



GENSCRIPT BIOTECH CORPORATION

金斯瑞生物科技股份有限公司*

(incorporated in the Cayman Islands with limited liability)
Stock Code: 1548

2017

Interim Report



** For identification purposes only*

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CORPORATE PROFILE

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

The broad and integrated life sciences research and application service and product portfolio comprises four segments, namely, (i) life sciences research services, (ii) life sciences research catalog products, (iii) preclinical drug development services, and (iv) industrial synthetic biology products. The services and products are primarily used by scientists and researchers for conducting fundamental life sciences research, translational biomedical research, and early stage pharmaceutical development. Its synthetic biology products are also used by industry users of industrial enzymes, such as those in the food industry. With a strong sales and marketing team and strong research and development capabilities, the Company maintains a stable and sustainable growth.

Originally founded in New Jersey in the United States in 2002, we have established an extensive direct sales network, reaching over 100 countries in North America, Europe, the PRC, Asia Pacific (excluding the PRC and Japan), and Japan. We have established a highly diversified customer base, including pharmaceutical and biotech companies, colleges and universities, research institutes, government bodies (including government testing and diagnostic centers), and distributors.

For the six months ended June 30, 2017 (the “**Reporting Period**”), the Group generated approximately 83.6%, 5.5%, 3.5%, and 7.4% of the total revenue from life sciences research services, life sciences research catalog products, preclinical drug development services, and industrial synthetic biology products, respectively.

CORPORATE INFORMATION

BOARD OF DIRECTORS (THE “BOARD”)

Executive Directors

Dr. Zhang Fangliang (*Chairman and Chief Executive Officer*)
Ms. Wang Ye (*Chief Operating Officer*)
Mr. Meng Jiange (*Vice President of Finance*)

Non-Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SANCTIONS RISK CONTROL COMMITTEE

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

COMPANY SECRETARY

Ms. Wong Wai Ling

AUTHORISED REPRESENTATIVES

Dr. Zhang Fangliang
Mr. Meng Jiange

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

REGISTERED OFFICE IN THE CAYMAN ISLANDS

4th Floor, Harbour Place
103 South Church Street, George Town
P.O. Box 10240, Grand Cayman KY1-1002
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 28, Yongxi Road
Jiangning Science Park
Nanjing
Jiangsu Province
PRC

CORPORATE INFORMATION (CONTINUED)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Harneys Services (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street, George Town
P.O. Box 10240, Grand Cayman KY1-1002
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of America, N.A. Hong Kong Branch

20th Floor, Tower 2
Kowloon Commerce Centre
51 Kwai Cheong Road
Kwai Chung
Hong Kong

Bank of America Scotch Plains Office

336 Park Avenue
Scotch Plains
NJ 07076
USA

Yueyahu Branch of China Merchant Bank

No. 88, Mu Xu Yuan Street
Nanjing
PRC

COMPANY WEBSITES

www.genscript.com
www.bestzyme.com

PLACE OF LISTING OF SHARES

The Stock Exchange of
Hong Kong Limited – Main Board

STOCK CODE

1548

STOCK NAME

GENSCRIPT BIO

FINANCIAL HIGHLIGHT

- For the six months ended June 30, 2017, the revenue of the Group was approximately US\$63.4 million, representing an increase of 19.2% as compared with approximately US\$53.2 million for the same period of 2016.
- For the six months ended June 30, 2017, the gross profit increased by 19.5% from approximately US\$35.9 million for the same period of 2016 to approximately US\$42.9 million.
- For the six months ended June 30, 2017, the net profit of the Group increased by 14.4% from approximately US\$13.2 million for the same period of 2016 to approximately US\$15.1 million.
- For the six months ended June 30, 2017, the profit attributable to the shareholders of the Company increased by 13.6% from approximately US\$13.2 million for the same period of 2016 to approximately US\$15.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue

During the Reporting Period, the Group's overall revenue increased by 19.2% to approximately US\$63.4 million (the same period in 2016: US\$53.2 million). Gross profit was approximately US\$42.9 million, representing an increase of 19.5% from approximately US\$35.9 million for the same period in 2016. Gross profit margin maintained at a relatively stable level of 67.7% (the same period in 2016: 67.5%). The profit attributable to the shareholders of the Company (the "**Shareholders**") was approximately US\$15.0 million, increased by 13.6% as compared with approximately US\$13.2 million for the same period as at June 30, 2016.

During the Reporting Period, the revenue of life sciences research services, life sciences research catalog products, preclinical drug development services, and industrial synthetic biology products accounted for approximately 83.6%, 5.5%, 3.5%, and 7.4%, respectively, of the total revenue of the Group.

Results Analysis of the Four Business Segments

1. Life Sciences Research Services

During the Reporting Period, revenue of life sciences research services amounted to approximately US\$53.0 million, representing an increase of 19.6% (the same period in 2016: US\$44.3 million). The gross profit was approximately US\$37.6 million, representing an increase of 22.1% as compared with approximately US\$30.8 million for the same period in 2016. The gross profit margin varied from 69.5% for the same period last year to 70.9% this period, and maintained at a stable level.

The Group launched a series of new services to enter into the new markets where it had no presence previously. These new services are either the substitute of existing services or the solution to existing customers' downstream demands, which further enhanced the Group's capability to integrate into clients' value chain. Certain key services had also been upgraded on the specifications, which enabled the Group to maintain its competitive advantages in the existing market.

In addition, the Group continued to increase its investment in marketing activities, particularly in the area of online promotion, regional advertising and offline channel development, including participation in more exhibitions and strengthening of the relationships with the customers. Furthermore, during the Reporting Period, there were increasingly marketing campaigns online and offline to promote the products and service or the brand of the Group, which effectively enhanced the Group's capability to acquire new customers. Equipped with optimized key accounts management, the Group was able to secure businesses with its existing key clients and establish relationships with new clients, which contributed to the rapid increase of the number of the customers, particularly in the areas of antibody development.

The Group not only gained more exposure in the therapeutic antibody area in the PRC market, but also strengthened the cooperation with clients on antibody drug development, as well as maintained a healthy client pipeline in different stages.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2. Life Sciences Research Catalog Products

During the Reporting Period, revenue of life sciences research catalog products amounted to approximately US\$3.5 million, representing an increase of 29.6% (the same period in 2016: US\$2.7 million). The gross profit was approximately US\$2.3 million, representing an increase of 35.3% as compared with approximately US\$1.7 million for the same period in 2016. Gross profit margin varied from 64.7% for the same period last year to 66.3% this period.

The Group launched hundreds of secondary antibody to further diversify its antibody portfolio. The magnetic beads product scale had been significantly expanded, which reduced the production cost and further improved the batch consistency.

3. Preclinical Drug Development Services

During the Reporting Period, revenue of preclinical drug development services was US\$2.2 million, representing a decrease of 54.2% as compared with US\$4.8 million for the same period in 2016. The gross profit was approximately US\$1.5 million, representing a decrease of 53.1% as compared with approximately US\$3.2 million for the same period in 2016. Gross profit margin increased from 66.2% for the same period last year to 67.6% this period.

The decrease in revenue and gross profit was primarily due to that (i) certain services rendered under this segment were merged into the life sciences research service segment as a result of the change of the Group's development strategy; (ii) during the Reporting Period, this segment was transformed to focus more on the new antibody discovery only and services were rendered to fulfill the orders received and confirmed in 2016.

4. Industrial Synthetic Biology Products

During the Reporting Period, revenue of industrial synthetic biology products increased by 235.7% to US\$4.7 million (the same period in 2016: US\$1.4 million). The gross profit was approximately US\$1.5 million, representing an increase of 650.0% as compared with approximately US\$0.2 million for the same period in 2016. Gross profit margin varied from 14.4% for the same period last year to 32.5% this period.

The Group has developed a series of new products including glucose oxidase, fungal amylase, glucose isomerase, phytase and acid amylase. Our glucose oxidase has successfully entered into the high-end baking market. Nanjing Bestzyme Bioengineering Co., Ltd.* (南京百斯杰生物工程有 限公司) (“**BSJ Nanjing**”), an indirect wholly owned subsidiary of the Company, was engaged to draft the nationwide standards for the enzyme industry. During the Reporting period, the Group had one new registered patent and three pending patent applications in the PRC with respect of the production technology of the glucoamylase.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

	Six months ended June 30,		Change
	2017 US\$'000	2016 US\$'000	
Revenue	63,386	53,200	19.2%
Gross profit	42,934	35,897	19.5%
Net profit	15,117	13,191	14.4%
Profit attributable to the Shareholders of the Company	14,980	13,191	13.6%
Basic earnings per share (US\$)	0.0088	0.0080	10.0%
Diluted earnings per share (US\$)	0.0086	0.0078	10.3%

REVENUE

During the Reporting Period, the Group recorded revenue of approximately US\$63.4 million, representing an increase of 19.2% from approximately US\$53.2 million for the same period of 2016. This is mainly caused by (a) launch of a number of new services and products in the traditional fields; (b) our strengthened sales and marketing efforts on key customers and the PRC market; and (c) the increase in both number of customers and their purchase volume of industrial synthetic biology products, primarily due to the diversified product lines and enhanced marketing activities since the Company completed the acquisition of Jinan Nornoon Biological Engineering Co., Ltd* (濟南諾能生物工程有限公司) in June 2016.

GROSS PROFIT

During the Reporting Period, the Group's gross profit increased by 19.5% to approximately US\$42.9 million from approximately US\$35.9 million for the same period of 2016. Gross profit margin varied from 67.5% for the same period last year to 67.7% this period.

SELLING AND DISTRIBUTION EXPENSES

The selling and distribution expenses increased by 7.3% to approximately US\$10.3 million during the Reporting Period from US\$9.6 million for the same period of 2016. This is mainly due to new market development, sales promotion and increased compensation package for sales team.

GENERAL AND ADMINISTRATIVE EXPENSES

During the Reporting Period, the general and administrative expense increased by 10.6% to approximately US\$9.4 million from approximately US\$8.5 million for the same period of 2016, excluding the research and development expenses. This is mainly due to the increased compensation package for back-office team along with business expansion.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

RESEARCH AND DEVELOPMENT EXPENSES

During the Reporting Period, the research and development expenses increased by 37.1% to approximately US\$4.8 million from approximately US\$3.5 million for the same period of 2016. This is mainly due to (a) our continuous investment in research and development of LG CAR-T; (b) the increase in our research and development activities in connection with the development of next generation technologies and the improvement of our service and products efficiency, and (c) our participation in certain new challenging research and development projects under the industrial synthetic biology products segment, which significantly strengthened our competitiveness in the market and improved our production efficiency.

INCOME TAX EXPENSE

The income tax expense was approximately US\$3.0 million for the Reporting Period, which is stable with the same period of 2016, mainly because of more tax preference received by the Company as a result of sharp increase in the research and development expenses incurred by the PRC subsidiaries.

NET PROFIT

During Reporting Period, net profit of the Group increased by 14.4% from approximately US\$13.2 million for the same period of 2016 to approximately US\$15.1 million.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS

On June 27, 2017, BSJ Nanjing entered into a capital increase agreement with Nanjing Jin Bai Enterprise Management Centre (limited partnership)* 南京金百企業管理中心(有限合夥) (“**PRC Fund**”) and Bestzyme Biotech HK Limited (香港百斯杰生物科技有限公司) (“**BSJ HK**”) (the “**BSJ Capital Increase Agreement**”). On September 13, 2017, the relevant parties entered into a supplemental agreement for the purpose of extending the BSJ Conditions Fulfillment Date (as defined in the announcement of the Company dated September 13, 2017). Upon completion, the equity interest in BSJ Nanjing will be held as to 92.59% by BSJ HK and 7.41% by the PRC Fund, and BSJ Nanjing will become an indirect non-wholly owned subsidiary of the Company.

On June 27, 2017, Legend Biotech Corporation (“**Legend Cayman**”), a direct wholly owned subsidiary of the Company, entered into a share subscription agreement with the Company and AquaPoint L.P. (“**Cayman Fund**”) (the “**Legend Share Subscription Agreement**”). On August 28, 2017, the Legend Cayman, the Company and the Cayman Fund entered into a supplemental agreement in relation to the Legend Share Subscription Agreement (the “**Supplemental Agreement**”). Upon completion, Legend Cayman will be held as to 84.84% by the Company and held as to 15.16% by the Cayman Fund, and Legend Cayman will become a direct non-wholly owned subsidiary of the Company.

Please refer to the announcements dated June 28, 2017, July 17, 2017, August 28, 2017, and September 13, 2017 for details of the transactions as contemplated under the BSJ Capital Increase Agreement, the Legend Share Subscription Agreement and the supplemental agreements.

Save as disclosed above, the Group did not have any significant investments held, material acquisitions or disposals of subsidiaries, and associated companies during the Reporting Period.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CONTINGENT LIABILITIES AND GUARANTEES

As of June 30, 2017, the Group did not have any material contingent liabilities or guarantees.

CURRENT RATIO AND GEARING RATIO

As at June 30, 2017, the Group's current ratio (current assets to current liabilities) was approximately 4.3 (as at December 31, 2016: 4.2); and gearing ratio (total liabilities to total assets) was approximately 16.9% (as at December 31, 2016: 18.6%).

BANK LOANS

As at June 30, 2017, the Group did not have any bank loans.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group plans to (i) build a new research and development facility in Nanjing with a total investment amount of US\$18.0 million, the majority of which will be spent in 2018; (ii) construct a new production facility in Zhenjiang with a total investment amount of US\$11.0 million, the majority of which will be spent in the second half of 2017, which may double the Group's current production capacity for molecular biology and peptide businesses; and (iii) build a new industry enzymes production facility in Shandong with a total investment amount of US\$19.0 million, the majority of which will be spent in the second half of 2017, which may equip the Group's industry enzymes business with the most up-to-date production platform and more production capacity than that of the acquired old facility in Shandong.

Save as disclosed above, there was no specific plan for material investments or capital assets as of June 30, 2017.

FOREIGN EXCHANGE RISK

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

CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CREDIT RISK

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

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparties' financial position, past history of making payments, and take into account information specific to the counterparties as well as pertaining to the economic environment in which the counterparties operates. Monitoring procedures have been implemented to ensure that follow-up actions will be taken to recover overdue debts. Credit limits were granted to certain customers in consideration of their payment history and business performance. Prepayment agreements were sometimes entered into with certain customers from food companies, colleges, universities, and research institutes in China, as well as occasionally with other customers in the United States and Europe. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of the year to ensure adequate impairment losses are made for irrecoverable amounts.

CHARGES ON GROUP ASSETS

As at June 30, 2017, the Group had no charges over its lands, property, plant, equipment, or other assets.

WORKING CAPITAL AND FINANCIAL RESOURCES

As at June 30, 2017, the cash and cash equivalents of the Group amounted to US\$131.0 million (as at December 31, 2016: US\$136.5 million).

CAPITAL EXPENDITURE

During the Reporting Period, the expenditure incurred in purchasing intangible assets, namely software, patents and license was nil, while the expenditure incurred in purchasing property, plant and equipment, land lease and construction in process amounted to US\$15.2 million.

EMPLOYEES AND REMUNERATION POLICIES

As at June 30, 2017, the Group had a total of approximately 1,600 employees. The Group had entered into employment contracts covering positions, employment conditions and terms, salaries, employees' benefits, responsibility for breach of contractual obligations, and reason for termination with its employees. The remuneration package of the Group's employees includes basic salary, subsidies, and other employees' benefits, which are determined with reference to experience, number of years with the Group, and other general factors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During Reporting Period, the Group's total expenses on the remuneration of employees was approximately US\$24.6 million (excluding share-based payment of approximately US\$1.0 million), representing 38.8% of the revenue of the Group.

On July 15, 2015, the Company adopted a pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**"). On December 7, 2015, the Company adopted a post-IPO share option scheme (the "**Post-IPO Share Option Scheme**") (together with the Pre-IPO Option Scheme, the "**Share Option Schemes**"). No further options have been granted under the Pre-IPO Share Option Scheme since the Company was listed on The Stock Exchange of Hong Kong (the "**Stock Exchange**").

On April 25, 2017, under the Post-IPO Share Option Scheme, 27,550,000 share options to subscribe for an aggregate of 27,550,000 ordinary shares of US\$0.001 each of the Company were granted to certain employees with validity period of the options from April 25, 2017, to April 24, 2027, and exercise price of HK\$3.512.

Except as disclosed in this Interim Report, no other options have been granted under the Post-IPO Share Option Scheme during the Reporting Period.

The number of employees of the Group categorized by function as at June 30, 2017 is set forth as follows:

Function	Number of employees	Percentage of Total
Production	883	55.2%
Sales and marketing	223	13.9%
Administration	249	15.6%
Research and development	156	9.7%
Management	89	5.6%
Total	<u>1,600</u>	<u>100.0%</u>

The Group's remuneration policy and structure for remuneration of the Directors and senior management of the Group are based on the Group's operating results, individual performance and comparable market statistics and are reviewed by the remuneration committee of the Company (the "**Remuneration Committee**") periodically.

The remuneration of the non-executive Directors is recommended by the Remuneration Committee and is decided by the Board, while the remuneration of the executive Directors and senior management members is determined by the Remuneration Committee, having regard to their merit, qualifications, and competence, the Group's operating results and comparable market statistics.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the listing of the Company (after deducting the underwriting fee and relevant expenses) amounted to approximately HK\$527.3 million (equivalent to US\$68.0 million). Such amounts are proposed to be used according to the allocation set out in the Prospectus of the Company dated December 17, 2015 (the "**Prospectus**"). Use of net proceeds from the date of listing to June 30, 2017, is set forth as follows:

Item	Utilized amount as at June 30, 2017 (US\$ million)
Expand life sciences research and application service and product portfolio	17.5
Expand production capacity	17.9
Enhance information technology capability	0.9
Acquire interests in or business of companies to complement existing operations	8.0
Reinforce the sales and marketing team	0.6
	<hr/>
Total	44.9
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PROSPECTS

We believe that we have achieved the pre-set goals in all major aspects within the first six months of 2017. We believe market demand remains strong, and we are able to continue to outperform our competitors.

With abundant opportunities in the market, the Group continues to apply the following strategies in achieving its mission and sustainable growth:

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

The Board is fully confident about the future development of the Group and believes that we can create greater rewards to the Shareholders when the above strategies can be successfully implemented.

OTHER INFORMATION

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended June 30, 2017, neither the Directors nor any of their close associates had any interests in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

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

As at June 30, 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares, and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out as follows:

Long positions in the ordinary shares and underlying shares of the Company as at June 30, 2017

Name of Director	Capacity/Nature of interest	Number of Shares/ underlying Shares held	Shareholding percentage (%)
Zhang Fangliang	Interest in controlled corporation ^(Note 1) and parties acting in concert ^(Note 2)	1,028,022,288	59.95
Wang Luquan	Interest in controlled corporation ^(Note 3) , parties acting in concert ^(Note 2) and beneficial owner ^(Note 4)	1,028,022,288	59.95
Wang Ye	Interest in controlled corporation ^(Note 5) , parties acting in concert ^(Note 2) and beneficial owner ^(Note 6)	1,028,022,288	59.95
Meng Jiange	Beneficial owner ^(Note 7)	5,081,960	0.30

OTHER INFORMATION (CONTINUED)

Notes:

- (1) As at June 30, 2017, Zhang Fangliang held approximately 40.59% of the issued share capital of Genscript Corporation (“**GS Corp**”) and was deemed, or taken to be interested in, all the shares of the Company (the “**Shares**”) held by GS Corp for the purpose of the SFO.
- (2) On August 14, 2008, Zhang Fangliang, Wang Luquan, and Wang Ye entered into the GS Corp Shareholder Voting Agreement whereby Zhang Fangliang, Wang Luquan, and Wang Ye agreed to vote unanimously in the shareholder meetings of GS Corp and, contemporaneously, proxies were conferred by Wang Luquan and Wang Ye to Zhang Fangliang authorizing Zhang Fangliang to vote and exercise all voting and related rights with respect to the shares that each Wang Luquan and Wang Ye beneficially owned in GS Corp, which held 900,902,024 Shares as at June 30, 2017. On May 29, 2015, Wu Yongmei signed a proxy agreement whereby she conferred all her voting and related rights in relation to all the shares that she owned in GS Corp, i.e. 108,625,000 shares of GS Corp to Zhang Fangliang.
- (3) As at June 30, 2017, Wang Luquan held approximately 23.24% in the issued share capital of GS Corp. Pursuant to the GS Corp Shareholder Voting Agreement and for the purpose of the SFO, Wang Luquan was deemed, or taken to be interested in, all the Shares held by GS Corp.
- (4) Wang Luquan held 3,886,640 underlying Shares under the options conditionally granted to him under the Pre-IPO Share Option Scheme.
- (5) As at June 30, 2017, Wang Ye held approximately 11.76% in the issued share capital of GS Corp. Pursuant to the GS Corp Shareholder Voting Agreement and for the purpose of the SFO, Wang Ye was deemed, or taken to be interested in, all the Shares held by GS Corp.
- (6) Wang Ye held 123,233,624 underlying Shares under the options conditionally granted to her under the Pre-IPO Share Option Scheme.
- (7) Meng Jiange held 5,081,960 underlying Shares under the options conditionally granted to him under the Pre-IPO Share Option Scheme.

Save as disclosed above, as at June 30, 2017, none of the Directors or chief executive of the Company had any interests or short positions in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that (i) was recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise (ii) was required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION (CONTINUED)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2017, within the knowledge of the Directors, the following persons (other than the Directors or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares, which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Long positions in the ordinary shares of the Company as at June 30, 2017

Name of Director	Nature of interest	Number of Shares/ underlying Shares held	Shareholding percentage (%)
GS Corp <i>(Note 1)</i>	Beneficial owner	900,902,024	52.54
KPCB China Fund, L.P. <i>(Note 2)</i>	Beneficial owner	176,993,134	10.32
KPCB China Associates, Ltd. <i>(Note 2)</i>	Interest in controlled corporation	193,270,381	11.27

Notes:

- (1) As at June 30, 2017, GS Corp is a company incorporated in the State of Delaware in the United States and owned as to approximately 40.59%, approximately 23.24%, approximately 23.24%, approximately 11.76%, and approximately 1.18% by Zhang Fangliang, Wang Luquan, Wu Yongmei, Wang Ye, and Mu Yingjun, respectively.
- (2) KPCB China Fund, L.P. ("**KPCB China Fund**") and KPCB China Founders Fund, L.P. ("**KPCB China Founders Fund**") are exempted limited partnerships established in the Cayman Islands, whose general partner is KPCB China Associates, Ltd. ("**KPCB China**"), a company incorporated in the Cayman Islands. KPCB China has sole voting and investment power over the shares in KPCB China Fund and KPCB China Founders Fund. As at June 30, 2017, KPCB China was deemed to be interested in all 176,993,134 Shares held by KPCB China Fund and 16,277,247 Shares held by KPCB China Founders Fund under the SFO.

Save as disclosed above, as at June 30, 2017, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares, which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept pursuant to Section 336 of the SFO.

OTHER INFORMATION (CONTINUED)

SHARE OPTION SCHEMES

As disclosed above, the Company has adopted the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme. The purpose of the Share Option Schemes is to enable us to grant options to selected participants as incentives or rewards for their contributions. The Directors consider the Share Option Schemes, with its broad basis of participation, will enable the Company to reward its employees, Directors and other selected participants for their contributions.

A. Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Scheme by resolutions of the Board on July 15, 2015. The Pre-IPO Share Option Scheme is not subject to the provision of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme does not involve the grant of options by the Company to subscribe for Shares once the Company is listed on the Stock Exchange. No further options shall be granted under the Pre-IPO Share Option Scheme after the listing.

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

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share	Number of share options					Outstanding as at June 30, 2017
					Outstanding as at January 1, 2017	Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Exercised ¹ during the Reporting Period	
Directors of the Company or its subsidiaries										
Wang Ye	January 15, 2008	December 31, 2010 – January 15, 2018 January 15, 2011 – January 15, 2018 December 31, 2011 – January 15, 2018 December 31, 2012 – January 15, 2018 December 31, 2013 – January 15, 2018	December 31, 2010 – January 15, 2018	0.01	1,603,239	-	-	-	756,512	846,727
	December 31, 2009	December 31, 2010 – December 31, 2019 December 31, 2011 – December 31, 2019 December 31, 2012 – December 31, 2019 December 31, 2013 – December 31, 2019 December 31, 2014 – December 31, 2019	December 31, 2010 – December 31, 2019	0.026	5,344,130	-	-	-	-	5,344,130

OTHER INFORMATION (CONTINUED)

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Number of share options						
				Exercise Price per Share	Outstanding as at January 1, 2017	Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Exercised ¹ during the Reporting Period	Outstanding as at June 30, 2017
	July 15, 2010	July 15, 2011 – July 31, 2019 July 15, 2012 – July 31, 2019 July 15, 2013 – July 31, 2019 July 15, 2014 – July 31, 2019 July 15, 2014 – July 31, 2019		0.103	24,188,480	-	-	-	9,170,000	15,018,480
	May 22, 2012	December 31, 2012 – July 31, 2020 December 31, 2013 – July 31, 2020 December 31, 2014 – July 31, 2020 December 31, 2012 – July 31, 2020		0.103	34,008,093	-	-	-	-	34,008,093
	March 20, 2014	December 31, 2014 – July 31, 2025 December 31, 2015 – July 31, 2025 December 31, 2016 – July 31, 2025	December 31, 2014 – July 31, 2025	0.062	68,016,194	-	-	-	-	68,016,194
Meng Jiange	February 20, 2010	April 1, 2011 – December 31, 2020 April 1, 2012 – December 31, 2020 April 1, 2013 – December 31, 2020 April 1, 2014 – December 31, 2020 April 1, 2015 – December 31, 2020	April 1, 2011 – December 31, 2020	0.077	1,875,320	-	-	-	680,000	1,195,320

OTHER INFORMATION (CONTINUED)

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Number of share options						
				Exercise Price per Share	Outstanding as at January 1, 2017	Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Exercised ¹ during the Reporting Period	Outstanding as at June 30, 2017
	May 1, 2013	May 1, 2016 – December 31, 2020 May 1, 2017 – December 31, 2020 May 1, 2018 – December 31, 2020 May 1, 2019 – December 31, 2020 May 1, 2020 – December 31, 2020	May 1, 2016 – December 31, 2020	0.103	1,943,320	-	-	-	-	1,943,320
	January 30, 2015	January 30, 2016 – July 31, 2025 January 30, 2017 – July 31, 2025 January 30, 2018 – July 31, 2025 January 30, 2019 – July 31, 2025 January 30, 2020 – July 31, 2025	January 30, 2016 – July 31, 2025	0.077	1,943,320	-	-	-	-	1,943,320
Wang Luquan	February 10, 2012	February 10, 2013 – July 31, 2019 February 10, 2014 – July 31, 2019	February 10, 2013 – July 31, 2019	0.103	3,886,640	-	-	-	-	3,886,640

OTHER INFORMATION (CONTINUED)

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Number of share options						
				Exercise Price per Share	Outstanding as at January 1, 2017	Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Exercised ¹ during the Reporting Period	Outstanding as at June 30, 2017
Senior management of group										
Zhu Li	January 27, 2010	March 1, 2011 – July 31, 2019 March 1, 2012 – July 31, 2019 March 1, 2013 – July 31, 2019 March 1, 2014 – July 31, 2019 March 1, 2015 – July 31, 2019	March 1, 2011 – July 31, 2019	0.077	1,554,656	-	-	-	-	1,554,656
	March 28, 2014	December 31, 2014 – December 31, 2020 December 31, 2015 – December 31, 2020 December 31, 2016 – December 31, 2020 December 31, 2017 – December 31, 2020 December 31, 2018 – December 31, 2020	December 31, 2014 – December 31, 2020	0.077	1,943,320	-	-	-	-	1,943,320
Chou Chuan – Chu	October 1, 2012	October 1, 2016 – July 31, 2025 October 1, 2017 – July 31, 2025 October 1, 2018 – July 31, 2025 October 1, 2019 – July 31, 2025 October 1, 2020 – July 31, 2025	October 1, 2016 – July 31, 2025	0.103	1,943,320	-	-	-	272,065	1,671,255
	March 28, 2015	December 31, 2015 – December 31, 2020 December 31, 2016 – December 31, 2020 December 31, 2017 – December 31, 2020 December 31, 2018 – December 31, 2020	December 31, 2015 – December 31, 2020	0.077	971,660	-	-	-	485,830	485,830

OTHER INFORMATION (CONTINUED)

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share	Number of share options					
					Outstanding as at January 1, 2017	Granted during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Exercised ¹ during the Reporting Period	Outstanding as at June 30, 2017
Chen Zhiqiang	August 10, 2009	August 10, 2009 – December 31, 2019	August 10, 2009 – December 31, 2019	0.003	5,022,259	-	-	-	2,000,000	3,022,259
	March 28, 2014	December 31, 2014 – December 31, 2020 December 31, 2015 – December 31, 2020 December 31, 2016 – December 31, 2020 December 31, 2017 – December 31, 2020 December 31, 2018 – December 31, 2020	December 31, 2014 – December 31, 2020	0.077	1,343,320	-	-	-	350,000	993,320
Zhang Chifa	July 3, 2009	July 3, 2009 – July 31, 2019	July 3, 2009 – July 31, 2019	0.003	213,765	-	-	-	-	213,765
	July 3, 2009	July 3, 2009 – July 31, 2019	July 3, 2009 – July 31, 2019	0.005	213,765	-	-	-	-	213,765
	July 9, 2012	July 31, 2015 – July 31, 2019	July 31, 2015 – July 31, 2019	0.103	54,413	-	-	-	-	54,413
	March 28, 2014	December 31, 2014 – December 31, 2020 December 31, 2015 – December 31, 2020 December 31, 2016 – December 31, 2020 December 31, 2017 – December 31, 2020 December 31, 2018 – December 31, 2020	December 31, 2014 – December 31, 2020	0.077	1,943,320	-	-	-	-	1,943,320
Other employees										
Employees	October 17, 2005 – March 28, 2015	June 12, 2007 – December 31, 2025	June 12, 2007 – December 31, 2025	0.003–0.103	104,069,967	-	-	874,494	9,105,815	94,089,658
Total					<u>262,082,501</u>	<u>-</u>	<u>-</u>	<u>874,494</u>	<u>22,820,222</u>	<u>238,387,785</u>

Notes:

- (1) The weighted average closing price immediately before the dates on which the options were exercised was HK\$4.11.
- (2) For further details of the Pre-IPO Share Option Scheme, please refer to Appendix V “Statutory and General Information” of the Prospectus and note 19 to the financial statements in this Interim Report.

OTHER INFORMATION (CONTINUED)

B. Post-IPO Share Option Scheme

The Company approved and adopted the Post-IPO Share Option Scheme by resolution of its sole shareholder on December 7, 2015. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules.

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

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price Per Share (HK\$)	Closing Price Per Share immediately before the date of grant (HK\$)	Number of Sharing Options					Outstanding as of June 30, 2017
						Outstanding as at January 1, 2017	Granted during the Reporting Period	Cancelled during Reporting Period	Lapsed during Reporting Period	Exercised during the Reporting Period	
Other employees	June 22, 2016	June 22, 2016 – June 21, 2026	June 22, 2016 – June 21, 2026	1,204	1.21	8,478,137	-	-	-	-	8,478,137
Other employees	September 23, 2016	September 23, 2016 – September 22, 2026	September 23, 2016 – September 22, 2026	2,406	2.30	12,300,000	-	-	-	-	12,300,000
Other employees	April 25, 2017	April 25, 2017 – April 24, 2027	April 25, 2017 – April 24, 2027	3,512	3.45	-	27,550,000	-	-	-	27,550,000
Total						20,778,137	27,550,000	-	-	-	48,328,137

Note:

For further details of the Post-IPO Share Option Scheme, please refer to Appendix V “Statutory and General Information” of the Prospectus and note 18 to the financial statements in this Interim Report.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this Interim Report, at no time during the Reporting Period and up to the date of this Interim Report was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

OTHER INFORMATION (CONTINUED)

PUBLIC FLOAT

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

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended June 30, 2017.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS OF THE DIRECTORS

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

The Code is also applicable to the Company's relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities. No incident of non-compliance with the Code by the Directors and the relevant employees of the Company were noted by the Company during the Reporting Period.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Company has been in compliance with the code provisions of the Corporate Governance Code throughout the six months ended June 30, 2017, except for the deviation of code provision A.2.1.

OTHER INFORMATION (CONTINUED)

As required by code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Yet, Dr. Zhang Fangliang has been assuming the roles of both the chairman of the Board and the chief executive officer of the Company since the date of Listing. The Board believes that resting the roles of both the chairman and the chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. Although these two roles are performed by the same individual, certain responsibilities are shared with the executive Directors to balance power and authority. In addition, all major decisions are made in consultation with members of the Board, as well as with the senior management. The Board has three independent non-executive Directors who offer different independent perspectives. Therefore, the Board is of the view that the balance of power and safeguards in place are adequate. The Board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Group.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”). The Audit Committee currently consists of three members, namely Mr. Dai Zumian (Chairman), Ms. Zhang Min and Mr. Guo Hongxin, all of whom are independent non-executive Directors. The primary duties of the Audit Committee are to review and supervise the Company’s financial reporting process and internal controls.

The Audit Committee has together with the management and external auditors reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the Group’s unaudited consolidated interim results for the six months ended June 30, 2017.

SANCTIONS RISK CONTROL COMMITTEE

During the Reporting Period and the period up to the date of this Interim Report, the sanctions risk control committee of the Company (the “**Sanctions Risk Control Committee**”) held two meetings on March 20, 2017, and June 30, 2017, to review the activities, relevant policies, and procedures in relation to economic sanctions, the guidance on the compliance with contractual covenants including those made in connection with the Global Offering and Listing of Shares on the Stock Exchange, the use of proceeds, and the internal control policies and procedures with respect to the sanctions risks. The Sanctions Risk Control Committee reviewed the activities of the Group that may be subject to economic sanctions for the Reporting Period and monitored the Group’s exposure to risks of sanctions violations. The Sanctions Risk Control Committee resolved that the activities that may be subject to economic sanctions were being monitored effectively and was satisfied with the effectiveness of the relevant policies, procedures, guidances, and internal control measures.

OTHER INFORMATION (CONTINUED)

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of information on the Directors are as follows:

Dr. Zhang Fangliang was appointed as the director of Yangtze Investment (BVI) Limited (previously known as Genscript Holdings (BVI) Limited) and Yangtze Investment (HK) Limited (previously known as Genscript Holding (HK) Limited) on January 4, 2017 and February 16, 2017, respectively.

Ms. Wang Ye was appointed as the director of Qragen Biotech Corporation and Qragen Biotech (HK) Limited on July 1, 2017 and July 7, 2017, respectively.

Mr. Dai Zumian left Xiezhong International Holdings Limited (協眾國際控股有限公司, HKSE: 3663), which is listed on the Main Board of the Stock Exchange, in June 2017.

INDEPENDENT REVIEW REPORT



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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

Independent review report
To the board of directors of Genscript Biotech Corporation
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 27 to 60, which comprises the condensed consolidated statement of financial position of Genscript Biotech Corporation (the “Company”) and its subsidiaries as at 30 June 2017 and the related condensed consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
28 August 2017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June

	Notes	2017 US\$'000 (Unaudited)	2016 US\$'000 (Unaudited)
REVENUE	4	63,386	53,200
Cost of sales		<u>(20,452)</u>	<u>(17,303)</u>
Gross profit		42,934	35,897
Other income and gains	4	2,458	1,964
Selling and distribution expenses		(10,251)	(9,560)
Administrative expenses		(14,163)	(12,057)
Other expenses		<u>(2,854)</u>	<u>(31)</u>
PROFIT BEFORE TAX	5	18,124	16,213
Income tax expense	6	<u>(3,007)</u>	<u>(3,022)</u>
PROFIT FOR THE PERIOD		<u>15,117</u>	<u>13,191</u>
Attributable to:			
Owners of the parent		14,980	13,191
Non-controlling interests		<u>137</u>	<u>—</u>
		<u>15,117</u>	<u>13,191</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		<u>US0.88cents</u>	<u>US0.80cents</u>
Diluted		<u>US0.86cents</u>	<u>US0.78cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

	2017 US\$'000 (Unaudited)	2016 <i>US\$'000</i> (Unaudited)
PROFIT FOR THE PERIOD	15,117	13,191
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	4,788	(2,620)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	4,788	(2,620)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	4,788	(2,620)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	19,905	10,571
Attributable to:		
Owners of the parent	19,630	10,571
Non-controlling interests	275	-
	19,905	10,571

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	57,317	43,735
Advance payments for property, plant and equipment		2,649	2,181
Investments in associates		528	–
Prepaid land lease payments		9,090	7,782
Goodwill		1,384	1,384
Other intangible assets		2,301	2,130
Prepayment of land lease payments		853	–
Deferred tax assets		5,083	4,911
		<hr/> 79,205	<hr/> 62,123
Total non-current assets			
CURRENT ASSETS			
Inventories	10	5,567	4,237
Trade and notes receivables	11	23,630	20,022
Prepayments, deposits and other receivables	12	5,031	2,984
Other current assets	13	1,181	–
Pledged short-term deposits	14	202	202
Cash and cash equivalents	14	130,749	136,464
		<hr/> 166,360	<hr/> 163,909
Total current assets			
CURRENT LIABILITIES			
Trade payables	15	4,463	4,352
Other payables and accruals	16	29,001	30,326
Tax payable		5,324	4,493
Government grants		60	44
		<hr/> 38,848	<hr/> 39,215
Total current liabilities			
NET CURRENT ASSETS		<hr/> 127,512	<hr/> 124,694
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 206,717	<hr/> 186,817

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	<i>Notes</i>	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		324	447
Government grants		2,428	2,349
Total non-current liabilities		2,752	2,796
Net assets		203,965	184,021
EQUITY			
Equity attributable to owners of the parent			
Share capital	17	1,715	1,692
Reserves		195,567	175,921
		197,282	177,613
Non-controlling interests		6,683	6,408
Total equity		203,965	184,021

Zhang Fangliang
Director

Wang Ye
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the parent							Total	Non-controlling interests	Total equity
	Share capital	Share premium*	Merger reserve*	Share option reserves*	Statutory surplus earnings*	Retained earnings*	Exchange fluctuation reserve*			
	US\$'000 (note 17)	US\$'000	US\$'000	US\$'000 (note 18)	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2017	1,692	118,051	(20,883)	9,469	9,247	72,029	(11,992)	177,613	6,408	184,021
Profit for the period	-	-	-	-	-	14,980	-	14,980	137	15,117
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	-	4,650	4,650	138	4,788
Total comprehensive income for the period	-	-	-	-	-	14,980	4,650	19,630	275	19,905
Equity-settled share option arrangements	-	-	-	992	-	-	-	992	-	992
Exercise of share options	23	2,392	-	(735)	-	-	-	1,680	-	1,680
Dividend distribution	-	-	-	-	-	(2,633)	-	(2,633)	-	(2,633)
Transfer from retained profits	-	-	-	-	203	(203)	-	-	-	-
At 30 June 2017 (unaudited)	<u>1,715</u>	<u>120,443</u>	<u>(20,883)</u>	<u>9,726</u>	<u>9,450</u>	<u>84,173</u>	<u>(7,342)</u>	<u>197,282</u>	<u>6,683</u>	<u>203,965</u>

* These reserve accounts comprise the consolidated reserves of US\$195,567,000 (For the year ended 31 December 2016: US\$175,921,000) in the consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2016

	Attributable to owners of the parent									Non-controlling interests	Total equity
	Share capital	Share premium*	Merger reserve*	Share option reserves*	Statutory surplus earnings*	Retained earnings*	Exchange fluctuation reserve*	Total			
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(note 17)			(note 18)							
At 1 January 2016	1,600	106,655	(20,883)	8,361	6,417	48,689	(1,591)	149,248	-	149,248	
Profit for the period	-	-	-	-	-	13,191	-	13,191	-	13,191	
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(2,620)	(2,620)	-	(2,620)	
Total comprehensive income for the period	-	-	-	-	-	13,191	(2,620)	10,571	-	10,571	
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	6,288	6,288	
Issuance of shares under the over-allotment option	60	10,024	-	-	-	-	-	10,084	-	10,084	
Share issuance expenses	-	(517)	-	-	-	-	-	(517)	-	(517)	
Equity-settled share option arrangements	-	-	-	784	-	-	-	784	-	784	
Exercise of share options	9	317	-	(175)	-	-	-	151	-	151	
At 30 June 2016 (unaudited)	<u>1,669</u>	<u>116,479</u>	<u>(20,883)</u>	<u>8,970</u>	<u>6,417</u>	<u>61,880</u>	<u>(4,211)</u>	<u>170,321</u>	<u>6,288</u>	<u>176,609</u>	

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

	<i>Notes</i>	2017 US\$'000 (Unaudited)	2016 <i>US\$'000</i> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		18,124	16,213
Adjustments for:			
(Reversal of)/Provision provided for impairment of trade receivables	5	(170)	92
Write-down of inventories to net realisable value	10	95	50
Depreciation of property, plant and equipment		2,849	2,383
Amortisation of other intangible assets		178	112
Amortisation of land use rights		96	82
Loss on disposal of items of property, plant and equipment	9	30	9
Interest income	4	(300)	(179)
Investment income	4	(33)	–
Equity-settled share option expense		992	784
		21,861	19,546
Increase in trade and notes receivables		(3,438)	(3,478)
(Increase)/decrease in prepayments, deposits and other receivables		(1,935)	3,434
Increase in inventories		(1,425)	(799)
Increase/(decrease) in government grants		95	(20)
Increase in trade payables		111	436
Decrease in other payables and accruals		(4,498)	(1,371)
Cash generated from operations		10,771	17,748
Interest received		211	179
Income tax paid		(2,635)	(3,163)
Net cash flows from operating activities		8,347	14,764

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June

	<i>Notes</i>	2017 US\$'000 (Unaudited)	2016 <i>US\$'000</i> (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of other current assets		(1,181)	–
Purchases of property, plant and equipment		(12,947)	(4,140)
Purchase of land lease		(2,257)	–
Proceeds from disposal of items of property, plant and equipment		2	–
Purchases of other intangible assets		–	(104)
Receipt of government grants		–	622
Purchases of investments in associates		(528)	–
Acquisition of a subsidiary by capital injection		–	71
Receipt of investment income		33	–
Purchases of minority interest of the subsidiary		(373)	–
Net cash flows used in investing activities		(17,251)	(3,551)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,680	10,235
Share issue expenses		–	(1,543)
Dividend distribution		(2,633)	–
Net cash flows (used in)/from financing activities		(953)	8,692
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Net foreign exchange difference		4,142	(1,558)
Cash and cash equivalents at beginning of period	14	136,464	103,720
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14	130,749	122,067
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		80,534	71,130
Non-pledged time deposits with original maturity of less than three months when acquired		50,215	50,937
Cash and cash equivalents as stated in the statement of financial position	14	130,749	122,067
Cash and cash equivalents as stated in the statement of cash flows		130,749	122,067

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

1. CORPORATE INFORMATION

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

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

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

Information about subsidiaries

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

Company	Place and date of incorporation/ registration and place of business	Issued ordinary shares/paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Genscript (Hong Kong) Limited (“GS HK”)	Hong Kong 8 January 2009	HK\$155,000	–	100	Sale of life sciences research products and services
Nanjing Jinsirui Biotechnology Co., Ltd. (“Nanjing Jinsirui”)	China 12 March 2009	US\$53,020,000	–	100	Manufacturing and sale of life sciences research products and services
Genscript USA Incorporated (“GS USA”)	United States of America 26 March 2009	US\$1	100	–	Manufacturing and sale of life sciences research products and services
Jinsikang Technology (Nanjing) Co., Ltd. (“Nanjing Jinsikang”)	China 30 April 2009	RMB132,550,600	–	100	Manufacturing and sale of life sciences research products and services

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

1. CORPORATE INFORMATION (CONTINUED)

Company	Place and date of incorporation/ registration and place of business	Issued ordinary shares/paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Genscript Japan Inc.	Japan 7 July 2011	JPY8,300,000	–	100	Sale of life sciences research products and services
Nanjing Bestzyme Bioengineering Co., Ltd.	China 6 June 2013	US\$29,000,000	–	100	Manufacturing and sale of life sciences research products and services
Nanjing Legend Biotechnology Co., Ltd.	China 17 November 2014	US\$500,000	–	100	Manufacturing and sale of life sciences research products and services
Shanghai Jingrui Biotechnology Co., Ltd.	China 6 March 2015	RMB1,000,000	–	100	Manufacturing and sale of life sciences research products and services
Hubei Bestzyme Biotechnology Co., Ltd.	China 29 January 2015	RMB10,000,000	–	100	Manufacturing and sale of life sciences research products and services
Jinan Nornoon Biological Co., Ltd. (“Jinan Nornoon”)	China 19 August 2009	RMB12,077,000	–	53.3	Manufacturing and sale of life sciences research products and services

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with HKAS 34 *Interim Financial Reporting* and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

3. OPERATING SEGMENT INFORMATION

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

- (a) Life sciences research services, comprising gene and peptide synthesis, DNA/primer synthesis, DNA sequencing, custom antibody production, protein expression, and stable cell line production;
- (b) Preclinical drug development services, comprising integrated services in three areas, namely protein and antibody engineering, in vitro drug studies, and in vivo drug studies;
- (c) Life sciences research 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2017 (Unaudited)

	Life sciences research services <i>US\$'000</i>	Preclinical drug development services <i>US\$'000</i>	Life sciences research catalog products <i>US\$'000</i>	Industrial synthetic biology products <i>US\$'000</i>	Total <i>US\$'000</i>
Segment sales	53,024	2,240	3,453	4,669	63,386
Segment cost of sales	15,410	725	1,164	3,153	20,452
Segment gross profit	<u>37,614</u>	<u>1,515</u>	<u>2,289</u>	<u>1,516</u>	<u>42,934</u>
Other income and gains					2,458
Selling and distribution expenses					(10,251)
Administrative expenses					(14,163)
Other expenses					<u>(2,854)</u>
Profit before tax					<u><u>18,124</u></u>

Six months ended 30 June 2016 (Unaudited)

	Life sciences research services <i>US\$'000</i>	Preclinical drug development services <i>US\$'000</i>	Life sciences research catalog products <i>US\$'000</i>	Industrial synthetic biology products <i>US\$'000</i>	Total <i>US\$'000</i>
Segment sales	44,356	4,765	2,676	1,403	53,200
Segment cost of sales	13,545	1,613	944	1,201	17,303
Segment gross profit	<u>30,811</u>	<u>3,152</u>	<u>1,732</u>	<u>202</u>	<u>35,897</u>
Other income and gains					1,964
Selling and distribution expenses					(9,560)
Administrative expenses					(12,057)
Other expenses					<u>(31)</u>
Profit before tax					<u><u>16,213</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographic information

(a) Revenue from external customers

	For the six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
United States of America	33,961	26,579
Europe	10,004	9,048
China	11,998	8,727
Asia Pacific (excluding China and Japan)	3,081	4,018
Japan	2,599	2,266
Others (including other North American countries, South America and Africa)	1,743	2,562
Total	63,386	53,200

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

(b) Non-current assets

	30 June 2017	31 December 2016
	US\$'000	US\$'000
	(Unaudited)	(Audited)
China	72,875	56,670
Other countries	719	542
Total	73,594	57,212

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

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the reporting period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

4. 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:

	For the six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Revenue		
Rendering of services	55,264	49,120
Sale of goods	8,122	4,080
	63,386	53,200
Other income and gains		
Foreign currency exchange gain	-	1,755
Bank interest income	300	179
Government grants	2,119	29
Investment income	33	-
Others	6	1
	2,458	1,964

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	1,288	913
Cost of services provided	8,648	6,449
Depreciation of items of property, plant and equipment	2,849	2,383
Amortisation of other intangible assets*	178	112
Amortisation of prepaid land lease payments	96	82
(Reversal of)/Provision provided for impairment of trade receivables	(170)	92
Minimum lease payments under operating leases:		
– Land and buildings	774	488
Auditors' remuneration	89	88
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	21,274	15,790
Pension scheme contributions (defined contribution schemes)	2,053	1,851
Equity-settled share option expense	931	546
	24,258	18,187
Research and development costs	4,784	3,548
Loss on disposal of items of property, plant and equipment	30	9
Foreign exchange losses	2,784	–
Write-down of inventories to net realisable value	95	50

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

6. INCOME TAX

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the reporting period.

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

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

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

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

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

	For the six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Current income tax expense	3,302	4,377
Deferred income tax expense	(295)	(1,355)
Income tax expense	3,007	3,022

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

7. DIVIDENDS

	For the six months ended 30 June	
	2017	2016
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Dividends on ordinary shares during the period	-	-

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the reporting period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,702,366,087 (for the six months ended 30 June 2016: 1,653,031,268) in issue during the reporting period, as adjusted to reflect the rights issue during the reporting period.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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

	For the six months ended 30 June	
	2017	2016
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	14,980	13,191
	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,702,366,087	1,653,031,268
Effect of dilution – weighted average number of ordinary shares:		
Share options	33,202,638	40,723,238
	1,735,568,725	1,693,754,506

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

9. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2017, the Group acquired items of property, plant and equipment with a cost of US\$16,238,000 (for the six months ended 30 June 2016: US\$3,031,000).

Assets with a net book value of US\$32,000 were disposed of by the Group during the six months ended 30 June 2017 (31 December 2016: US\$9,000), resulting in a net loss on disposal of US\$30,000 (for the six months ended 30 June 2016: US\$9,000).

See Note 20 for capital commitments.

10. INVENTORIES

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Raw materials	2,754	1,892
Work in progress	854	1,437
Finished goods	2,906	1,760
	6,514	5,089
Less: Provision for inventories	(947)	(852)
	5,567	4,237

Inventory provision of US\$95,000 was recognised for the six months ended 30 June 2017 (for the six months ended 30 June 2016: US\$50,000). Inventory provision has been included in “cost of sales” in the interim condensed consolidated statement of profit or loss.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

11. TRADE AND NOTES RECEIVABLES

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Trade receivables	23,067	20,037
Notes receivable	1,458	1,050
	24,525	21,087
Less: Provision for impairment of trade receivables	(895)	(1,065)
	23,630	20,022

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

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

	Total US\$'000
At 1 January 2017	1,065
Impairment losses recognised	14
Impairment losses reversed	(184)
	895
At 30 June 2017	895
At 1 January 2016	1,109
Acquisition of a subsidiary	185
Impairment losses recognised	658
Amount written off as uncollectible	(887)
	1,065
At 31 December 2016	1,065

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

11. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Within 3 months	20,712	16,948
3 months to 6 months	528	1,081
6 months to 12 months	590	837
Over 1 year	1,237	1,171
	23,067	20,037

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

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Neither past due nor impaired	13,808	11,294
Less than 3 months past due	7,256	6,356
Over 3 months but within one year past due	1,108	1,322
	22,172	18,972

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

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

The notes receivable were due within six months. No notes receivable were discounted or endorsed as at 30 June 2017 and 31 December 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Other receivables	1,873	1,475
Prepayments	1,221	664
Prepaid expenses	1,196	371
VAT recoverable (i)	532	344
Advance to employees	145	155
Interest receivable	89	–
	5,056	3,009
Less: Impairment of other receivables	(25)	(25)
	5,031	2,984

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

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

	Individually impaired US\$'000
At 1 January 2017	25
Increased impairment of other receivables	–
At 30 June 2017	25
At 1 January 2016	143
Acquisition of a subsidiary	11
Impairment losses reversed	(129)
At 31 December 2016	25

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

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

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Neither past due nor impaired	<u>5,031</u>	<u>2,984</u>

13. OTHER CURRENT ASSETS

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Financial products investment (a)	<u>1,181</u>	<u>–</u>

Notes:

- (a) Other current assets are financial products issued by China Merchants Bank, with no guarantee of the principal and the interest, and the expected annual interest rate is between 3.60% and 4.55%.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

14. CASH AND CASH EQUIVALENTS AND PLEDGED SHORT-TERM DEPOSITS

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Cash and bank balances	130,749	136,464
Pledged short-term deposits	202	202
	130,951	136,666
Less: Pledged short-term deposits for letters of credit	(202)	(202)
Cash and cash equivalents	130,749	136,464
Denominated in USD	112,703	53,169
Denominated in RMB	10,531	16,727
Denominated in HKD	4,540	64,832
Denominated in EUR	1,820	932
Denominated in GBP	637	503
Denominated in JPY	518	301
Cash and cash equivalents	130,749	136,464

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US\$10,531,000 (31 December 2016: US\$16,727,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

15. TRADE PAYABLES

As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade payables based on the invoice date, is as follows:

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Within 3 months	3,970	4,116
3 months to 6 months	207	78
6 months to 12 months	76	112
Over 1 year	210	46
	4,463	4,352

Trade payables are non-interest-bearing and are normally settled on 60-90 day terms.

16. OTHER PAYABLES AND ACCRUALS

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Accrued payroll	8,710	13,182
Advances from customers	6,880	7,516
Other payables	4,523	3,713
Payables for purchases of machinery and construction of buildings	6,418	2,638
Taxes payable other than corporate income tax	1,697	1,172
Accrued expenses	773	2,105
	29,001	30,326

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

17. SHARE CAPITAL AND SHARE PREMIUM

Shares

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Authorised:		
Ordinary shares (of US\$0.001 each)	5,000	5,000
Issued and fully paid:		
Ordinary shares (of US\$0.001 each)	1,715	1,692

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

	Number of shares in issue	Share capital US\$'000	Share premium US\$'000	Total US\$'000
At 1 January 2017	1,691,861,775	1,692	118,051	119,743
Share options exercised (<i>note 18</i>)	22,820,222	23	2,392	2,415
At 30 June 2017 (unaudited)	1,714,681,997	1,715	120,443	122,158

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

18. SHARE OPTION SCHEME

On 25 April 2017, under the Company's Post-IPO share option scheme adopted on 7 December 2015, 27,550,000 share options to subscribe for an aggregate of 27,550,000 ordinary shares of US\$0.001 each of the Company were granted to 75 employees with vesting date from 25 April 2019 to 25 April 2024 and exercise price of HK\$3.512. The expiration date of the option granted is 10 years after the grant date.

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

The following share options were outstanding during the period:

	For the six months ended 30 June			
	2017		2016	
	Weighted average exercise price US\$ per share	Number of options '000	Weighted average exercise price US\$ per share	Number of options '000 per share
At 1 January	0.0883	282,861	0.0718	302,261
Granted during the period	0.4514	27,550	0.1552	8,478
Forfeited during the period	0.0886	(875)	0.0806	(1,310)
Exercised during the period	0.0762	(22,820)	0.0163	(9,272)
At 30 June	<u>0.1011</u>	<u>286,716</u>	<u>0.0758</u>	<u>300,157</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

18. SHARE OPTION SCHEME (CONTINUED)

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

30 June 2017 Number of options exercisable '000	Exercise price* <i>US\$</i> <i>per share</i>	Exercise period
2,886	0.0026	2008/05/12–2019/12/31
244	0.0046	2007/12/06–2019/07/31
385	0.0072	2008/03/03–2019/07/31
1,603	0.0103	2010/12/31–2018/01/15
449	0.0139	2011/12/08–2019/07/31
2,214	0.0154	2012/12/20–2019/12/20
184	0.0185	2010/01/05–2019/07/31
1,135	0.0206	2012/12/31–2018/10/08
5,344	0.0257	2010/12/31–2019/12/31
146	0.0515	2013/08/10–2025/07/31
68,016	0.0617	2014/12/31–2025/07/31
52,240	0.0772	2010/12/31–2025/07/31
54,494	0.1029	2011/07/15–2020/12/31
82	0.1552	2016/06/22–2026/06/21
189,422		

30 June 2016 Number of options exercisable '000	Exercise price* <i>US\$</i> <i>per share</i>	Exercise period
8,856	0.0026	2008/05/12–2019/12/31
2,672	0.0031	2007/12/31–2016/10/01
2,672	0.0041	2007/12/31–2016/10/01
428	0.0046	2009/07/03–2019/07/31
1,325	0.0072	2008/03/03–2019/07/31
1,710	0.0103	2010/03/28–2018/01/15
727	0.0139	2011/12/08–2019/07/31
3,920	0.0154	2010/01/01–2019/12/20
898	0.0185	2010/01/05–2019/07/31
1,148	0.0206	2012/12/31–2018/10/08
5,344	0.0257	2010/12/31–2019/12/31
394	0.0515	2013/08/10–2025/07/31
45,279	0.0617	2014/12/31–2025/07/31
47,069	0.0772	2009/12/31–2025/07/31
68,244	0.1029	2011/07/15–2025/07/31
51	0.1552	2016/06/22–2026/06/21
190,737		

* 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

18. SHARE OPTION SCHEME (CONTINUED)

The fair value of the share options granted during the period was US\$5,775,692 (US\$0.210 each) (2016: US\$636,770, US\$0.075 each), of which the Group recognized a share option expense of US\$992,398 (2016: US\$784,000) during the six months ended 30 June 2017.

The fair value of equity-settled share options granted during the period was estimated as at the date of grant, 25 April 2017, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	30 June 2017	30 June 2016
Dividend yield (%)	–	–
Expected volatility (%)	42	43
Risk-free interest rate (%)	1.35	1.15
Expected life of options (<i>year</i>)	10	10
Weighted average share price (<i>HK\$ per share</i>)	3.45	1.18

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

At the end of reporting period, the Company had 286,715,929 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 286,715,929 additional ordinary shares of the Company, an additional share capital of approximately US\$285,716 and a share premium of approximately US\$28,701,000 (before issue expenses).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

19. OPERATING LEASE COMMITMENTS

The Group leases certain of its production and office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to seven years. At 30 June 2017 and 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Within one year	1,310	1,024
In the second to fifth years, inclusive	2,466	2,734
After five years	27	–
	3,803	3,758

20. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 19 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)
Contracted, but not provided for: Plant and machinery	8,346	4,016

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

21. RELATED PARTY TRANSACTIONS

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

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

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

		For the six months ended 30 June	
	<i>Note</i>	2017 US\$'000 (Unaudited)	2016 <i>US\$'000</i> (Unaudited)
Purchases of raw materials from Jinrui Rabbit	(i)	1	10

Notes:

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

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

	For the six months ended 30 June	
	2017 US\$'000 (Unaudited)	2016 <i>US\$'000</i> (Unaudited)
Short-term employee benefits	868	1,106
Pension scheme contributions	14	12
Equity-settled share option expense	61	272
Total compensation paid to key management personnel	943	1,390

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

22. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period were as follows:

As at 30 June 2017 (unaudited)

Financial assets

	Loans and receivables US\$'000
Trade and notes receivables	23,630
Financial assets included in prepayments, deposits and other receivables	523
Cash and cash equivalents	130,749
Pledged short-term deposits	202
	155,104
	155,104
	Available- for-sale financial assets
Other current assets	1,181
	1,181
	1,181

Financial liabilities

	Financial liabilities at amortised cost US\$'000
Trade payables	4,463
Financial liabilities included in accrued liabilities and other payables	11,475
	15,938
	15,938

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 June 2017

22. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

As at 31 December 2016 (audited)

Financial assets

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

Financial liabilities

	Financial liabilities at amortised cost <i>US\$'000</i>
Trade payables	4,352
Financial liabilities included in accrued liabilities and other payables	7,392
	<hr/>
	11,744
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23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised by the board of directors on 28 August 2017.