		Year ended 31 December			Six months ended 30 June	
	Notes	2012	2013	2014	2014	2015
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
CASH FLOWS FROM						
OPERATING ACTIVITIES						
Profit before tax		11,104	7,529	7,836	5,145	7,896
Adjustments for:						
Provision provided for						
accounts receivables and						
other receivable		566	449	39	–	74
Impairment of property, plant						
and equipment		–	–	75	–	–
Depreciation of property, plant						
and equipment	13	3,609	4,494	4,703	2,361	2,384
Amortisation of other						
intangible assets	15	79	47	76	35	85
Amortisation of land use						
rights	14	92	94	122	47	88
Loss on disposal of items of						
property, plant and						
equipment	6	7	21	26	5	10
Interest income	5	(63)	(36)	(86)	(16)	(26)
Investment income		(94)	(132)	(207)	(144)	(187)
Finance costs	7	170	337	411	215	–
Equity-settled share option						
expense		653	417	3,284	1,186	1,425
		16,123	13,220	16,279	8,834	11,749
Increase in trade and notes						
receivables		(4,204)	(1,392)	(3,164)	(908)	(1,857)
(Increase)/decrease in						
prepayments, deposits and						
other receivables		(3,358)	195	(23)	(186)	(457)
Increase in inventories		(556)	(160)	(373)	(247)	(359)
(Increase)/decrease in an						
amount due from the related						
party		(100)	(15)	115	115	–
(Decrease)/increase in an						
amount due to the ultimate						
holding company		(1,195)	(45)	38	–	–
Decrease in government grants		(774)	(807)	(818)	(420)	(366)

APPENDIX I

ACCOUNTANTS’ REPORT

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
					<i>(Unaudited)</i>	
Increase/(decrease) in trade and notes payables		1,088	(47)	1,021	704	(676)
Receipts in pledged short-term deposits	21	–	63	–	–	143
Payments in pledged short-term deposits	21	(63)	–	(144)	–	–
Increase in an amount due to related parties		–	–	–	5	–
Increase/(decrease) in other payables and accruals		<u>4,249</u>	<u>2,406</u>	<u>3,178</u>	<u>(587)</u>	<u>2,207</u>
Cash generated from operations		11,210	13,418	16,109	7,310	10,384
Interest received		63	36	86	16	26
Income taxes paid		<u>(2,083)</u>	<u>(1,430)</u>	<u>(3,989)</u>	<u>(1,504)</u>	<u>(1,136)</u>
Net cash flows from operating activities		<u>9,190</u>	<u>12,024</u>	<u>12,206</u>	<u>5,822</u>	<u>9,274</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of available-for-sale investments	16	(19,380)	(24,308)	(30,447)	(12,152)	(4,087)
Proceeds from disposal of available-for-sale investments	16	21,633	20,854	32,400	13,124	6,804
Purchases of items of property, plant and equipment and construction in progress		(9,529)	(8,418)	(7,355)	(4,112)	(3,747)
Proceeds from disposal of items of property, plant and equipment		2	–	3	3	–
Prepayment of land lease payments	14	–	–	(4,012)	–	–
Purchases of other intangible assets	15	(49)	(96)	(162)	(19)	(91)
Receipt of government grants		<u>6</u>	<u>1,054</u>	<u>459</u>	<u>–</u>	<u>–</u>
Net cash flows used in investing activities		<u>(7,317)</u>	<u>(10,914)</u>	<u>(9,114)</u>	<u>(3,156)</u>	<u>(1,121)</u>

APPENDIX I

ACCOUNTANTS’ REPORT

		Year ended 31 December			Six months ended 30 June	
	Notes	2012	2013	2014	2014	2015
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
CASH FLOWS FROM						
FINANCING ACTIVITIES						
Capital injection by						
non-controlling						
shareholders		–	33	–	–	–
Repayment of entrusted loans		(4,866)	(5,302)	(15,142)	(4,876)	–
Proceeds from entrusted loans		4,937	7,594	7,776	4,876	–
Cash receipt from a related						
party		–	–	8,172	–	–
Repayment to a related party		–	–	–	–	(8,178)
Interest paid		(170)	(337)	(411)	(215)	–
Net cash flows (used in)/						
from financing activities		(99)	1,988	395	(215)	(8,178)
NET INCREASE/						
(DECREASE) IN CASH						
AND CASH						
EQUIVALENTS		1,774	3,098	3,487	2,451	(25)
Net foreign exchange						
difference		108	699	(307)	(445)	72
Cash and cash equivalents at						
beginning of year/period	21	16,778	18,660	22,457	22,457	25,637
CASH AND CASH						
EQUIVALENTS AT END						
OF YEAR/PERIOD	21	18,660	22,457	25,637	24,463	25,684

APPENDIX I

ACCOUNTANTS’ REPORT

ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
		<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
					<i>(Unaudited)</i>	
Cash and bank balances		18,660	22,457	22,368	24,463	25,684
Non-pledged time deposits with original maturity of less than three months when acquired		—	—	3,269	—	—
Cash and cash equivalents as stated in the statement of financial position	21	<u>18,660</u>	<u>22,457</u>	<u>25,637</u>	<u>24,463</u>	<u>25,684</u>
Cash and cash equivalents as stated in the statement of cash flows		<u>18,660</u>	<u>22,457</u>	<u>25,637</u>	<u>24,463</u>	<u>25,684</u>

Statement of financial position

	<i>Notes</i>	As at <u>30 June 2015</u> <i>US\$’000</i>
NON-CURRENT ASSETS		
Investments in subsidiaries	17	<u>14,727</u>
Total non-current assets		<u>14,727</u>
CURRENT ASSETS		
Prepayments, deposits and other receivables	20	<u>548</u>
Total current assets		<u>548</u>
CURRENT LIABILITIES		
Other payables		1,109
Due to subsidiaries	17	<u>1,049</u>
Total current liabilities		<u>2,158</u>
NET CURRENT LIABILITIES		<u>(1,610)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>13,117</u>
EQUITY		
Share capital	26	364
Reserves		<u>12,753</u>
Total equity		<u>13,117</u>

APPENDIX I

ACCOUNTANTS’ REPORT

II. NOTES TO FINANCIAL INFORMATION

1. Corporate information

Genscript Biotech Corporation 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 of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grant Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company’s subsidiaries are principally engaged in the manufacturing and sales of life sciences research products and services. The products and services include mainly life sciences research services, preclinical drug development services, life sciences research catalog products and industrial synthetic biology products.

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

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company	Place and date of incorporation/ registration and business	Issued ordinary shares/paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Genscript (Hong Kong) Limited (a)	Hong Kong 8 January 2009	HK\$155,000	100	–	sale of life sciences research products and services
Nanjing Jinsirui Biotechnology Co., Ltd. (“Nanjing Jinsirui”) (b)	China 12 March 2009	US\$41,019,975	–	100	manufacturing and sales of life sciences research products and services
Genscript USA Incorporated (c)	United States of America 26 March 2009	US\$1	100	–	manufacturing and sales of life sciences research products and services
Jinsikang Technology (Nanjing) Co., Ltd. (“Nanjing Jinsikang”) (b)	China 30 April 2009	RMB132,550,600	–	100	manufacturing and sales of life sciences research products and services

APPENDIX I

ACCOUNTANTS’ REPORT

Company	Place and date of incorporation/ registration and business	Issued ordinary shares/paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Genscript Japan Inc. (c)	Japan 7 July 2011	JPY 300,000	–	100	sale of life sciences research products and services
GS International Limited (a)	Hong Kong 6 June 2012	HK\$10,000	–	100	investment holding
Nanjing Bestzyme Bioengineering Co., Ltd. (b)	China 6 June 2013	US\$4,000,000	–	100	manufacturing and sales of life sciences research products and services
Nanjing Legend Biotechnology Co., Ltd. (d)	China 17 November 2014	US\$500,000	–	100	manufacturing and sales of life sciences research products and services
Shanghai Jingrui Biotechnology Co., Ltd. (e)	China 6 March 2015	RMB1,000,000	–	100	manufacturing and sales of life sciences research products and services
Hubei Bestzyme Biotechnology Co., Ltd. (e)	China 29 January 2015	RMB10,000,000	–	100	manufacturing and sales of life sciences research products and services
Bestzyme Biotech Corporation (e)	Cayman Islands 27 May 2015	US\$50,000	–	100	investment holding
Bestzyme Biotech Limited (e)	BVI 1 June 2015	US\$10,000	–	100	investment holding
Bestzyme Biotech USA Incorporated (e)	United States of America 1 June 2015	US\$0	–	100	investment holding
Bestzyme Biotech HK Limited (e)	Hong Kong 3 June 2015	HK\$1	–	100	investment holding
Legend Biotech Corporation (e)	Cayman Islands 27 May 2015	US\$50,000	–	100	investment holding

APPENDIX I

ACCOUNTANTS’ REPORT

Company	Place and date of incorporation/ registration and business	Issued ordinary shares/paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Legend Biotech Limited (e)	BVI 2 June 2015	US\$10,000	–	100	investment holding
Legend Biotech HK Limited (e)	Hong Kong 3 June 2015	HK\$1	–	100	investment holding

- (a) The statutory financial statements for the years ended 31 December 2012, 2013 and 2014 prepared in accordance with Hong Kong Financial Reporting Standards were audited by PL Luk & Company, Certified Public Accountants.
- (b) The statutory financial statements for the years ended 31 December 2012, 2013 and 2014 prepared in accordance with PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by 瑞華會計師事務所 (特殊普通合伙) (“Ruihua Certified Public Accountants”).
- (c) No statutory accounts have been prepared for these subsidiaries during the Relevant Periods as there is no statutory requirement for these companies to prepare audited financial statements.
- (d) No statutory audited financial statements have been prepared since the date of incorporation.
- (e) No statutory accounts have been prepared for these subsidiaries during the Relevant Periods as these subsidiaries have been incorporated/established after 31 December 2014.

2.1 Basis of presentation

Pursuant to the 2015 Reorganisation as more fully explained in the paragraph headed “2015 Reorganization” in the section headed “History and Reorganization” in the Document, the Company went through a series of reorganisation in 2015. On 23 July 2015, the Company became the holding company of the companies now comprising the Group. The companies now comprising the Group were under the common control of Genscript Holding (Cayman) Limited (the “Parent Company”) before and after the 2015 Reorganisation. Accordingly for the purpose of this report, the Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the acquisition of the 2015 Reorganisation had been completed at the beginning of the Relevant Periods.

The combined statements of profit or loss, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Parent Company, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Parent Company’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the 2015 Reorganisation.

APPENDIX I

ACCOUNTANTS’ REPORT

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 transactions and balances have been eliminated on combination in full.

2.2 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”) and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2015 have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods. All HKFRSs effective for the accounting period commencing from 1 January 2015, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Information.

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.

Basis of combination

The Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods.

The acquisition among the entities under common control is dealt with in accordance with the principles set out in Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA (“AG 5”) as if the acquisition had occurred from the date when the combining entities first came under the control of the controlling party.

As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

No amount is recognised in respect of goodwill or the excess of the acquirers’ interest in the net fair value of acquirees’ identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

APPENDIX I

ACCOUNTANTS’ REPORT

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All significant intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on combination in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the companies now comprising the Group.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.3 New and revised HKFRSs

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

HKFRS 9	<i>Financial Instruments</i> ³
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁴
HKFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to HKAS 1	<i>Disclosure Initiative</i> ¹
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ¹
<i>Annual Improvements 2012–2014 Cycle</i>	<i>Amendments to a number of HKFRSs</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

⁴ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

The Group is in the process of assessing the impact of these standards and amendments on the Financial Information of the Group.

APPENDIX I

ACCOUNTANTS’ REPORT

2.4 Summary of significant accounting policies

Subsidiaries

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).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The results of subsidiaries are included in the Company’s statement of profit or loss to the extent of dividends received and receivable. The Company’s investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Business combinations for acquisition of subsidiaries other than common control and goodwill

Business combinations for acquisition of subsidiaries other than common control 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.

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 that is a financial instrument

APPENDIX I

ACCOUNTANTS’ REPORT

and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. 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.

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 investment properties, derivative financial instruments and equity investments 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.

APPENDIX I

ACCOUNTANTS' REPORT

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 |

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.

APPENDIX I

ACCOUNTANTS' REPORT

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 controlled or jointly controlled by a person identified in (a); and
 - (vi) 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).

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.

APPENDIX I

ACCOUNTANTS’ REPORT

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

Buildings	2%
Machinery and equipment	20% to 33 ¹ / ₃ %
Computer and office equipment	20%
Motor vehicles	10%

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. Residual values, 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.

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 as 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
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APPENDIX I

ACCOUNTANTS' REPORT

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.

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.

APPENDIX I

ACCOUNTANTS’ REPORT

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 method. 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 Administrative expense for receivables.

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”.

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.

Investments and other financial assets

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

APPENDIX I

ACCOUNTANTS' REPORT

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.

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 combined 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.

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

APPENDIX I

ACCOUNTANTS’ REPORT

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 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 and is accrued 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.

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

APPENDIX I

ACCOUNTANTS’ REPORT

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 and is accrued 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.

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 costs 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.

APPENDIX I

ACCOUNTANTS’ REPORT

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the combined and company statements 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. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production 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 combined statements 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 statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, 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 costs in the statement of profit or loss.

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

APPENDIX I

ACCOUNTANTS' REPORT

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

- where the deferred income 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 and associate, 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 income 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, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income 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 and associate, deferred income 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.

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 date.

Deferred tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income 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

APPENDIX I

ACCOUNTANTS’ REPORT

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;
- (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

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 27 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.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not 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.

APPENDIX I

ACCOUNTANTS’ REPORT

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.

Other employee benefits

Pension scheme

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. This subsidiary is 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.

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

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 proposed by the directors are 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. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

APPENDIX I

ACCOUNTANTS’ REPORT

Foreign currency translation

These financial statements are presented in United States dollars, which is the Company’s functional and presentation 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. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at 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.

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 the subsidiaries established in PRC and Japan are currencies other than the US\$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statement 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 as a separate component of equity until the disposal of the respective foreign operation entity. 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 combined statements of cash flows, the cash flows of the PRC and Japan established subsidiaries are translated into US\$ 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 US\$ at the weighted average exchange rates for the year.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group’s Financial Information requires management to make significant 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.

APPENDIX I

ACCOUNTANTS’ REPORT

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. 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.

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 values of deferred tax assets relating to recognised deductible temporary differences were US\$1,348,000, US\$1,785,000, US\$2,304,000 and US\$2,893,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. Further details are contained in note 25 to the Financial Information.

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

APPENDIX I

ACCOUNTANTS' REPORT

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 expenses amounted to US\$1,922,000, US\$1,529,000, US\$1,661,000, US\$1,099,000 (unaudited) and US\$2,150,000 for the years ended at 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2014 and 2015, respectively.

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 loss over the period in which such estimate has been changed. The provision for impairment of trade and other receivables amounted to US\$679,000, US\$1,128,000, US\$1,167,000, and US\$1,241,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively.

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. The net carrying values of inventories were US\$1,244,000, US\$1,404,000, US\$1,777,000 and US\$2,136,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively.

Share-based compensation

The fair value of most share options granted by the Group is estimated using the binomial model. 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 comparable company's stock. 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. The equity-settled share option expenses amounted to US\$653,000, US\$417,000, US\$3,284,000, US\$1,186,000 (unaudited) and US\$1,425,000 for the years ended at 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2014 and 2015, respectively.

APPENDIX I

ACCOUNTANTS' REPORT

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 science research services, comprising gene and peptide syntheses, 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 catalog 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.

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 2012

	Life sciences research services	Preclinical drug development services	Life science research catalog products	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue				
External customers	48,571	2,626	1,793	52,990
Segment results	32,679	1,692	1,072	35,443
Other income and gains				1,603
Selling and distribution expenses				(10,339)
Administrative expenses				(15,018)
Other expenses				(415)
Finance costs				(170)
Profit before tax				11,104

APPENDIX I

ACCOUNTANTS’ REPORT

Year ended 31 December 2013

	Life sciences research services	Preclinical drug development services	Life science research catalog products	Total
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Segment revenue				
External customers	<u>55,354</u>	<u>3,223</u>	<u>1,527</u>	<u>60,104</u>
Segment results	<u>35,428</u>	<u>1,940</u>	<u>890</u>	<u>38,258</u>
Other income and gains				1,182
Selling and distribution expenses				(12,813)
Administrative expenses				(16,855)
Other expenses				(1,906)
Finance costs				<u>(337)</u>
Profit before tax				<u><u>7,529</u></u>

Year ended 31 December 2014

	Life science research services	Preclinical drug development services	Life sciences research catalog products	Industrial synthetic biology products	Total
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Segment revenue					
External customers	<u>63,220</u>	<u>4,382</u>	<u>2,044</u>	<u>348</u>	<u>69,994</u>
Segment results	<u>39,943</u>	<u>2,796</u>	<u>1,359</u>	<u>–</u>	<u>44,098</u>
Other income and gains					1,468
Selling and distribution expenses					(15,538)
Administrative expenses					(21,446)
Other expenses					(335)
Finance costs					<u>(411)</u>
Profit before tax					<u><u>7,836</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

Six months ended 30 June 2015

	Life science research services	Preclinical drug development services	Life sciences research catalog products	Industrial synthetic biology products	Total
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Segment revenue					
External customers	<u>36,775</u>	<u>2,641</u>	<u>1,181</u>	<u>453</u>	<u>41,050</u>
Segment results	<u>24,395</u>	<u>1,698</u>	<u>739</u>	<u>26</u>	<u>26,858</u>
Other income and gains					737
Selling and distribution expenses					(8,357)
Administrative expenses					(11,325)
Other expenses					(17)
Finance costs					—
Profit before tax					<u>7,896</u>

Six months ended 30 June 2014 (Unaudited)

	Life science research services	Preclinical drug development services	Life sciences research catalog products	Industrial synthetic biology products	Total
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Segment revenue					
External customers	<u>30,320</u>	<u>2,163</u>	<u>943</u>	<u>95</u>	<u>33,521</u>
Segment results	<u>19,547</u>	<u>1,391</u>	<u>551</u>	<u>(57)</u>	<u>21,432</u>
Other income and gains					1,217
Selling and distribution expenses					(7,570)
Administrative expenses					(9,714)
Other expenses					(5)
Finance costs					(215)
Profit before tax					<u>5,145</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Geographic information

(a) Revenue from external customers

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
North America	27,120	31,367	36,473	17,067	21,565
Europe	11,994	12,396	14,714	7,464	8,426
China	5,390	7,145	8,676	3,645	5,993
Asia Pacific (excluding China and Japan)	4,198	4,857	5,602	2,761	2,746
Japan	3,684	3,523	3,582	2,103	1,842
Others	604	816	947	481	478
Total	<u>52,990</u>	<u>60,104</u>	<u>69,994</u>	<u>33,521</u>	<u>41,050</u>

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

(b) Non-current assets

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000
China	43,267	42,487	45,572	46,961
Other countries	875	1,002	712	548
Total	<u>44,142</u>	<u>43,489</u>	<u>46,284</u>	<u>47,509</u>

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

Information about a major customer

No revenue from the Group’s sales to a single customer amounted to 10% or more of the Group’s revenue for the Relevant Periods and the six months ended 30 June 2014.

APPENDIX I

ACCOUNTANTS’ REPORT

5. Revenue, other income and gains

Revenue, which is also the Group’s turnover, represents the net invoiced value of services provided and goods sold, after allowances for returns and trade discounts during the reporting period.

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

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000
				(Unaudited)	
Revenue					
Rendering of services	51,197	58,577	67,602	32,483	39,416
Sales of goods	1,793	1,527	2,392	1,038	1,634
	<u>52,990</u>	<u>60,104</u>	<u>69,994</u>	<u>33,521</u>	<u>41,050</u>
Other income and gains					
Bank interest income	63	36	86	16	26
Government grants	1,446	913	1,167	477	374
Investment income	94	132	207	144	187
Others	–	101	8	580	150
	<u>1,603</u>	<u>1,182</u>	<u>1,468</u>	<u>1,217</u>	<u>737</u>

APPENDIX I

ACCOUNTANTS’ REPORT

6. Profit before tax

The Group’s profit before tax is arrived at after charging:

		Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
	Notes	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000
					(Unaudited)	
Cost of inventories sold		721	637	1,033	544	869
Cost of services provided		16,826	21,209	24,863	11,545	13,323
Depreciation of items, of property plant and equipment	13	3,609	4,494	4,703	2,361	2,384
Amortisation of other intangible assets*	15	79	47	76	35	85
Amortisation of prepaid land lease payments	14	92	94	122	47	88
Provision for impairment of trade receivables	19	440	290	17	–	74
Provision for impairment of other receivables	20	126	159	22	–	–
Minimum lease payments under operating leases:						
– Land and buildings		597	645	680	367	361
Auditors’ remuneration		119	118	195	14	168
Employee benefit expense (excluding directors’ remuneration):						
Wages and salaries		18,090	22,628	27,362	13,290	14,838
Pension scheme contributions (defined contribution scheme)		1,422	1,831	2,821	1,428	1,454
Equity-settled share option expense		42	41	1,243	426	873
		<u>19,554</u>	<u>24,500</u>	<u>31,426</u>	<u>15,144</u>	<u>17,165</u>
Research and development costs		5,508	6,064	5,589	2,516	2,439
Net foreign exchange loss		408	1,863	307	–	–
Loss on disposal of items of property, plant and equipment		<u>7</u>	<u>21</u>	<u>26</u>	<u>5</u>	<u>10</u>

* The amortisation of other intangible assets for the Relevant Periods is included in “Administrative expenses” on the face of the combined statements of profit or loss.

APPENDIX I

ACCOUNTANTS’ REPORT

7. Finance costs

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000
				(Unaudited)	
Interest on bank loans wholly repayable within five years	<u>170</u>	<u>337</u>	<u>411</u>	<u>215</u>	<u>–</u>

8. Directors’ remuneration

Directors’ remuneration for the year/period, disclosed pursuant to the [REDACTED] Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000
				(Unaudited)	
Other employments:					
Salaries, allowances and benefits in kind	771	820	791	440	376
Performance related bonuses	65	119	205	56	74
Equity-settled share option expense	611	376	2,041	760	552
Pension scheme contributions	<u>4</u>	<u>8</u>	<u>12</u>	<u>5</u>	<u>6</u>
	<u>1,451</u>	<u>1,323</u>	<u>3,049</u>	<u>1,261</u>	<u>1,008</u>

During and before the Relevant Periods, certain directors were granted share options, in respect of their services to the Group, under the share option scheme Genscript (Cayman) Limited, an intermediate holding company, further details of which are set out in note 27 to the Financial Information. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, determined as at the date of grant and the amount included in the financial statements for the current year included in the above directors’ and remuneration disclosures.

APPENDIX I

ACCOUNTANTS' REPORT

(a) Independent non-executive directors

The Company did not have any executive directors, non-executive directors and independent non-executive directors at any time during the Relevant Periods since the Company was incorporated on 21 May 2015.

Subsequent to the end of the Relevant Periods, Mr. Zhang Fangliang, Ms. Wang Ye and Mr. Meng Jiange were appointed as executive directors of the Company in August 2015. Mr. Wang Luquan, Mr. Huang Zuie-Chin and Mr. Pan Yuexin were appointed as non-executive directors of the Company in August 2015. Mr. Guo Hongxin, Mr. Dai Zumian and Ms. Zhang Min were appointed as independent non-executive directors of the Company in August 2015.

Certain of the directors received remuneration from the subsidiaries now comprising the group for their appointment as directors of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

(b) Executive directors and non-executive directors

	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
Year ended 31 December 2012					
Executive directors:					
Mr. Zhang Fangliang	194	–	–	–	194
Ms. Wang Ye	316	65	543	–	924
Mr. Meng Jiange	87	–	5	4	96
	<u>597</u>	<u>65</u>	<u>548</u>	<u>4</u>	<u>1,214</u>
Non-executive directors:					
Mr. Wang Luquan	<u>174</u>	<u>–</u>	<u>63</u>	<u>–</u>	<u>237</u>
Year ended 31 December 2013					
Executive directors:					
Mr. Zhang Fangliang	219	49	–	3	271
Ms. Wang Ye	329	70	334	–	733
Mr. Meng Jiange	90	–	13	5	108
	<u>638</u>	<u>119</u>	<u>347</u>	<u>8</u>	<u>1,112</u>
Non-executive directors:					
Mr. Wang Luquan	<u>182</u>	<u>–</u>	<u>29</u>	<u>–</u>	<u>211</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	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
Year ended 31 December 2014					
Executive directors:					
Mr. Zhang Fangliang	231	–	–	6	237
Ms. Wang Ye	365	199	2,021	–	2,585
Mr. Meng Jiange	102	6	17	6	131
	<u>698</u>	<u>205</u>	<u>2,038</u>	<u>12</u>	<u>2,953</u>
Non-executive directors:					
Mr. Wang Luquan	<u>93</u>	<u>–</u>	<u>3</u>	<u>–</u>	<u>96</u>
Six months ended 30 June 2015					
Executive directors:					
Mr. Zhang Fangliang	124	–	–	3	127
Ms. Wang Ye	195	58	518	–	771
Mr. Meng Jiange	<u>57</u>	<u>16</u>	<u>34</u>	<u>3</u>	<u>110</u>
	<u>376</u>	<u>74</u>	<u>552</u>	<u>6</u>	<u>1,008</u>
Six months ended 30 June 2014					
(Unaudited)					
Executive directors:					
Mr. Zhang Fangliang	113	–	–	3	116
Ms. Wang Ye	184	50	748	–	982
Mr. Meng Jiange	<u>50</u>	<u>6</u>	<u>9</u>	<u>2</u>	<u>67</u>
	<u>347</u>	<u>56</u>	<u>757</u>	<u>5</u>	<u>1,165</u>
Non-executive directors:					
Mr. Wang Luquan	<u>93</u>	<u>–</u>	<u>3</u>	<u>–</u>	<u>96</u>

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

APPENDIX I

ACCOUNTANTS' REPORT

9. Five highest paid employees

The five highest paid employees of the Group during the Relevant Periods and for the six months ended 30 June 2014 included 3, 3, 2, 2 and 3 directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 2, 2, 3, 3 and 2 highest paid employees who are neither a director nor chief executive of the Group, during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Salaries, allowances and benefits in kind	295	354	625	189	314
Performance related bonuses	30	55	73	25	70
Equity-settled share option expense	3	14	36	—	38
Pension scheme contributions	—	—	—	—	—
	<u>328</u>	<u>423</u>	<u>734</u>	<u>214</u>	<u>422</u>

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				
	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
HK\$500,000 to HK\$1,000,000	—	—	—	2	1
HK\$1,000,001 to HK\$1,500,000	2	1	—	—	2
HK\$1,500,001 to HK\$2,000,000	—	1	2	—	—
HK\$2,000,001 to HK\$2,500,000	—	—	1	—	—

APPENDIX I

ACCOUNTANTS' REPORT

During the Relevant Periods and years before, share options were granted to a non-director highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 27 to the Financial Information. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the Relevant Periods is included in the above non-director, highest paid employees' remuneration disclosures.

10. Income tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of Cayman and BVI, the Group is not subject to any income tax in Cayman and BVI.

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods.

Pursuant to the rules and regulations of Japan, the Group is subject to 18% of taxable income in Japan for the year of 2012, 15% for the years of 2013 and 2014 and for the six months ended 30 June 2014, and 25.5% for the taxable income over JPY8,000,000 part and 15% for less than JPY8,000,000 part for the six months ended 30 June 2015.

Pursuant to the rules and regulations of the United States of America, the Group is subject to federal tax rate at 34% and state tax rate at 9% of taxable income in USA.

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 High and New Technology Enterprises and Advanced Technology Service Enterprises and Nanjing Jinsikang is qualified as Advanced Technology Service Enterprises; both of them were subject to a preferential income tax rate of 15% for the Relevant Periods.

APPENDIX I

ACCOUNTANTS’ REPORT

The income tax expense of the Group for the Relevant Periods and the six months ended 30 June 2014 is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Current — China	1,272	1,243	1,846	1,025	1,768
Current — Elsewhere	1,157	751	338	447	969
Deferred (note 25)	(507)	(465)	(523)	(373)	(587)
Total tax charge for the year/period	<u>1,922</u>	<u>1,529</u>	<u>1,661</u>	<u>1,099</u>	<u>2,150</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate in China to the tax expense at the effective tax rates is as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Profit before tax	<u>11,104</u>	<u>7,529</u>	<u>7,836</u>	<u>5,145</u>	<u>7,896</u>
At the PRC’s statutory income tax rate of 25%	2,776	1,882	1,959	1,286	1,974
Effect of tax rate differences in other countries	140	213	(48)	8	523
Preferential income tax rates applicable to subsidiaries	(901)	(620)	(1,060)	(449)	(885)
Additional deductible allowance for research and development expenses	(332)	(279)	(413)	(174)	(124)
Effect of non-deductible expenses	304	311	946	338	475
Tax losses not recognised	—	93	345	135	220
Others	(65)	(71)	(68)	(45)	(33)
Tax charge at the Group’s effective rate	<u>1,922</u>	<u>1,529</u>	<u>1,661</u>	<u>1,099</u>	<u>2,150</u>

APPENDIX I

ACCOUNTANTS’ REPORT

11. Dividend

No dividend has been paid or declared by the Group since the date of its incorporation.

12. Earnings per share attributable to equity holders of the parent

No earnings per share information was presented as its inclusion is not considered meaningful for the purpose of this report.

13. Property, plant and equipment

	Buildings	Machinery and equipment	Motor vehicles	Computer and office equipment	Construction in progress	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2012						
At 1 January 2012:						
Cost	217	12,050	319	1,035	1,985	15,606
Accumulated depreciation and impairment	(20)	(3,008)	(39)	(291)	–	(3,358)
Net carrying amount	<u>197</u>	<u>9,042</u>	<u>280</u>	<u>744</u>	<u>1,985</u>	<u>12,248</u>
At 1 January 2012, net of accumulated depreciation and impairment	197	9,042	280	744	1,985	12,248
Additions	206	3,003	–	638	26,135	29,982
Disposals	–	(9)	–	–	–	(9)
Depreciation provided during the year	(457)	(2,804)	(47)	(301)	–	(3,609)
Exchange realignment	2	19	–	(1)	4	24
Transfers	<u>27,035</u>	<u>436</u>	<u>–</u>	<u>302</u>	<u>(27,773)</u>	<u>–</u>
At 31 December 2012, net of accumulated depreciation and impairment	<u>26,983</u>	<u>9,687</u>	<u>233</u>	<u>1,382</u>	<u>351</u>	<u>38,636</u>
At 31 December 2012:						
Cost	27,460	15,501	320	1,972	351	45,604
Accumulated depreciation and impairment	(477)	(5,814)	(87)	(590)	–	(6,968)
Net carrying amount	<u>26,983</u>	<u>9,687</u>	<u>233</u>	<u>1,382</u>	<u>351</u>	<u>38,636</u>

APPENDIX I

ACCOUNTANTS' REPORT

	Buildings	Machinery and equipment	Motor vehicles	Computer and office equipment	Construction in progress	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	27,460	15,501	320	1,972	351	45,604
Accumulated depreciation and impairment	(477)	(5,814)	(87)	(590)	—	(6,968)
Net carrying amount	<u>26,983</u>	<u>9,687</u>	<u>233</u>	<u>1,382</u>	<u>351</u>	<u>38,636</u>
At 1 January 2013, net of accumulated depreciation and impairment	26,983	9,687	233	1,382	351	38,636
Additions	78	56	—	372	2,548	3,054
Disposals	—	(17)	—	(4)	—	(21)
Depreciation provided during the year	(599)	(3,366)	(30)	(499)	—	(4,494)
Exchange realignment	822	225	25	13	11	1,096
Transfers	—	1,953	1	412	(2,366)	—
At 31 December 2013, net of accumulated depreciation and impairment	<u>27,284</u>	<u>8,538</u>	<u>229</u>	<u>1,676</u>	<u>544</u>	<u>38,271</u>
At 31 December 2013:						
Cost	28,384	17,867	331	2,777	544	49,903
Accumulated depreciation and impairment	(1,100)	(9,329)	(102)	(1,101)	—	(11,632)
Net carrying amount	<u>27,284</u>	<u>8,538</u>	<u>229</u>	<u>1,676</u>	<u>544</u>	<u>38,271</u>
31 December 2014						
At 31 December 2013 and at 1 January 2014:						
Cost	28,384	17,867	331	2,777	544	49,903
Accumulated depreciation and impairment	(1,100)	(9,329)	(102)	(1,101)	—	(11,632)
Net carrying amount	<u>27,284</u>	<u>8,538</u>	<u>229</u>	<u>1,676</u>	<u>544</u>	<u>38,271</u>

APPENDIX I

ACCOUNTANTS' REPORT

	Buildings	Machinery and equipment	Motor vehicles	Computer and office equipment	Construction in progress	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2014, net of accumulated depreciation and impairment	27,284	8,538	229	1,676	544	38,271
Additions	67	10	–	24	4,115	4,216
Disposals	–	(27)	–	(2)	–	(29)
Depreciation provided during the year	(623)	(3,546)	(31)	(503)	–	(4,703)
Impairment	–	(75)	–	–	–	(75)
Exchange realignment	(98)	(23)	–	(5)	(24)	(150)
Transfers	–	2,942	–	208	(3,150)	–
At 31 December 2014, net of accumulated depreciation and impairment	<u>26,630</u>	<u>7,819</u>	<u>198</u>	<u>1,398</u>	<u>1,485</u>	<u>37,530</u>
At 31 December 2014:						
Cost	28,347	20,578	330	2,984	1,485	53,724
Accumulated depreciation and impairment	<u>(1,717)</u>	<u>(12,759)</u>	<u>(132)</u>	<u>(1,586)</u>	<u>–</u>	<u>(16,194)</u>
Net carrying amount	<u>26,630</u>	<u>7,819</u>	<u>198</u>	<u>1,398</u>	<u>1,485</u>	<u>37,530</u>
30 June 2015						
At 31 December 2014 and at 1 January 2015:						
Cost	28,347	20,578	330	2,984	1,485	53,724
Accumulated depreciation	<u>(1,717)</u>	<u>(12,759)</u>	<u>(132)</u>	<u>(1,586)</u>	<u>–</u>	<u>(16,194)</u>
Net carrying amount	<u>26,630</u>	<u>7,819</u>	<u>198</u>	<u>1,398</u>	<u>1,485</u>	<u>37,530</u>
At 1 January 2015, net of accumulated depreciation and impairment	26,630	7,819	198	1,398	1,485	37,530
Additions	54	–	–	–	3,196	3,250
Disposals	–	(9)	–	(1)	–	(10)
Depreciation provided during the period	(319)	(1,798)	(15)	(252)	–	(2,384)
Exchange realignment	24	11	–	(6)	1	30
Transfers	<u>91</u>	<u>1,968</u>	<u>–</u>	<u>82</u>	<u>(2,141)</u>	<u>–</u>
At 30 June 2015, net of accumulated depreciation and impairment	<u>26,480</u>	<u>7,991</u>	<u>183</u>	<u>1,221</u>	<u>2,541</u>	<u>38,416</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Motor vehicles</u>	<u>Computer and office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 30 June 2015:						
Cost	28,517	22,412	330	3,055	2,541	56,855
Accumulated depreciation	(2,037)	(14,421)	(147)	(1,834)	—	(18,439)
Net carrying amount	<u>26,480</u>	<u>7,991</u>	<u>183</u>	<u>1,221</u>	<u>2,541</u>	<u>38,416</u>

The Group has not obtained building ownership certificates for buildings with net book values of US\$1,135,000, US\$1,146,000, US\$1,118,000 and US\$1,107,000 as at 31 December 2012, 2013, 2014 and 30 June 2015. The Group is not allowed to assign, transfer or mortgage these assets until these certificates are obtained.

14. Prepaid land lease payments

	<u>As at 31 December</u>			<u>As at 30 June 2015</u>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Carrying amount at 1 January	1,681	4,477	4,520	8,395
Additions	2,884	—	4,012	—
Recognised	(92)	(94)	(122)	(88)
Exchange realignment	<u>4</u>	<u>137</u>	<u>(15)</u>	<u>8</u>
Carrying amount at end of year/ period	<u>4,477</u>	<u>4,520</u>	<u>8,395</u>	<u>8,315</u>
Current portion included in prepayments, deposits and other receivables	<u>(92)</u>	<u>(95)</u>	<u>(175)</u>	<u>(175)</u>
Non-current portion	<u>4,385</u>	<u>4,425</u>	<u>8,220</u>	<u>8,140</u>

As at the 31 December 2012, 2013 and 2014 and 30 June 2015, the Group has not obtained certificates of ownership in respect of certain leasehold lands of the Group in the PRC with aggregate net carrying amounts of nil, nil, US\$3,985,000 and US\$3,948,000, respectively. 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 the China and are held on leases of 50 years.

APPENDIX I

ACCOUNTANTS’ REPORT

15. Other intangible assets

	Software	Patents and license	Total
	US\$'000	US\$'000	US\$'000
31 December 2012			
At 1 January 2012:			
Cost	359	—	359
Accumulated amortisation	(118)	—	(118)
Net carrying amount	<u>241</u>	<u>—</u>	<u>241</u>
Cost at 1 January 2012, net of accumulated amortisation	241	—	241
Additions	49	—	49
Amortisation provided during the year (note 6)	(79)	—	(79)
At 31 December 2012	<u>211</u>	<u>—</u>	<u>211</u>
At 31 December 2012 and 1 January 2013:			
Cost	408	—	408
Accumulated amortisation	(197)	—	(197)
Net carrying amount	<u>211</u>	<u>—</u>	<u>211</u>
31 December 2013			
Cost at 1 January 2013, net of accumulated amortisation	211	—	211
Additions	96	—	96
Amortisation provided during the year (note 6)	(47)	—	(47)
Exchange realignment	4	—	4
At 31 December 2013	<u>264</u>	<u>—</u>	<u>264</u>
At 31 December 2013 and 1 January 2014:			
Cost	510	—	510
Accumulated amortisation	(246)	—	(246)
Net carrying amount	<u>264</u>	<u>—</u>	<u>264</u>
31 December 2014			
Cost at 1 January 2014, net of accumulated amortisation	264	—	264
Additions	162	—	162
Amortisation provided during the year (note 6)	(76)	—	(76)
Exchange realignment	(1)	—	(1)
At 31 December 2014	<u>349</u>	<u>—</u>	<u>349</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Software	Patents and license	Total
	US\$'000	US\$'000	US\$'000
At 31 December 2014:			
Cost	671	–	671
Accumulated amortisation	(322)	–	(322)
Net carrying amount	<u>349</u>	<u>–</u>	<u>349</u>
30 June 2015			
Cost at 1 January 2015, net of accumulated amortisation	349	–	349
Additions	75	16	91
Amortisation provided during the period (note 6)	(83)	(2)	(85)
Exchange realignment	<u>3</u>	<u>–</u>	<u>3</u>
At 30 June 2015	<u>344</u>	<u>14</u>	<u>358</u>
At 30 June 2015:			
Cost	746	16	762
Accumulated amortisation	(402)	(2)	(404)
Net carrying amount	<u>344</u>	<u>14</u>	<u>358</u>

16. Available-for-sale investments

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Current				
Investment in wealth				
management products, at fair				
value	<u>303</u>	<u>4,105</u>	<u>2,526</u>	<u>–</u>

The available-for-sale investments were investments in wealth management products issued by banks with expected interest rates ranging from 1.49% to 6.30% per annum with a maturing period of 30 to 252 days in the PRC. The fair value of the financial products approximates to their cost plus expected interest.

APPENDIX I

ACCOUNTANTS’ REPORT

17. Investments in subsidiaries

	Company
	As at 30 June
	2015
	<i>US\$’000</i>
Unlisted shares, at cost	<u>14,727</u>

Particulars of the principal subsidiaries please refer to Note 1 under Section II.

The amounts due to subsidiaries included in the Company’s current liabilities of US\$1,049,000 is unsecured, interest-free and are repayable on demand.

18. Inventories

	As at 31 December			As at
	2012	2013	2014	30 June
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	2015
				<i>US\$’000</i>
Raw materials	784	757	896	1,154
Work in progress	224	243	409	294
Finished goods	236	404	472	688
	<u>1,244</u>	<u>1,404</u>	<u>1,777</u>	<u>2,136</u>

19. Trade and notes receivables

	As at 31 December			As at
	2012	2013	2014	30 June
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	2015
				<i>US\$’000</i>
Trade receivables	8,461	9,853	12,916	14,703
Notes receivable	—	—	101	171
	8,461	9,853	13,017	14,874
Less: Impairment of trade receivables	(553)	(843)	(860)	(934)
	<u>7,908</u>	<u>9,010</u>	<u>12,157</u>	<u>13,940</u>

The Group’s trading terms with its customers are mainly on credit. The credit period is generally 30 to 60 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that

APPENDIX I

ACCOUNTANTS’ REPORT

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.

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

	Total
	<i>US\$’000</i>
At 1 January 2012	113
Impairment losses recognised	<u>440</u>
At 31 December 2012 and 1 January 2013	553
Impairment losses recognised	<u>290</u>
At 31 December 2013 and 1 January 2014	843
Impairment losses recognised	<u>17</u>
At 31 December 2014 and 1 January 2015	860
Impairment losses recognised	<u>74</u>
At 30 June 2015	<u><u>934</u></u>

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 reporting period, based on the invoice date, is as follows:

	As at 31 December			As at
	2012	2013	2014	30 June
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Within 3 months	6,891	6,561	10,055	11,698
3 months to 6 months	584	1,394	1,339	1,557
6 months to 12 months	550	1,018	565	514
1 year to 2 years	193	666	414	332
2 years to 3 years	243	6	336	500
More than 3 years	—	208	207	102
	<u><u>8,461</u></u>	<u><u>9,853</u></u>	<u><u>12,916</u></u>	<u><u>14,703</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

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

	As at 31 December			As at 30 June 2015
	2012	2013	2014	
	US\$’000	US\$’000	US\$’000	US\$’000
Neither past due nor impaired	3,248	2,812	7,784	7,799
Less than 3 months past due	3,062	4,413	3,441	4,938
Over 3 months within one year past due	1,598	1,785	831	1,032
	<u>7,908</u>	<u>9,010</u>	<u>12,056</u>	<u>13,769</u>

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 five months. No notes receivable were discounted or endorsed as at 31 December 2014 and 30 June 2015.

20. Prepayments, deposits and other receivables

Group

	As at 31 December			As at 30 June 2015
	2012	2013	2014	
	US\$’000	US\$’000	US\$’000	US\$’000
Other receivables	428	468	591	631
VAT recoverable (i)	230	37	217	124
Prepayments	791	638	444	969
Advance to employees	130	169	157	138
Prepaid expense	133	208	214	217
	<u>1,712</u>	<u>1,520</u>	<u>1,623</u>	<u>2,079</u>
Less: Impairment of other receivables	<u>(126)</u>	<u>(285)</u>	<u>(307)</u>	<u>(307)</u>
	<u>1,586</u>	<u>1,235</u>	<u>1,316</u>	<u>1,772</u>

- (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.

APPENDIX I

ACCOUNTANTS' REPORT

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

	Individually impaired
	<u>US\$'000</u>
At 1 January 2012	—
Charge for the year	126
At 31 December 2012 and 1 January 2013	126
Charge for the year	159
At 31 December 2013 and 1 January 2014	285
Charge for the year	22
At 31 December 2014 and 1 January 2015	307
Charge for the period	—
At 30 June 2015	<u>307</u>

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

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Neither past due nor impaired	<u>1,586</u>	<u>1,235</u>	<u>1,316</u>	<u>1,772</u>

Company

	As at 30 June 2015
	<u>US\$'000</u>
Other receivables	50
Prepayments	498
	<u>548</u>

APPENDIX I

ACCOUNTANTS’ REPORT

21. Cash and cash equivalents and pledged short-term deposits

	As at 31 December			As at 30 June 2015
	2012	2013	2014	
	US\$'000	US\$'000	US\$'000	US\$'000
Cash and bank balances	18,660	22,457	25,637	25,684
Pledged short-term deposits	264	201	345	202
	18,924	22,658	25,982	25,886
Less: Pledged short-term deposits for letters of credit	(213)	(201)	(345)	(202)
Pledged short-term deposits for notes payables	(51)	—	—	—
Cash and cash equivalents	<u>18,660</u>	<u>22,457</u>	<u>25,637</u>	<u>25,684</u>
Denominated in USD	5,384	12,284	5,987	5,832
Denominated in RMB	7,773	3,473	16,354	15,275
Denominated in JPY	2,102	5,063	1,225	970
Denominated in EUR	1,896	858	771	1,769
Denominated in other currencies	<u>1,505</u>	<u>779</u>	<u>1,300</u>	<u>1,838</u>
Cash and cash equivalents	<u>18,660</u>	<u>22,457</u>	<u>25,637</u>	<u>25,684</u>

The RMB is not freely convertible into other currencies, however, under 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. The remittance of funds out of China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are pledged for letter of credit and notes payables. 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 approximated to their fair values as at the end of each of the relevant periods.

APPENDIX I

ACCOUNTANTS’ REPORT

22. Trade and notes payables

	As at 31 December			As at 30 June 2015
	2012	2013	2014	
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables	1,793	1,848	2,869	2,193
Notes payable	102	—	—	—
	<u>1,895</u>	<u>1,848</u>	<u>2,869</u>	<u>2,193</u>

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

	As at 31 December			As at 30 June 2015
	2012	2013	2014	
	US\$'000	US\$'000	US\$'000	US\$'000
Within 3 months	1,666	1,726	2,813	2,148
3 months to 6 months	156	79	10	14
6 months to 12 months	17	43	19	3
Over 1 year	56	—	27	28
	<u>1,895</u>	<u>1,848</u>	<u>2,869</u>	<u>2,193</u>

As at 31 December 2012, notes payable of US\$102,000 were secured by the Group’s short-term deposits with a carrying amount of US\$51,000 (note 21).

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

APPENDIX I

ACCOUNTANTS' REPORT

23. Other payables and accruals

	As at 31 December			As at 30 June 2015
	2012	2013	2014	
	US\$'000	US\$'000	US\$'000	US\$'000
Other payables	939	680	973	2,427
Accrued expenses	787	846	1,101	599
Accrued payroll	3,394	4,582	5,657	5,810
Advances from customers	2,792	3,715	5,197	6,379
Taxes payable other than corporate income tax	233	728	801	754
Payables for purchases of machinery and construction of buildings	10,631	4,886	1,403	1,316
	<u>18,776</u>	<u>15,437</u>	<u>15,132</u>	<u>17,285</u>

24. Government grants

	As at 31 December			As at 30 June 2015
	2012	2013	2014	
	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January	2,681	1,920	2,207	1,840
Grants received during the year/period	6	1,054	459	—
Amount released	(774)	(807)	(818)	(366)
Exchange realignment	7	40	(8)	1
At end of year/period	<u>1,920</u>	<u>2,207</u>	<u>1,840</u>	<u>1,475</u>
Current	795	820	395	39
Non-current	<u>1,125</u>	<u>1,387</u>	<u>1,445</u>	<u>1,436</u>
	<u>1,920</u>	<u>2,207</u>	<u>1,840</u>	<u>1,475</u>

The grants were related to the subsidies received from local government authorities for the purpose of compensation for expenditure on certain facilities and credited to a deferred income account. The grants were released to the statement of profit or loss over the expected useful life of the relevant assets. We also received certain financial subsidies from local government authorities to support local business. And 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 received.

APPENDIX I

ACCOUNTANTS’ REPORT

25. Deferred tax

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation
	<u>US\$’000</u>
At 1 January 2012	248
Deferred tax charged to the statement of profit or loss during the year (note 10)	(2)
At 31 December 2012 and 1 January 2013	<u>246</u>
Deferred tax charged to the statement of profit or loss during the year (note 10)	(12)
At 31 December 2013 and 1 January 2014	<u>234</u>
Deferred tax charged to the statement of profit or loss during the year (note 10)	(20)
At 31 December 2014 and 1 January 2015	<u>214</u>
Deferred tax charged to the statement of profit or loss during the period (note 10)	(26)
Gross deferred tax liabilities at 30 June 2015	<u>188</u>

APPENDIX I

ACCOUNTANTS’ REPORT

The movements in deferred tax assets during the Relevant Periods are as follows:

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 2012	284	143	21	584	–	1,032
Deferred tax credited to the statement of profit or loss during the year (<i>note 10</i>)	142	157	110	95	1	505
Exchange realignment	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1</u>
At 31 December 2012 and 1 January 2013	<u>427</u>	<u>300</u>	<u>131</u>	<u>679</u>	<u>1</u>	<u>1,538</u>
Deferred tax credited/(charged) to the statement of profit or loss during the year (<i>note 10</i>)	196	180	147	(222)	152	453
Exchange realignment	<u>11</u>	<u>12</u>	<u>3</u>	<u>–</u>	<u>2</u>	<u>28</u>
At 31 December 2013 and 1 January 2014	<u>634</u>	<u>492</u>	<u>281</u>	<u>457</u>	<u>155</u>	<u>2,019</u>
Deferred tax credited to the statement of profit or loss during the year (<i>note 10</i>)	198	151	62	26	66	503
Exchange realignment	<u>(1)</u>	<u>(2)</u>	<u>–</u>	<u>–</u>	<u>(1)</u>	<u>(4)</u>
At 31 December 2014 and 1 January 2015	<u>831</u>	<u>641</u>	<u>343</u>	<u>483</u>	<u>220</u>	<u>2,518</u>
Deferred tax credited/(charged) to the statement of profit or loss during the period (<i>note 10</i>)	459	80	26	(3)	(1)	561
Exchange realignment	<u>1</u>	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2</u>
Gross deferred tax assets at 30 June 2015	<u>1,291</u>	<u>722</u>	<u>369</u>	<u>480</u>	<u>219</u>	<u>3,081</u>

APPENDIX I

ACCOUNTANTS’ REPORT

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:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Net deferred tax assets				
recognised in the combined statement of financial position	1,348	1,785	2,304	2,893
Net deferred tax liabilities				
recognised in the combined statement of financial position	56	—	—	—

The Group has tax losses arising in Japan of nil, US\$621,000, nil and nil that are available indefinitely for offsetting against future taxable profits as at 31 December 2012, 2013 and 2014 and 30 June 2015.

The Group has tax losses arising in China of nil, nil, US\$1,382,000 and US\$2,260,000 that will expire in one to five years for offsetting against future taxable profits as at 31 December 2012, 2013 and 2014 and 30 June 2015. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2012, 2013 and 2014 and 30 June 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group’s subsidiaries established in China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in China for which deferred tax liabilities have not been recognised totaled US\$3,230,000, US\$3,995,000, US\$5,415,000 and US\$6,634,000 at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively.

26. Share capital

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Issued and fully paid:				
363,749,999 ordinary shares	—	—	—	14,777

APPENDIX I

ACCOUNTANTS’ REPORT

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

	Number of shares in issue	Share capital <i>US\$’000</i>	Share premium account <i>US\$’000</i>	Total <i>US\$’000</i>
At 1 January 2015	—	—	—	—
Issuance	363,749,999	364	14,413	14,777
At 30 June 2015	<u>363,749,999</u>	<u>364</u>	<u>14,413</u>	<u>14,777</u>

The Company was incorporated in the Cayman Islands on 21 May 2015 with an authorised share capital of US\$50,000 divided in 50,000,000 shares of US\$0.001 par value each, issued to Genscript Holdings (Cayman) Limited (“GS Cayman”). On 8 June 2015, GS Cayman transferred all of the issued and outstanding share of GS USA to the Company and in consideration of which, the Company allotted and issued 313,749,999 shares to GS Cayman credited as fully-paid.

Share options

Details of the Company’s share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

27. Share option scheme

Genscript USA Corporation (“GS Corp”), the ultimate holding company of the Company, operated a share option scheme (the “GS Corp Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. 6,150,000 share options were granted to 11 employees with vesting dates falling from 31 December 2007 to 31 December 2013 and exercise prices of US\$0.006 to US\$0.040. The expiration date of the options granted was 10 years after the grant date.

Genscript Holding (Cayman) Limited Corporation (“GS Cayman”), the immediate holding company of the Company, operated a share option scheme (the “GS Cayman Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. On 10 August 2009, the Group cancelled the options granted under GS Corp Scheme and replaced them with 6,692,730 new options granted under GS Cayman Scheme, with the same exercise price and other terms except the vesting dates were changed to from 31 December 2007 to 31 December 2016. The replacement was treated as modification with incremental fair value being recognised over the vesting period of the replacement options granted by GS Cayman. Between 26 March 2009 and 30 March 2015, 148,845,690 share options under GS Cayman Scheme were additionally granted to 167 employees with vesting dates falling from 3 July 2009 to 30 March 2022 and exercise prices of from US\$0.005 to US\$0.200. The expiration date of the options granted is 10 years after the grant date. As of 30 June 2015, 170 employees of the Group were granted with 155,538,420 share options under GS Cayman Scheme.

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

APPENDIX I

ACCOUNTANTS’ REPORT

	Year ended 31 December					
	2012		2013		2014	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	<i>US\$ per share</i>	<i>'000</i>	<i>US\$ per share</i>	<i>'000</i>	<i>US\$ per share</i>	<i>'000</i>
At the beginning of the year	0.1016	38,870	0.1364	60,103	0.1374	61,103
Granted during the year	0.2000	21,233	0.2000	1,000	0.1351	66,360
At the end of the year	0.1364	<u>60,103</u>	0.1374	<u>61,103</u>	0.1362	<u>127,463</u>

	Six months ended 30 June			
	2014		2015	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	<i>US\$ per share</i>	<i>'000</i>	<i>US\$ per share</i>	<i>'000</i>
At the beginning of the period	0.1374	61,103	0.1362	127,463
Granted during the period	0.1339	65,160	0.1549	28,600
Forfeited during the period	—	—	0.1500	(525)
At the end of the period	0.1356	<u>126,263</u>	0.1396	<u>155,538</u>

APPENDIX I

ACCOUNTANTS’ REPORT

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

31 December 2012		
Number of options exercisable	Exercise price*	Exercise period
<i>'000</i>	<i>US\$ per share</i>	
6,314	0.005	2008/05/12~2019/12/31
1,375	0.006	2007/12/31~2015/10/01
1,375	0.008	2007/12/31~2015/10/01
396	0.009	2009/07/03~2019/07/31
715	0.014	2008/03/03~2019/07/31
1,540	0.015	2010/01/15~2019/12/31
682	0.020	2010/03/28~2018/01/15
423	0.027	2011/12/08~2019/07/31
1,089	0.030	2010/01/01~2019/12/20
244	0.036	2010/01/05~2019/07/31
134	0.040	2012/12/31~2019/08/10
1,500	0.050	2010/12/31~2019/12/31
1,259	0.150	2009/12/31~2020/12/31
<u>12,800</u>	0.200	2011/07/15~2020/07/31
<u>29,846</u>		

31 December 2013		
Number of options exercisable	Exercise price*	Exercise period
<i>'000</i>	<i>US\$ per share</i>	
6,314	0.005	2008/05/12~2019/12/31
1,375	0.006	2007/12/31~2015/10/01
1,375	0.008	2007/12/31~2015/10/01
396	0.009	2009/07/03~2019/07/31
715	0.014	2008/03/03~2019/07/31
1,540	0.015	2010/01/15~2019/12/31
880	0.020	2010/03/28~2018/01/15
423	0.027	2011/12/08~2019/07/31
1,556	0.030	2010/01/01~2019/12/20
348	0.036	2010/01/05~2019/07/31
321	0.040	2012/12/31~2019/08/10
2,154	0.050	2010/12/31~2019/12/31
15	0.100	2013/08/10~2025/07/31
2,077	0.150	2009/12/31~2025/07/31
<u>23,100</u>	0.200	2011/07/15~2020/07/31
<u>42,589</u>		

APPENDIX I

ACCOUNTANTS’ REPORT

31 December 2014		Exercise price*	Exercise period
Number of options exercisable			
	'000	US\$ per share	
	6,314	0.005	2008/05/12~2019/12/31
	1,375	0.006	2007/12/31~2015/10/01
	1,375	0.008	2007/12/31~2015/10/01
	396	0.009	2009/07/03~2019/07/31
	715	0.014	2008/03/03~2019/07/31
	1,540	0.015	2010/01/15~2019/12/31
	880	0.020	2010/03/28~2018/01/15
	423	0.027	2011/12/08~2019/07/31
	1,919	0.030	2010/01/01~2019/12/20
	462	0.036	2010/01/05~2019/07/31
	552	0.040	2012/12/31~2019/08/10
	2,804	0.050	2010/12/31~2019/12/31
	183	0.100	2013/08/10~2025/07/31
	11,600	0.120	2014/12/31~2025/07/31
	13,383	0.150	2009/12/31~2025/07/31
	33,712	0.200	2011/07/15~2025/07/31
	<u>77,633</u>		

30 June 2014		Exercise price*	Exercise period
Number of options exercisable			
	'000	US\$ per share	
	6,314	0.005	2008/05/12~2019/12/31
	1,375	0.006	2007/12/31~2015/10/01
	1,375	0.008	2007/12/31~2015/10/01
	396	0.009	2009/07/03~2019/07/31
	715	0.014	2008/03/03~2019/07/31
	1,540	0.015	2010/01/15~2019/12/31
	880	0.020	2010/03/28~2018/01/15
	423	0.027	2011/12/08~2019/07/31
	1,556	0.030	2010/01/01~2019/12/20
	462	0.036	2010/01/05~2019/07/31
	321	0.040	2012/12/31~2019/08/10
	2,154	0.050	2010/12/31~2019/12/31
	15	0.100	2013/08/10~2025/07/31
	2,577	0.150	2009/12/31~2025/07/31
	24,100	0.200	2011/07/15~2020/07/31
	<u>44,203</u>		

APPENDIX I

ACCOUNTANTS’ REPORT

30 June 2015		
Number of options	Exercise price*	Exercise period
exercisable		
<i>'000</i>	<i>US\$ per share</i>	
6,314	0.005	2008/05/12~2019/12/31
1,375	0.006	2007/12/31~2015/10/01
1,375	0.008	2007/12/31~2015/10/01
396	0.009	2009/07/03~2019/07/31
715	0.014	2008/03/03~2019/07/31
1,540	0.015	2010/01/15~2019/12/31
880	0.020	2010/03/28~2018/01/15
423	0.027	2011/12/08~2019/07/31
1,919	0.030	2010/01/01~2019/12/20
462	0.036	2010/01/05~2019/07/31
552	0.040	2012/12/31~2019/08/10
2,804	0.050	2010/12/31~2019/12/31
183	0.100	2013/08/10~2025/07/31
11,600	0.120	2014/12/31~2025/07/31
13,963	0.150	2009/12/31~2025/07/31
33,712	0.200	2011/07/15~2025/07/31
<u>78,213</u>		

* 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 years of 2012, 2013 and 2014 and six months ended 30 June 2015 were US\$1,100,707 (US\$0.052 each), US\$73,461 (US\$0.073 each), US\$5,879,435 (US\$0.089 each) and US\$3,647,751 (US\$0.130 each) of which the Group recognised share option expenses of US\$653,000, US\$417,000, US\$3,284,000, US\$1,186,000 (unaudited) and US\$1,425,000 during the year ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015.

APPENDIX I

ACCOUNTANTS’ REPORT

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

	As at 31 December			As at
	2012	2013	2014	30 June
	US\$’000	US\$’000	US\$’000	2015
Notes	US\$’000	US\$’000	US\$’000	US\$’000
Dividend yield (%)	0	0	0	0
Expected volatility (%)	46–50	50	47–48	43–48
Historical volatility (%)	N/A	N/A	N/A	N/A
Risk-free interest rate (%)	1.01–1.65	1.24	2.23–2.73	1.50–1.94
Expected life of options (year)	3.42–6.42	3.84	3.38–5.67	2.88–5.38
Weighted average share price (HK\$ per share)	0.96–1.18	1.23	1.28–1.56	1.86

The expected life of the options is based on the historical data over the past six years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

28. Reserves

(a) Group

(i) Merger reserve

The merger reserve of the Group represents the capital contributions from the then equity holders of the Group’s subsidiaries.

(ii) Statutory Surplus Reserves

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.

APPENDIX I

ACCOUNTANTS' REPORT

(iii) Exchange fluctuation reserve

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 USD.

(b) Company

	Share Premium account	Share option reserve	Accumulated loss	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2015	—	—	—	—
Total comprehensive income for the period	—	—	(1,660)	(1,660)
Issuance	14,413	—	—	14,413
At 30 June 2015	<u>14,413</u>	<u>—</u>	<u>(1,660)</u>	<u>12,753</u>

29. Contingent assets

On 15 September 2011, the Group initiated legal proceedings against one of its competitors and one of its former employees in the United States, primarily due to their infringement of our intellectual property rights of the Group. On 30 July 2015, the court entered a final judgment in favor of the Group. The court awarded the Group damages from the defendants in the amount of approximately US\$10 million. Such final judgement may be subject to appeal by the defendants. The directors, along with the advice from the Group's legal adviser, believe that an inflow of economic benefits of US\$10 million is probable based on best estimation.

30. Contingent liabilities

The Group sent a replacement product to a customer in Iran in November 2013. This replacement shipment was made without charge to the customer and had a cash value of US\$1,650. As advised by the legal adviser, the replacement shipment to Iran in November 2013 was likely a violation of the U.S. sanction law. Any penalty assessed against the Group for this potential violation of U.S. sanction law is likely to range from a cautionary letter (without monetary penalty) to a maximum civil penalty of US\$1,000. Although advised by the legal adviser, other transactions with Iran between the period 2010 to 2015 may not constitute violations under U.S. sanctions, if these other transactions ultimately are determined to constitute violation and non-egregious by U.S. authority, the Group may be subject to a maximum penalty of up to US\$30,000. However, the Group cannot predict with certainty to the amount of potential penalty that may be imposed on the Group, therefore no provision was recognized in the combined financial statements as of 30 June 2015.

APPENDIX I

ACCOUNTANTS’ REPORT

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. As at 31 December 2012, 2013 and 2014 and 30 June 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	US\$’000	US\$’000	US\$’000	US\$’000
Within one year	655	619	874	780
In the second to fifth years, inclusive	2,012	1,681	1,910	1,711
After five years	203	—	—	—
	<u>2,870</u>	<u>2,300</u>	<u>2,784</u>	<u>2,491</u>

32. 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 reporting period:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	US\$’000	US\$’000	US\$’000	US\$’000
Contracted, but not provided for:				
Plant and machinery	<u>76</u>	<u>237</u>	<u>40</u>	<u>265</u>

33. Related party transactions

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

Company	Relationship
Genscript USA Corporation (“GS Corp”)	Ultimate holding company
Genscript Holding (Cayman) Limited (“GS Cayman”)	Immediate holding company
Chongyang Jinrui Rabbit Breeding Limited (“Jinrui Rabbit”)	An entity controlled by an immediate family of the controlling shareholder
Nanjing Jinsite Biotech Co., Ltd (“Jinsite”)	An entity under significant influence of the controlling shareholder

APPENDIX I

ACCOUNTANTS’ REPORT

- (a) In addition to the transactions detailed elsewhere in the Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

				Six months ended	
				30 June	
Year ended 31 December					
				2014	2015
				2012	2013
				2014	2015
Notes				US\$'000	US\$'000
				US\$'000	US\$'000
(Unaudited)					
Purchases of raw materials from Jinrui Rabbit					
(i)	5	41	34	–	12
Collection by GS Corp on behalf of the Group					
	1,195	45	–	–	–
(ii)	4,937	7,594	7,776	4,876	–
(iii)	–	–	8,172	–	–

Notes:

- (i) The prices are mutually agreed after taking into account the prevailing market prices.
- (ii) The entrusted loans in 2012, 2013 and 2014 were unsecured, with an annual interest of 5.8% and repayable within one year.
- (iii) The funding from Jinsite is unsecured, interest-free and repayable on demand.
- (b) Outstanding balances with related parties:

The Group had the following significant balances with its related parties during the Relevant Periods:

(i) Due from the ultimate holding company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
GS Corp	<u>34</u>	<u>34</u>	<u>34</u>	<u>34</u>

APPENDIX I

ACCOUNTANTS’ REPORT

(ii) Due from the related party

	As at 31 December			As at
	2012	2013	2014	30 June
	US\$'000	US\$'000	US\$'000	2015
				US\$'000
Jinsite	<u>100</u>	<u>115</u>	—	—

(iii) Due to the ultimate holding company

	As at 31 December			As at
	2012	2013	2014	30 June
	US\$'000	US\$'000	US\$'000	2015
				US\$'000
GS Corp	<u>2,577</u>	<u>2,532</u>	<u>2,570</u>	<u>2,570</u>

(iv) Due to related parties

		As at 31 December			As at
		2012	2013	2014	30 June
		US\$'000	US\$'000	US\$'000	2015
					US\$'000
Jinrui Rabbit		—	—	1	—
Jinsite — Entrusted					
loans	(i)	4,943	7,390	—	—
Jinsite — Funding	(ii)	<u>—</u>	<u>—</u>	<u>8,172</u>	—
		<u>4,943</u>	<u>7,390</u>	<u>8,173</u>	—

(i) The entrusted loans in 2012 and 2013 were unsecured, with an annual interest of 5.8% and repayable within one year.

(ii) The funding from Jinsite is unsecured, interest-free and repayable on demand.

APPENDIX I

ACCOUNTANTS’ REPORT

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

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Short term					
employee benefits	1,068	1,357	1,424	625	764
Pension scheme					
contribution	12	18	23	10	13
Equity-settled share					
option expense	<u>618</u>	<u>393</u>	<u>2,181</u>	<u>810</u>	<u>597</u>
Total compensation					
paid to key					
management					
personnel	<u>1,698</u>	<u>1,768</u>	<u>3,628</u>	<u>1,445</u>	<u>1,374</u>

Further details of directors’ emoluments are included in note 8 to the Financial Information.

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 [REDACTED] Rules.

APPENDIX I

ACCOUNTANTS’ REPORT

34. Financial instruments by category

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

As at 31 December 2012

Financial assets

	Loans and receivables	Available- for-sale financial assets	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Available-for-sale investments	—	303	303
Trade and notes receivables	7,908	—	7,908
Financial assets included in prepayments, deposits and other receivables	302	—	302
Due from the ultimate holding company	34	—	34
Due from the related party	100	—	100
Cash and cash equivalents	18,660	—	18,660
Pledged short-term deposits	264	—	264
	<u>27,268</u>	<u>303</u>	<u>27,571</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>US\$'000</i>	<i>US\$'000</i>
Trade and notes payables	1,895	1,895
Financial liabilities included in accrued liabilities and other payables	12,269	12,269
Due to related parties	4,943	4,943
Due to the ultimate holding company	2,577	2,577
	<u>21,684</u>	<u>21,684</u>

APPENDIX I

ACCOUNTANTS’ REPORT

As at 31 December 2013

Financial assets

	Loans and receivables	Available- for-sale financial assets	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Available-for-sale investments	–	4,105	4,105
Trade and notes receivables	9,010	–	9,010
Financial assets included in prepayments, deposits and other receivables	183	–	183
Due from the ultimate holding company	34	–	34
Due from the related party	115	–	115
Cash and cash equivalents	22,457	–	22,457
Pledged short-term deposits	201	–	201
	<u>32,000</u>	<u>4,105</u>	<u>36,105</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>US\$'000</i>	<i>US\$'000</i>
Trade and notes payables	1,848	1,848
Financial liabilities included in accrued liabilities and other payables	6,425	6,425
Due to related parties	7,390	7,390
Due to the ultimate holding company	2,532	2,532
	<u>18,195</u>	<u>18,195</u>

APPENDIX I

ACCOUNTANTS’ REPORT

As at 31 December 2014

Financial assets

	Loans and receivables	Available- for-sale financial assets	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Available-for-sale investments	—	2,526	2,526
Trade and notes receivables	12,157	—	12,157
Financial assets included in prepayments, deposits and other receivables	284	—	284
Due from the ultimate holding company	34	—	34
Cash and cash equivalents	25,637	—	25,637
Pledged short-term deposits	345	—	345
	<u>38,457</u>	<u>2,526</u>	<u>40,983</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>US\$'000</i>	<i>US\$'000</i>
Trade and notes payables	2,869	2,869
Financial liabilities included in accrued liabilities and other payables	3,435	3,435
Due to related parties	8,173	8,173
Due to the ultimate holding company	2,570	2,570
	<u>17,047</u>	<u>17,047</u>

APPENDIX I

ACCOUNTANTS’ REPORT

As at 30 June 2015

Financial assets

	Loans and receivables	Total
	<u>US\$’000</u>	<u>US\$’000</u>
Trade and notes receivables	13,940	13,940
Financial assets included in prepayments, deposits and other receivables	324	324
Due from the ultimate holding company	34	34
Cash and cash equivalents	25,684	25,684
Pledged short-term deposits	202	202
	<u>40,184</u>	<u>40,184</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<u>US\$’000</u>	<u>US\$’000</u>
Trade and notes payables	2,193	2,193
Financial liabilities included in accrued liabilities and other payables	4,263	4,263
Due to the ultimate holding company	2,570	2,570
	<u>9,026</u>	<u>9,026</u>

35. Fair value and fair value hierarchy of financial instruments

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent cash and cash equivalents, pledged short-term deposits, accounts and notes receivables, financial assets included in prepayments, deposits and other receivables, amounts due from the ultimate holding company and the related party, tax payable, amounts due to the ultimate holding company and related parties, trade and notes payables, and financial liabilities included in other payables and accruals. Their fair values are approximate to their carrying amounts largely due to the short term maturities of these instruments.

APPENDIX I

ACCOUNTANTS’ REPORT

The fair values of unlisted available-for-sale investments require the Directors to make estimates about the expected future cash flows from future proceeds when the investments mature and the fair values have been estimated to be the principle plus estimated interest income. The Directors believe that the estimated fair values which are recorded in the combined statements of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of each of the Relevant Periods.

The Group’s corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of Directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the VP responsible for finance. The valuation process and results are discussed with the board of Directors once a year for annual financial reporting.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

Asset measured at fair value:

As at 31 December 2012

	Fair value measurement using			Total
	Quoted prices in active inputs (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	US\$’000	US\$’000	US\$’000	US\$’000
Available-for-sale investment:				
Investment in wealth management products	—	303	—	303
	=	=	=	=

APPENDIX I

ACCOUNTANTS' REPORT

As at 31 December 2013

	Fair value measurement using			Total
	Quoted prices in active inputs (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	US\$'000	US\$'000	US\$'000	US\$'000
Available-for-sale investment:				
Investment in wealth management products	—	4,105	—	4,105
	=	=	=	=

As at 31 December 2014

	Fair value measurement using			Total
	Quoted prices in active inputs (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	US\$'000	US\$'000	US\$'000	US\$'000
Available-for-sale investment:				
Investment in wealth management products	—	2,526	—	2,526
	=	=	=	=

Fair value hierarchy

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

The Group did not have any financial liabilities measured at fair value as at 31 December 2012, 2013 and 2014 and 30 June 2015.

36. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing loans, 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 receivables and trade 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.

APPENDIX I

ACCOUNTANTS' REPORT

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 5%, 5%, 4% and 3% of the Group's sales for the year ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015 were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 7%, 4%, 3% and 4% of costs for the year ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015 were denominated in the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign 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 2012		
If US\$ strengthens against RMB	5	206
If US\$ weakens against RMB	(5)	(206)
Year ended 31 December 2013		
If US\$ strengthens against RMB	5	84
If US\$ weakens against RMB	(5)	(84)
Year ended 31 December 2014		
If US\$ strengthens against RMB	5	433
If US\$ weakens against RMB	(5)	(433)
Six months ended 30 June 2015		
If US\$ strengthens against RMB	5	572
If US\$ weakens against RMB	(5)	(572)

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, available-for-sale financial assets, other receivables and an amount due

APPENDIX I

ACCOUNTANTS' REPORT

from the related party, arises from default of the counterparty, with a maximum exposure equal to the carrying amount 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 19 and 20 to the Financial Information.

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.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings.

The maturity profile of the Group's financial liabilities as at 31 December 2012, 2013 and 2014 and 30 June 2015, based on contractual undiscounted payments, is as follows:

Year ended 31 December 2012

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade and notes payables	76	1,819	—	—	—	1,895
Other payables and accruals	224	12,045	—	—	—	12,269
Due to the ultimate holding company	—	2,577	—	—	—	2,577
Due to related parties	—	170	4,879	—	—	5,049
	<u>300</u>	<u>16,611</u>	<u>4,879</u>	<u>—</u>	<u>—</u>	<u>21,790</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Year ended 31 December 2013

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade and notes payables	162	1,686	—	—	—	1,848
Other payables and accruals	197	6,172	56	—	—	6,425
Due to the ultimate holding company	—	2,532	—	—	—	2,532
Due to related parties	—	9	7,585	—	—	7,594
	<u>359</u>	<u>10,399</u>	<u>7,641</u>	<u>—</u>	<u>—</u>	<u>18,399</u>

Year ended 31 December 2014

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade and notes payables	105	2,764	—	—	—	2,869
Other payables and accruals	339	3,073	—	23	—	3,435
Due to the ultimate holding company	—	2,570	—	—	—	2,570
Due to related parties	<u>8,173</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,173</u>
	<u>8,617</u>	<u>8,407</u>	<u>—</u>	<u>23</u>	<u>—</u>	<u>17,047</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Six months ended 30 June 2015

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Trade and notes payables	81	2,112	—	—	—	2,193
Other payables and accruals	470	3,793	—	—	—	4,263
Due to the ultimate holding company	—	2,570	—	—	—	2,570
	<u>551</u>	<u>8,475</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,026</u>

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. 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 2012, 2013 and 2014, and the six months ended 30 June 2015.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt includes amounts due to the ultimate holding company and related parties.

The gearing ratios as at the end of the Reporting Periods were as follows:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Due to the ultimate holding company	2,577	2,532	2,570	2,570
Due to related parties	<u>4,943</u>	<u>7,390</u>	<u>8,173</u>	<u>—</u>
Total debt	<u>7,520</u>	<u>9,922</u>	<u>10,743</u>	<u>2,570</u>
Total equity	<u>44,156</u>	<u>52,563</u>	<u>61,747</u>	<u>68,995</u>
Gearing ratio	<u>17.0%</u>	<u>18.9%</u>	<u>17.4%</u>	<u>3.7%</u>

APPENDIX I

ACCOUNTANTS’ REPORT

37. Events after the reporting period

- a) On 15 July 2015, the Company approved a share option scheme (the “[REDACTED] Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Immediately after the approval, the Group cancelled the options granted under the GS Cayman Scheme and replaced them with new options granted by the Company with same conditions including exercise prices and vesting periods, which was treated as modification to the GS Cayman options granted with incremental fair value being recognised over the vesting period of the replacement options granted by the Company.
- b) On 31 July 2015, the Company issued 8,580,000 ordinary shares of par value US\$0.001 each, credited as fully paid, to GS Cayman, at a cash consideration of US\$8.58 million.

38. Subsequent financial statements

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2015.

Yours faithfully,

*Certified Public Accountants
Hong Kong*