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
Annual Report

*For identification purposes only

Genscript Biotech Corporation (the "**Company**" or "**Genscript**", together with its subsidiaries referred to as the "**Group**") is a world leader in the global gene synthesis service market with recognised stature in synthetic biology. The Company's mission is to "Make People and Nature Healthier through Biotechnology" by establishing a leading innovative protein and antibody engineering platform and striving for opportune breakthroughs in the fields of research and development and industrial enzymes for the benefit of mankind.

The Group is a well-recognised life sciences research and application service and product provider that applies its proprietary technology to various fields from basic life sciences research to translational biomedical development, industrial synthetic products, and precision immune-cell therapeutic solutions. The broad and integrated life sciences research and application service and product portfolio comprises three segments, namely, (i) bio-science services and products, (ii) industrial synthetic biology products, and (iii) precision immune-cell therapy. 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 and feed industries. Its precision immune-cell therapy products are used to treat refractory diseases including cancer and inflammatory diseases. Since synthetic biology is backed by gene synthesis and editing technology, it falls under the Group's professional expertise. The Group has made significant progress in its synthetic biology research and application areas, which mainly materialised into its innovative chimeric antigen receptor ("**CAR**") T-cell ("**CAR-T**") therapy and industrial enzyme businesses.

With a strong sales and marketing team and strong research and development capabilities, the Company maintains a stable and sustainable growth.

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CORPORATE PROFILE

Genscript Biotech Corporation (the "**Company**" or "**GenScript**", together with its subsidiaries, the "**Group**") is a well-recognised life sciences research and application service and product provider that applies its proprietary technology to various fields from basic life sciences research to translational biomedical development, industrial synthetic products, and precision immune-cell therapeutic solutions. We maintain our world market leadership in the global gene synthesis service market with recognised stature in synthetic biology.

Our broad and integrated life sciences research and application service and product portfolio comprises three segments, namely, (i) bio-science services and products, (ii) industrial synthetic biology products, and (iii) precision immune-cell therapy. For the year ended December 31, 2017, we had generated approximately US$122.5 million, US$11.8 million, and US$18.3 million from our three segments, representing approximately 80.3%, 7.7%, and 12.0% of our total revenue, respectively. With a strong sales and marketing team and strong research and development capabilities, the Company maintains a stable and sustainable growth.

Through 15 years of effort since we were originally founded in New Jersey, the United States in 2002, "Genscript" has now been recognised as a well-known and trusted brand underpinned by its high quality life sciences research and application services and products.

Our services and products are primarily used by scientists and researchers for conducting fundamental life sciences research, translational biomedical research, and early stage pharmaceutical development. Our synthetic biology products are also used by industry users of industrial enzymes, such as those in the food and feed industries. Our precision immune-cell therapy products are used to treat refractory diseases including cancer and inflammatory diseases. As of December 31, 2017, we had engendered the trust and confidence of a broad and diverse customer base, including pharmaceutical and biotech companies, colleges and universities, research institutes, government bodies (including government testing and diagnostic centres), and distributors. As of December 31, 2017, over 27,300 international peer-reviewed journal articles had cited the use of our life sciences research and application services and products, among which many leading scientists and researchers in life sciences research industries were indicated to be frequent users of our services and products. For the year ended December 31, 2017, our sales to such categories of customers generated approximately 68.4%, 16.7%, 7.9%, 2.8%, and 4.2% of our total revenue, respectively.

We have established an extensive direct sales network, reaching over 100 countries in North America, Europe, the PRC, Japan, and the other Asia Pacific regions. We primarily sell our life sciences research and application services and products through our own direct sales force to our customers worldwide, while we also sell our services and products through independent third-party distributors to expand our market presence and facilitate communication with end users. For the year ended December 31, 2017, we had generated approximately US$85.8 million, US$30.8 million, US$20.2 million, US$7.8 million, US$4.6 million, and US$3.4 million from our sales to customers in United States, the PRC, Europe, Asia Pacific (excluding the PRC and Japan), Japan, and others, representing approximately 56.2%, 20.2%, 13.2%, 5.1%, 3.0%, and 2.3% of our total revenue, respectively.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Dr. Wang Luquan
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

HONG KONG LEGAL ADVISERS

Jones Day *(from August 15, 2017)*
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Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
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1 Tim Mei Avenue
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REGISTERED OFFICE IN THE CAYMAN ISLANDS

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Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Harneys Services (Cayman) Limited
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103 South Church Street, George Town
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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 BANKS

Bank of America, N.A. Hong Kong Branch

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Kowloon Commerce Centre
51 Kwai Cheong Road
Kwai Chung
Hong Kong

Bank of America Scotch Plains Office

336 Park Avenue
Scotch Plains
NJ 07076
USA

Yueyahu Branch of China Merchant Bank

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Nanjing
PRC

COMPANY WEBSITES

www.genscript.com
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PLACE OF LISTING OF SHARES

The Stock Exchange of Hong Kong Limited – Main Board

STOCK CODE

1548

STOCK NAME

GENSCRIPT BIO

FINANCIAL HIGHLIGHT

- For the year ended December 31, 2017, our revenue was approximately US$152.6 million, representing an increase of 33.0% as compared with approximately US$114.7 million for the year ended December 31, 2016.

- For the year ended December 31, 2017, our gross profit was approximately US$104.6 million, representing an increase of 37.3% as compared with approximately US$76.2 million for the year ended December 31, 2016.

- For the year ended December 31, 2017, our profit was approximately US$27.0 million, representing an increase of 1.9% as compared with approximately US$26.5 million for the year ended December 31, 2016. Our adjusted net profit (excluding investment income/loss, foreign currency exchange gain/loss and share-based payment expenses) was approximately US$35.7 million, representing an increase of 53.2% from approximately US$23.3 million for the year ended December 31, 2016.

- For the year ended December 31, 2017, the profit attributable to owners of the Company was approximately US$26.1 million, representing a decrease of 0.4% as compared with approximately US$26.2 million for the year ended December 31, 2016. Our adjusted net profit attributable to owners of the Company (excluding investment income/loss, foreign currency exchange gain/loss and share-based payment expenses) was approximately US$34.8 million, representing an increase of 52.0% from approximately US$22.9 million for the year ended December 31, 2016.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended December 31,				
	2013	2014	2015	2016	**2017**
			US$'000		
Operation Results					
Revenue	60,104	69,994	86,709	114,735	**152,649**
Gross profit	38,258	44,098	57,078	76,229	**104,591**
Profit after income tax	6,000	6,175	17,504	26,535	**27,005**
Profit attributable to shareholders of the Company	6,000	6,175	17,504	26,170	**26,123**
Non-controlling interest	–	–	–	365	**882**
Basic earnings per share *(US$)*	0.0051	0.0052	0.0147	0.0157	**0.0152**
Diluted earnings per share *(US$)*	0.0050	0.0051	0.0143	0.0153	**0.0151**
Assets					
Non-current assets	45,274	48,588	49,060	62,123	**106,369**
Current assets	38,561	43,792	133,014	163,909	**397,895**
Current liabilities	29,885	29,188	30,894	39,215	**272,716**
Net current assets	8,676	14,604	102,120	124,694	**125,179**
Non-current liabilities	1,387	1,445	1,932	2,796	**3,229**
Net assets	52,563	61,747	149,248	184,021	**228,319**
Cash and cash equivalents	22,457	25,637	103,720	136,464	**123,857**
Inventories turnover days *(day)*	22	22	26	35	**49**
Trade receivables turnover days *(day)*	56	59	65	61	**66**
Trade payables turnover days *(day)*	30	33	33	35	**47**

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**"), I am pleased to present the results of the Group for the year ended December 31, 2017 (the "**Year**" and the "**Reporting Period**").

To ensure our long-term sustainable business development and seek to continue to create value for our shareholders and other stakeholders in the years to come, we revisited and contemplated our mission and strategic positioning. Our mission is to "Make People and Nature Healthier through Biotechnology" by establishing a leading innovative protein and antibody engineering platform and striving for opportune breakthroughs in the fields of research and development and industrial enzymes for the benefit of mankind. We believe they are fundamental in enabling us to be more focused on our strengths and commitments, which are to capitalise on emerging opportunities in the bio-tech and bio-pharmaceutical industries, and to drive for significant growth.

Backed by the spirit of our mission, we continue to further strengthen our market position as a well-recognised life sciences research and application service and product provider with comprehensive portfolio coverage in the world. As of 2017, we maintained our leading position in the gene synthesis service market with recognised stature in synthetic biology. Our strong technological advantages in gene synthesis, together with our rich experience and technical know-how in protein production, antibody development, and peptide synthesis constituted our strengths to provide a one-stop solution for the life sciences research community. Furthermore, our technology has also been crystalising to productivities in our pre-clinical antibody drug discovery and development services to help the bio-pharmaceutical industry to further expedite their drug development process.

Ever since synthetic biology technology was recognised as an emerging technology back in the early 2000s, it has demonstrated its potential in broad areas to enrich and improve the lives and environments of humans. Since synthetic biology is backed by gene synthesis and editing technology, it falls under our professional expertise. We have made significant progress in our synthetic biology research and application areas, which mainly materialised into our CAR-T cell therapy and industrial enzyme businesses.

Through 15 years of effort since we were originally founded in New Jersey, the United States in 2002, "Genscript" has now been recognised as a well-known and trusted brand underpinned by its high quality life sciences research and application services and products. We have established an extensive direct sales network, reaching over 100 countries in North America, Europe, the PRC, Japan, and other Asia Pacific regions. We have engendered the trust and confidence of a broad and diverse customer base, including pharmaceutical and biotech companies, colleges and universities, research institutes, government bodies, and distributors. As of December 31, 2017, over 27,300 international peer-reviewed journal articles had cited the use of our life sciences research and application services and products, among which many leading scientists and researchers in life sciences research industries were indicated to be frequent users of our services and products.

For the year ended December 31, 2017, the Group's revenue was approximately US$152.6 million, representing a year-to-year growth of 33.0%. Gross profit increased by 37.3% from the previous year to approximately US$104.6 million. The increases in both revenue and gross profit were primarily attributable to (a) the significant increase in the number of orders of bio-science services and products and novel antibody drugs and biosimilar development services, primarily benefiting from our continuous research and development activities, which resulted in the launch of advanced and/or improved services and products and improvement in our production competitiveness, and (ii) the increase in both the number of customers and their purchase volume of industrial synthetic biology products, primarily due to the upgraded products and the setting up of sales team, and (iii) the collaboration with Janssen Biotech, Inc. ("**Janssen**"). Total profit attributable to owners of the Company amounted to approximately US$26.1 million in 2017.

For the year ended December 31, 2017, our research and development expenses were approximately US$18.1 million, representing 11.9% of our total revenue. Our consistent investment into research and development has enabled us to secure a total of 47 patents issued, and 107 pending patents applications under processing that are material to our global business. We intend to continue leveraging off our technology and research and development capabilities and to broaden our products and services portfolio coverage among our three business segments.

Our sales and marketing team was further strengthened during the Year. We continuously invested in our interactive online quoting and ordering system, which provided real time interaction between customers and our professional services team, led by Ph.D. level experts in front of the screen. For the year ended December 31, 2017, over 42% of our total bio-science research services and products orders were generated online. At the ground level, we added professional team members who have several years of frontline experience. They have been playing critical roles in building up the decent and win-win relationships with key academic and industrial customers. We believe that their efforts may enable us to unveil a new chapter in 2018, which will drive growth in all three business segments, namely (i) bio-science services and products, (ii) industrial synthetic biology products, and (iii) precision immune-cell therapy.

We continued expanding our research and development and production capacity in 2017. Our new bio-science service and product facility in Zhenjiang officially launched in August 2017, doubling the capacity of gene and peptide synthesis production compared to that in 2016. We also commenced construction of the phase III research and development facility in July 2017 in Nanjing, which is adjacent to our current main production site. The most up-to-date industrial enzymes production facility, featuring advanced automation and computer-based controlling systems, began a trial run in early 2018. The new facility will expand the current production capacity from approximately 180 tons to 900 tons, with an option to add another 360 tons of incremental production capacity with only a fermentation tank installation.

We made a strategic investment in our talent pool in the Year. Total headcount reached more than 1,900, representing an increase of 20.0% as compared with that in 2016. The majority of our new employees were deployed to the frontlines of research and development, business development and production. As of December 31, 2017, more than 6.0% and 21.5% of our employees hold Ph.D. degrees and master's degrees, respectively. In aggregate, more than 68.0% of our employees hold bachelor's or higher degrees, compared to 64.8% in 2016. We also further improved our dual-ladder employee promotion system to ensure that the significance of uplifting our technical and professional talent in their career development can be of the same magnitude and as practically achievable as the managerial destinations.

We also developed full sets of systematic and comprehensive management training courses in the form of internal lectures which were delivered to junior and middle-level management team members and key scientists, positively influencing management efficiency and effectiveness. We sincerely believe that our talent is the Company's most valuable long-term asset, which is an important driver for our future growth.

For our bio-science services and products business, we continued to maintain our market-leading position in the gene synthesis service market with recognised stature in synthetic biology, which was attributable to our continuous investment into research and development as well as timely offers of more comprehensive and competitive product and service packages during the Year. With the successful integration of the newly acquired CustomArray, Inc. (please refer to the announcements of the Company dated December 27, 2017 and January 12, 2018), we believe that the Company has the potential to further expand its products and services coverage that meet the needs of the life sciences research communities, at a more efficient approach from amplifying the production put-through and improving the production cost structure perspective as well. Thus, we can provide more competitive products and services to scientists to make research easier.

Our attested antibody drug discovery and development platform has been growing during the Year. The platform provides comprehensive solution services to the biopharmaceutical industry and aims to accelerate its drug development process to satisfy patient health benefit requirements that are currently unmet.

Our industrial synthetic biology products segment has been growing during the Year. Along with the fast growing sales increase, we invested a new production facility, with a three-fold increase in capacity, of which the construction and installation was finished in 2017, and it has commenced its trial run in the first quarter of 2018. Its capacity will gradually be released in 2018, and we look forward to seeing it make a significant revenue contribution to the Group. Furthermore, Nanjing Bestzyme Bioengineering Co., Ltd.* (南京百斯杰生物工程有限公司) ("**Nanjing BSJ**") has been qualified as a "High Tech Enterprise" (高新技術企業). It ranked as one of the Chinese top 10 industrial enzymes enterprises, and has filed 11 new patent applications out of a total of 21 Chinese patent filings and one Patent Cooperation Treaty (the "**PCT** ") patent filing in the Year. We are confident that our investment in research and development will play a significant role in driving for more accelerated growth in the years to come.

Our precision immune-cell therapy business had a successful 2017. The promising data readouts at the American Society of Clinical Oncology conference in June 2017 made Legend Biotech Corporation ("**Legend Cayman**") one of the leading innovative CAR-T cell therapy players. It opened the door to a curative solution for multiple myeloma. On December 11, 2017, the application for investigational new drug by Nanjing Legend Biotech Co., Ltd. (南京傳奇生物科技有限公司) ("**Nanjing Legend**") in relation to the research and development of the CAR-T cell technology in immunotherapy for cancer cure has been accepted by the China Food and Drug Administration* (國家食品藥品監督管理總局) (the "**CFDA**"). On March 13, 2018, Nanjing Legend formally received the permission of a clinical trial granted by the CFDA with respect to the CAR-T product of LCAR-B38M for autologous infusion. Nanjing Legend will proceed to launch clinical trials of the CAR-T product of LCAR-B38M for autologous infusion, pursuant to the Drug Registration Regulations* (藥品註冊管理辦法) and the Good Clinical Practice of Pharmaceutical Products* (藥品臨床試驗質量管理規範).

On December 22, 2017, Legend Biotech USA Inc., Legend Biotech Ireland Limited and Janssen entered into a collaboration and license agreement in relation to the parties' collaboration in the development, manufacture and commercialization of LCAR-B38M, a product developed by Nanjing Legend with its proprietary technology, featured its CAR constructed with the bi-specific single domain antibody design that targets on and binds to two specific epitopes on B-cell maturation antigen (BCMA). In the future, we plan to establish three operating centres located in the United States, Europe and China to conduct the co-development, co-production and co-commercialization jointly with Janssen. We believe that such a collaboration will enhance our experience and infrastructure in connection with our clinical trial development and commercialisation of the relevant products. For further details of the Group's research and development results of CAR-T cell technology in immunotherapy for cancer cure, please refer to the voluntary announcements of the Company dated October 28, 2016, May 14, 2017, June 6, 2017, September 19, 2017 and December 11, 2017.

Furthermore, CAR-T cell immunotherapy and other gene therapy solutions have been identified as our strategic direction for Legend Cayman. To this end, we further enhanced our research and development capability by internally transferring another 60 professional and experienced researchers to the existing team, and outlined and built up an abundant pipeline targeting various cancer indications. With those experimental new products gradually emerged and launched in 2018 and upcoming years, it is believed that the Company will create value in both the economic benefits to the shareholder of the Company as a whole and itself, and the health benefits to the broader patient base as well.

The Year was remarkable for the innovative biotech and pharmaceutical industries. The Food and Drug Administration ("**FDA**") of the United States approved 46 novel drugs as new molecular entities ("**NMEs**") under new drug applications ("**NDAs**") or as new therapeutic biologics under biologics license applications. It was the highest number of NMEs approved since 2004, breaking the record of 45 NMEs approved in 2015 and more than doubling the 22 approved NMEs in 2016. More significantly, the fact that two CAR-T cell immunotherapies were approved to treat adult and paediatric blood cancers, and the first gene therapy to treat a rare form of blindness, marked an opportune time of innovation for all biotech and biopharmaceutical companies. It also reflected positively on the political and economic realities of healthcare. We may say that global effort in encouraging innovative and creative biotechnologies to treat incurable diseases has been reached, on the back of remarks relating to gene therapy given in President Donald J. Trump's State of the Union Address, the initiatives taken by the Hong Kong Stock Exchange to welcome the listing of pre-revenue biotech companies in the Hong Kong capital market, and a series of innovative policies and regulations recently launched by the Chinese government. These policies and regulations aim to create a more innovation-friendly environment and provide more favourable conditions for biotech companies to generate additional realistic and practical health benefits to patients and society as a whole. According to the latest 2017 ranking of global best-selling drugs, 7 of the top 10 were still biological drugs.

According to the Pitchbook Platform, in 2017, biotech companies racked up over US$9.3 billion across more than 471 deals. IPO investors across the globe continued to welcome biotech companies. Pharmaceutical companies continued to improve their product portfolio through aggressive mergers and acquisitions throughout the Year. In 2017, two large acquisitions by two well-known pharmaceutical companies for a total amount of approximately US$21 billion have been recognised as symbolic landmarks in the biotech industry. The acquisitions ignited global enthusiasm and passion towards the revolutionary CAR-T cell immunotherapy, which has been viewed as the primary driving force to build up a regime of cures against currently incurable cancers.

The National Institutes of Health ("**NIH**"), the United States' medical research agency leading the world in supporting innovative multidisciplinary biomedical and behavioural research, requested a US$33.1 billion budget in 2017, representing an increase of 2.56% compared with the budget in 2016. Over 82% of NIH's 2017 fiscal budget increase of US$825 million was allocated to the National Cancer Institute. NIH has clearly outlined its strategic priorities to foster innovation, advance opportunities in biomedical research, and excel to manage results.

Looking forward to 2018, the Group continues to concentrate on implementing the following business strategies:

i. Further investment in research and development and production capacity, focusing on the following key business areas:

   a) CAR-T cell immunology therapy – by further improving safety and efficacy while building up a strong pipeline to treat more tumours, both liquid and solid. And at the same time, building the standard production facility to meet clinical trial requirements and future demands for commercialization production;

   b) Pre-clinical antibody drug discovery development service platform – to capture the opportunity of currently unmet demand for antibody drug research and development services. And to work with biotech and pharmaceutical companies to push forward the drug discovery process; and

   c) Molecular biology – to further strengthen our global leading position in gene synthesis and other life sciences technology products and services.

ii. Further strengthening of the sales and marketing forces in order to continue improving our market penetration into:

   a) CAR-T cell immunotherapy market – via building up three global operating centres located in the United States, Europe, and China;

   b) Focus on the industrial enzyme market in China and the new major global international markets;

   c) Pre-clinical antibody drug development service market; and

   d) Molecular biology products and services market.

iii. Complement and enhancement of organic growth by pursuing strategic acquisitions of cutting-edge techniques and existing performances that demonstrate a valuable connection to our current businesses.

In conclusion, I would like to express my warmest gratitude to our employees for their outstanding contribution during the Year. I would also like to extend my deepest appreciation to our partners, customers, suppliers, and other stakeholders for their continuing support and commitment to the Company. We, GenScript together with its affiliates, are one of the leading biotech companies, with our global arms reaching the life sciences research community and the biotech industry. We are confident that we can capitalise on global opportunities and create value for our shareholders, customers, employees, and other stakeholders in 2018 and beyond.

Thank You.

Dr. Zhang Fangliang
Chairman and Chief Executive Officer

March 16, 2018

POSITIONING OF THE COMPANY

The Group is a well-recognised life sciences research and application service and product provider that applies its proprietary technology to various fields from basic life sciences research to translational biomedical development, industrial synthetic products, and precision immune-cell therapeutic solutions. The broad and integrated life sciences research and application service and product portfolio comprises three segments, namely, (i) bio-science services and products, (ii) industrial synthetic biology products, and (iii) precision immune-cell therapy.

To ensure our long-term sustainable business development and seek to continue to create value for our shareholders and other stakeholders in the years to come, we revisited and contemplated our mission and strategic positioning. Our mission is to "Make People and Nature Healthier through Biotechnology" by establishing a leading innovative protein and antibody engineering platform and striving for opportune breakthroughs in the fields of research and development and industrial enzymes for the benefit of mankind. We believe they are fundamental in enabling us to be more focused on our strengths and commitments, which are to capitalise on emerging opportunities in the bio-tech and bio-pharmaceutical industries, and to drive for significant growth.

Backed by the spirit of our mission, we continue to further strengthen our market position as a well-recognised life sciences research and application service and product provider with comprehensive portfolio coverage in the world. As of 2017, we maintained our leading position in the gene synthesis service market with recognised stature in synthetic biology. Our strong technological advantages in gene synthesis, together with our rich experience and technical know-how in protein production, antibody development, and peptide synthesis constituted our strengths to provide a one-stop solution for the life sciences research community. Furthermore, our cutting-edge technology has also been crystalising to productivities in our pre-clinical antibody drug discovery and development services to help the bio-pharmaceutical industry to further expedite their drug development process.

Ever since synthetic biology technology was recognised as an emerging technology back in the early 2000s, it has demonstrated its potential in broad areas to enrich and improve the lives and environments of humans. Since synthetic biology is backed by gene synthesis and editing technology, it falls under our professional expertise. We have made significant progress in our synthetic biology research and application areas, which mainly materialised into our innovative CAR-T cell therapy and industrial enzyme businesses.

Through 15 years of effort since we were originally founded in New Jersey, the United States in 2002, "Genscript" has now been recognised as a well-known and trusted brand underpinned by its high quality life sciences research and application services and products. We have established an extensive direct sales network, reaching over 100 countries in North America, Europe, the PRC, Japan, and the other Asia Pacific regions. We have engendered the trust and confidence of a broad and diverse customer base, including pharmaceutical and biotech companies, colleges and universities, research institutes, government bodies, and distributors. As of December 31, 2017, over 27,300 international peer-reviewed journal articles had cited the use of our life sciences research and application services and products, among which many leading scientists and researchers in life sciences research industries were indicated to be frequent users of our services and products.

During the Reporting Period, the Group achieved sound operation performance and maintained a stable growth primarily due to (i) the adoption of advanced technologies, which significantly increased our production competitiveness, and (ii) the collaboration with Janssen, which broadened our business.

BUSINESS REVIEW

During the Reporting Period, the overall revenue of the Group was approximately US$152.6 million, representing an increase of 33.0% as compared with approximately US$114.7 million for the year ended December 31, 2016. The gross profit was approximately US$104.6 million, representing an increase of 37.3% as compared with approximately US$76.2 million for the year ended December 31, 2016. The increase in both revenue and gross profit was primarily attributable to (i) the significant increase in the number of orders of bio-science services and products and novel antibody drugs and biosimilar development services, primarily benefiting from our continuous research and development activities, which resulted in the launch of advanced and/or improved services and products and improvement in our production competitiveness, (ii) the increase in both the number of customers and their purchase volume of industrial synthetic biology products, primarily due to the upgraded products and the setting up of sales team, and (iii) the collaboration with Janssen.

During the Reporting Period, the profit was approximately US$27.0 million, representing an increase of 1.9% as compared with approximately US$26.5 million for the year ended December 31, 2016. The adjusted net profit (excluding investment income/loss, foreign currency exchange gain/loss and share-based payment expenses) was approximately US$35.7 million, representing a year-to-year increase of 53.2% from approximately US$23.3 million for the year ended December 31, 2016.

The profit attributable to owners of the Company was approximately US$26.1 million, representing a decrease of 0.4% as compared with approximately US$26.2 million for the year ended December 31, 2016. The adjusted net profit attributable to owners of the Company (excluding investment income/loss, foreign currency exchange gain/loss and share-based payment expenses) was approximately US$34.8 million, representing an increase of 52.0% from approximately US$22.9 million for the year ended December 31, 2016.

During the Reporting Period, the Company generated approximately US$122.5 million, US$11.8 million, and US$18.3 million from the three segments, namely, (i) bio-science services and products, (ii) industrial synthetic biology products, and (iii) precision immune-cell therapy, representing approximately 80.3%, 7.7% and 12.0% of the total revenue, respectively.

Results Analysis of the Three Business Segments

1. *Bio-science services and products*

   This segment combines the previous three segments of the Company as disclosed in the annual results announcement for the year ended December 31, 2016 of the Company dated March 20, 2017, namely, life sciences research services, life sciences research catalogue products, and preclinical drug development services.

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

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

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

Results

During the Reporting Period, the revenue generated from bio-science services and products was approximately US$122.5 million, representing an increase of 13.7% as compared with approximately US$107.7 million for the year ended December 31, 2016. During the same period, the gross profit was approximately US$83.0 million, representing an increase of 11.9% as compared with approximately US$74.2 million for the year ended December 31, 2016. The increase in both revenue and gross profit was primarily attributable to (i) the significant increase in the number of customers from molecular biology business resulting from continuous marketing activities, (ii) the significant increase in revenue generated from the biologics business subsequent to years of development of both novel antibody drugs and biosimilar development services, and (iii) the remarkable increase in the number of customers from the United States market resulting from the implementation of regional marketing strategies.

Development strategies

The Company intends to (i) continue to upgrade the online ordering system and further shorten delivery time to enhance customer experience, (ii) streamline the production and research and development platform and improve service and product quality to meet premium demands, (iii) develop services and products to satisfy the needs for synthetic biology and therapeutic antibody to further penetrate into markets of larger size and with higher profit margin, (iv) invest in market advertising and branding to promote services and products, (v) engage in research and development projects with leading professors in academia to further raise awareness and recognition of our brand in the life sciences field, (vi) continuously focus on protein analysis and purification and build up fast protein analysis portfolio to provide more convenience for customers, and (vii) develop new magbeads purification platform to reduce production cost and benefit from the biologics production.

2. Industrial synthetic biology products

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

Results

During the Reporting Period, the revenue generated from industrial synthetic biology products was approximately US$11.8 million, representing an increase of 68.6% as compared with approximately US$7.0 million for the year ended December 31, 2016. During the same period, the gross profit was approximately US$3.3 million, representing an increase of 65.0% as compared with US$2.0 million for the year ended December 31, 2016. The increase in revenue was primarily attributable to the quality improvement of several industrial synthetic biology products.

Development strategies

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

3. Precision immune-cell therapy

This segment was initially generated from the Company's proprietary antibody development platform. Our strength in the optimization of CAR structures and the development of bispecific CAR-T therapies has made discovery and development of therapies for the treatment of liquid tumour.

Results

During the Reporting Period, the revenue generated from precision immune-cell therapy was approximately US$18.3 million, representing an increase of 100.0% as compared with the year ended December 31, 2016. During the same period, the gross profit was approximately US$18.3 million, representing an increase of 100.0% as compared with the year ended December 31, 2016. The increase in revenue was primarily attributable to collaboration with Janssen.

Development strategies

The Company intends to apply molecular biology, cellular engineering and antibody technology to the development of immunotherapy technology for cancer cure and build a strong pipeline of CAR product candidates to treat a wide varieties of liquid and solid tumours.

FINANCIAL REVIEW

	2017	2016	Change
	US$'000	*US$'000*	*US$'000*
Revenue	**152,649**	114,735	37,914
Gross profit	**104,591**	76,229	28,362
Profit after income tax	**27,005**	26,535	470
Net profit excluding investment income/loss, foreign currency exchange gain/loss, and share-based payment expenses	**35,728**	23,297	12,431
Profit attributable to shareholders of the Company	**26,123**	26,170	(47)
Profit attributable to shareholders of the Company, excluding investment income/loss, foreign currency exchange gain/loss and share-based payment expenses	**34,846**	22,932	11,914
Earnings per share *(US cents per share)*	**1.52**	1.57	(0.05)

Revenue

In 2017, the Group recorded revenue of US$152.6 million, representing an increase of 33.0% from US$114.7 million in 2016. This was primarily attributable to (i) the significant increase in the number of orders of bio-sciences services and novel antibody drugs and biosimilar development services, primarily benefiting from our continuous research and development activities, which resulted in the launch of advanced and/or improved services and products and improvement in our production competitiveness, (ii) the increase in both the number of customers and their purchase volume of industrial synthetic biology products, primarily due to the upgraded products and the setting up of sales team, and (iii) the collaboration with Janssen.

Gross Profit

In 2017, the Group's gross profit increased by 37.3% to US$104.6 million from US$76.2 million in 2016. This was primarily attributable to the increase of sales. The gross profit margin of the Group maintained at a stable level.

Selling and Distribution Expenses

The selling and distribution expenses increased by 19.1% to US$24.9 million in 2017 from US$20.9 million in 2016. This was mainly attributable to the increased compensation package for sales personnel and the expansion of the sales team.

Administrative Expenses

In 2017, the administrative expenses increased by 31.9% to US$40.1 million (including the research and development expenses) from US$30.4 million (including the research and development expenses) in 2016. This was mainly due to the continuous investment in research and development activities.

Research and Development Expenses

The research and development expenses increased by 90.5% to US$18.1 million in 2017 from US$9.5 million in 2016.

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

Income Tax Expenses

The income tax expenses increased from US$6.0 million in 2016 to US$11.5 million in 2017. The actual tax rate increased from 18.4% in 2016 to 29.9% in 2017. The increase of tax rate in 2017 was mainly caused by the tax reform from the United States.

Net Profit and Unaudited Adjusted Net Profit

Due to the aforementioned reasons, the net annual profit of the Group amounted to US$27.0 million in 2017, representing an increase of 1.9% from US$26.5 million in 2016. To supplement the consolidated financial statements which are presented in accordance with the Hong Kong Financial Reporting Standards (the "**HKFRSs**"), the Group also used the unaudited adjusted net profit as an additional financial measure to evaluate the Group's financial performance by eliminating the impact of items that the Group does not consider indicative of the Group's business performance. The Group's adjusted net profit (excluding investment income/loss, foreign currency exchange gain/loss and share-based payment expenses) was approximately US$35.7 million in 2017, representing an increase of 53.2% from approximately US$23.3 million for the year ended December 31, 2016.

Trade Receivables

	2017	2016
Trade receivables turnover *(day)*	**66**	61

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

Inventories

	2017	2016
Inventory turnover *(day)*	**49**	35

The increase of inventory turnover of the Group was mainly caused by the increase of the level of safe stock due to the expanded sales of the products.

Property, Plant, and Equipment

Property, plant and equipment include buildings, machinery equipment and construction in progress. As at December 31, 2017, the property, plant and equipment of the Group amounted to US$80.5 million, representing an increase of US$36.8 million from the property, plant and equipment of US$43.7 million as at December 31, 2016. This was mainly due to the purchase of new machinery and equipment and construction of new factories to support the increased scale of production.

Intangible Assets

Intangible assets include software, patents and license. As at December 31, 2017, the Group's net intangible assets amounted to US$2.5 million, representing an increase of US$0.4 million from US$2.1 million as at December 31, 2016. The increase in intangible assets was mainly due to the upgrade of office software.

Working Capital and Financial Resources

As at December 31, 2017, the cash and cash equivalents of the Group amounted to US$123.9 million (2016: US$136.5 million). There was no restricted fund or loan.

Cash Flow Analysis

During the Reporting Period, the Group recorded an annual net cash inflow of US$21.4 million generated from operating activities.

During the Reporting Period, the annual cash outflow used in investing activities of the Group was US$36.5 million. This was mainly due to (i) the purchases of items of property, plant and equipment, other intangible assets and the prepayment of land lease payments for the purpose of enlarging production capability in the amount of US$32.0 million, (ii) the purchases of financial products in the amount of US$3.1 million, (iii) the purchases of investment in associates in the amount of US$0.7 million and available-for-sale investments in the amount of US$1.1 million, (iv) the purchases of minority shareholders in the amount of US$0.4 million, and (v) the receipt of government grants of US$0.5 million.

During the Reporting Period, the cash inflow in financing activities of the Group was US$2.0 million. This was mainly due to (i) proceeds from issue of shares amounted to US$2.9 million, (ii) dividend distribution of US$2.6 million, and (iii) the receipt of acquisition of equity by minority shareholders of US$1.7 million.

Capital Expenditure and Capital Commitment

During the Reporting Period, the expenditure of purchasing intangible assets, namely software, patents and license, was US$0.6 million, while the expenditure of purchasing property, plant and equipment amounted to US$29.2 million and the expenditure of prepaid land lease payments amounted to US$2.2 million.

Material Acquisitions and Disposals

On January 11, 2018, the Group completed the acquisition of 100.0% of the entire issued share capital of CustomArray, Inc. from the selling shareholders, the details of which are set out in the announcements of the Company dated December 27, 2017 and January 12, 2018.

On October 19, 2017, the deemed disposals of the Company's equity interest in BSJ Nanjing and in Legend Cayman were completed ("**BSJ Completion**" and "**Legend Completion**", respectively). Upon the BSJ Completion, the equity interest of Bestzyme Biotech HK Limited (香港百斯杰生物科技有限公司) in BSJ Nanjing was diluted to 92.59%, whereas upon the Legend Completion, the shareholding of the Company in Legend Cayman was diluted to 84.84%. Each of BSJ Nanjing and Legend Cayman has become a non-wholly owned subsidiary of the Company. Please refer to the announcements of the Company dated June 28, 2017, July 17, 2017, August 28, 2017, September 13, 2017, October 9, 2017, October 16, 2017, and October 20, 2017 for details.

During the Reporting Period, the Company did not have any other material acquisition or disposal of subsidiaries, associates or assets.

Contingent Liabilities and Guarantees

As at December 31, 2017, the Group did not have any material contingent liabilities or guarantees.

Charges on Group Assets

As at December 31, 2017, other than the notes receivables and bank balances of approximately US$295,000 pledged by a subsidiary of the Company to secure a credit limit up to US$3,826,000 from a bank, the Group had no charges over its assets.

Current Ratio and Gearing Ratio

As at December 31, 2017, the Group's current ratio (current assets to current liabilities) was approximately 1.5 (as at December 31, 2016: 4.2); and gearing ratio (total liabilities to total assets) was approximately 54.7% (as at December 31, 2016: 18.6%).

MARKET RISKS

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

Foreign Exchange Risk

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

Cash Flow and Fair Value Interest Rate Risk

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

Credit Risk

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

Prospects

The Year was remarkable for the innovative biotech and pharmaceutical industries. The FDA of the United States approved 46 novel drugs as NMEs under NDAs or as new therapeutic biologics under biologics license applications. It was the highest number of NMEs approvals since 2004, breaking the record of 45 NMEs approved in 2015 and more than doubling the 22 approved NMEs in 2016. More significantly, the fact that two CAR-T cell immunotherapies were approved to treat adult and paediatric blood cancers, and the first gene therapy to treat a rare form of blindness, marked an opportune time of innovation for all biotech and biopharmaceutical companies. It also reflected positively on the political and economic realities of healthcare. We may say that global effort in encouraging innovative and creative biotechnologies to treat incurable diseases has been reached, on the back of remarks relating to gene therapy given in President Donald J. Trump's State of the Union Address, the initiatives taken by the Hong Kong Stock Exchange to welcome the listing of pre-revenue biotech companies in the Hong Kong capital market, and a series of innovative policies and regulations recently launched by the Chinese government. These policies and regulations aim to create a more innovation friendly environment and provide more favourable conditions for biotech companies to generate additional realistic and practical health benefits to patients and the society as a whole. According to the latest 2017 ranking of global best-selling drugs, 7 of the top 10 were still biological drugs.

According to the Pitchbook Platform, in 2017, biotech companies racked up over US$9.3 billion across more than 471 deals. IPO investors across the globe continued to welcome biotech companies. Pharmaceutical companies continued to improve their product portfolio through aggressive mergers and acquisitions throughout the Year. In 2017, two large acquisitions by two well-known pharmaceutical companies for a total amount of approximately US$21 billion have been recognised as symbolic landmarks in the biotech industry. These acquisitions ignited global enthusiasm and passion towards the revolutionary CAR-T cell immunotherapy, which has been viewed as the primary driving force to build up a regime of cures against currently incurable cancers.

The NIH, the United States' medical research agency leading the world in supporting innovative multidisciplinary biomedical and behavioural research, requested US$33.1 billion budget in 2017, representing an increase of 2.56% compared with the budget in 2016. Over 82% of NIH's 2017 fiscal budget increase of US$825 million was allocated to the National Cancer Institute. NIH has outlined its strategic priorities to foster innovation, advance opportunities in biomedical research, and excel to manage results.

Future Development Strategies

Looking forward to 2018, the Group continues to concentrate on implementing the following business strategies:

- Further investment in research and development and production capacity, focusing on the following key business areas:

    i. CAR-T cell immunology therapy – by further improving safety and efficacy while building up a strong pipeline to treat more tumours, both liquid and solid. And at the same time, building the standard production facility to meet clinical trial requirements and future demands for commercialization production;

    ii. Pre-clinical antibody drug discovery development service platform – to capture the opportunity of the currently unmet demand for antibody drug research and development services. And to work with biotech and pharmaceutical companies to push forward the drug discovery process; and

    iii. Molecular biology – to further strengthen our global leading position in gene synthesis and other life sciences technology products and services.

- Further strengthening of the sales and marketing forces in order to continue improving our market penetration into:

  i. CAR-T cell immunotherapy market – via building up three global operating centres located in the United States, Europe, and China;

  ii. Focus on the industrial enzyme market in China and the new major global international markets;

  iii. Pre-clinical antibody drug development service market; and

  iv. Molecular biology products and services market.

- Complement and enhancement of organic growth by pursuing strategic acquisitions of cutting-edge techniques and existing performances that demonstrate a valuable connection to our current businesses.

EMPLOYEES

As at December 31, 2017, the Group had a total of approximately 1,932 employees. The Group had entered into employment contracts covering positions, employment conditions and terms, salaries, employees' benefits, responsibilities for breach of contractual obligations, and reason for termination with its employees. The remuneration package of the Group's employees includes basic salary, subsidies, and other employees' benefits, which are determined with reference to experience, number of years with the Group, and other general factors.

During the Reporting Period, the Company's total expenses on the remuneration of employees (including the Directors) was approximately US$50.5 million, representing approximately 33.1% of the total revenue of the Company.

On July 15, 2015, the Company adopted the pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**"). On December 7, 2015, the Company adopted the post-IPO share option scheme (the "**Post-IPO Share Option Scheme**"). On December 21, 2017, the Company approved and adopted the share option scheme of Legend Cayman, being the direct non-wholly owned subsidiary of the Company (the "**Subsidiary Share Option Scheme**", together with the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, the "**Share Option Schemes**"). No further share 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**"). 27,550,000 share options with an exercise price of HK$3.512 per Share, 11,650,000 share options with an exercise price of HK$8.330 per Share, and 9,280,000 share options with an exercise price of HK$9.350 per Share were granted under the Post-IPO Share Option Scheme to certain employees on April 25, 2017, October 11, 2017 and November 20, 2017, respectively. Please refer to our announcements dated April 25, 2017, October 11, 2017 and November 20, 2017 for the details. 8,100,000 share options with an exercise price of US$0.50 per share of Legend Cayman were granted under the Subsidiary Share Option Scheme to certain employees on December 26, 2017.

The number of employees of the Group categorized by function as of December 31, 2017 is set forth as follows:

	Number of employees	Percentage of total *(%)*
Function		
Production	1,026	53.1
Sales and marketing	275	14.2
Administration	304	15.7
Research and development	241	12.5
Management	86	4.5
Total	1,932	100.0

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

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

DIRECTORS

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

Name	Age	Position	Date of Appointment
Executive Directors			
Zhang Fangliang	53	Chairman, executive Director and chief executive officer	May 21, 2015
Wang Ye	49	Executive Director and president	May 21, 2015
Meng Jiange	49	Executive Director and vice president of investor relations	August 24, 2015
Non-executive Directors			
Wang Luquan	48	Non-executive Director	May 21, 2015
Pan Yuexin	60	Non-executive Director	August 24, 2015
Independent non-executive Directors			
Guo Hongxin	54	Independent non-executive Director	August 24, 2015
Dai Zumian	41	Independent non-executive Director	August 24, 2015
Zhang Min	44	Independent non-executive Director	August 24, 2015

Executive Directors

Dr. Zhang Fangliang (章方良), aged 53, is the co-founder, chairman, an executive Director, and chief executive officer of the Company. He was appointed as a Director on May 21, 2015 and redesignated as an executive Director on August 24, 2015. He is primarily responsible for the development, positioning, and strategy planning of the Group. He is one of the founders and a director of Genscript Corporation ("**GS Corp**"). Dr. Zhang is currently the director of all of the Company's subsidiaries (except for GenScript Japan Inc. ("**GS Japan**")), namely, Nanjing Jinsirui Biotechnology Co., Ltd.* (南京金斯瑞生物科技有限公司) ("**GS China**"), Jinsikang Technology (Nanjing) Co., Ltd.* (金斯康科技(南京)有限公司), Nanjing Bestzyme Bioengineering Co., Ltd.* (南京百斯杰生物工程有限公司) ("**Nanjing Bestzyme**"), Hubei Bestzyme Biotechnology Co., Ltd.* (湖北百斯杰生物科技有限公司), Shanghai Jingrui Biotechnology Co., Ltd.* (上海璟睿生物技術有限公司), Bestzyme Biotech Corporation ("**BSJ Cayman**"), Bestzyme Biotech Limited ("**BSJ BVI**"), Bestzyme Biotech USA Incorporated ("**BSJ US**"), Bestzyme Biotech HK Limited (香港百斯杰生物科技有限公司) ("**BSJ HK**"), Nanjing Legend Biotechnology Co., Ltd.* (南京傳奇生物科技有限公司), Legend Biotech Corporation ("**Legend Cayman**"), Legend Biotech Limited ("**Legend BVI**"), Legend Biotech HK Limited (香港傳奇生物科技有限公司) ("**Legend HK**"), Genscript Biotech Limited ("**GS BVI**"), GenScript (Hong Kong) Limited ("**GS HK**"), Genscript International Limited ("**GS International**"), GenScript USA Incorporated ("**GS USA**"), GenScript USA Holding Inc, Genscript Biotech (Netherlands) B.V., Legend Biotech (Netherlands) B.V., Legend Biotech Ireland Limited, Yangtze Investment (BVI) Limited, Yangzte Holdings (BVI) Limited, and Yangzte Investment (HK) Limited. Dr. Zhang is the chairman of our nomination committee ("**Nomination Committee**") and oversees the sanctions risk control committee ("**Sanctions Risk Control Committee**").

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

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

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

Ms. Wang Ye (王燁), aged 49, is the co-founder, an executive Director and president of the Company. She was appointed as a Director on May 21, 2015 and redesignated as an executive Director on August 24, 2015 and is primarily responsible for the Group's strategies and overall operational management. Ms. Wang is currently the director of BSJ Cayman, BSJ BVI, BSJ US, Legend Cayman, Legend BVI, GS BVI, GS HK, GS International, GS USA, Qragen Biotech Corporation, Qragen Biotech (BVI) Limited, and Qragen Biotech (HK) Limited. Ms. Wang is a member of our remuneration committee ("**Remuneration Committee**").

She joined GS Corp in August 2002 and served as the sales account manager until January 2005. In the Group, she worked as the sales and marketing director from February 2005 to August 2009, vice-president of operations from September 2009 to August 2011, and executive vice-president of operations from September 2011 to March 2014. She has been the chief operating officer of GS Corp in April 2014 and redesignated as the president since December 1, 2017. Prior to joining the Group, she worked as the environmental monitoring engineer at Shenzhen Futian Environment Protection Surveillance Station* (深圳市福田區環境保護監測站) from July 1993 to July 2000.

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

Mr. Meng Jiange (孟建革), aged 49, was appointed as an executive Director of the Company on August 24, 2015 and is primarily responsible for the Company's finance and investor relations matters. He was appointed as the vice president of finance of the Group in April 2010 when he joined the Group and has been redesignated as the vice president of investor relations since December 1, 2017.

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

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

Non-executive Directors

Dr. Wang Luquan (王魯泉), aged 48, is a co-founder and a non-executive Director of the Company. He was appointed as a Director on May 21, 2015 and redesignated as a non-executive Director of the Company on August 24, 2015 and is primarily responsible for the Group's strategies and operational management. From 2003 to 2014, Dr. Wang was the president of GS Corp and is still currently a director of GS Corp. Dr. Wang is currently the director of two of the Company's subsidiaries, namely, GS HK and GS USA.

Dr. Wang has nearly 25 years of experience in the biotechnology industry. Prior to joining the Group, from 1991 to 1996, he worked as a graduate research assistant, and from 1995 to 1996, a bioinformatics staff at Rutgers University in the United States. From 1996 to 2003, Dr. Wang was a senior principal scientist at Schering-Plough Research Institute.

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

Mr. Pan Yuexin (潘躍新), aged 60, was appointed as a non-executive Director of the Company on August 24, 2015 and is primarily responsible for the Group's strategies and operational management.

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

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

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

Mr. Pan was an independent non-executive director of Jiangling Motors Co., Ltd.* (江鈴汽車股份有限公司, SZSE: 000550), which is listed on the Shenzhen Stock Exchange, from 2005 to 2009, Sinochem International Corporation* (中化國際貿易股份有限公司, SHA: 600500), which is listed on the Shanghai Stock Exchange, from 2002 to 2003, Shanghai Tunnel Engineering Co., Ltd.* (上海隧道工程股份有限公司, SHA: 600820), which is listed on the Shanghai Stock Exchange, from 2009 to 2016, GreatWall Movie and Television Co., Ltd.* (長城影視股份有限公司, SZSE: 002071), which is listed on the Shenzhen Stock Exchange, from 2011 to 2014, and Simei Media Co., Ltd* (思美傳媒股份有限公司, SZSE: 002712) from 2009 to 2012 before it was listed on the Shenzhen Stock Exchange in 2014.

Independent Non-executive Directors

Mr. Guo Hongxin (郭宏新), aged 54, was appointed as an independent non-executive Director of the Company on August 24, 2015. Mr. Guo is the chairman of our remuneration committee and a member of our audit committee ("**Audit Committee**").

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

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

Mr. Dai Zumian (戴祖勉), aged 41, was appointed as an independent non-executive Director of the Company on August 24, 2015. Mr. Dai is the chairman of the Audit Committee, and a member of the Remuneration Committee and the Nomination Committee.

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

Mr. Dai was the qualified accountant and company secretary of Hisense Kelon Electrical Holdings Limited (海信科龍電器股份有限公司, HKSE: 921, SZSX: 000921), which is listed on the Main Board of the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, from September 2006 to August 2007. Mr. Dai served as the chief financial officer of Shanghai Golden Monkey Food Joint Stock Co., Ltd.* (上海金絲猴食品股份有限公司) from February 2009 to April 2012 and of Xiezhong International Holdings Limited (協眾國際控股有限公司, HKSE: 3663), which is listed on the Main Board of the Stock Exchange, from May 2012 to June 2017.

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

Ms. Zhang Min (張敏), aged 44, was appointed as an independent non-executive Director of the Company on August 24, 2015. Ms. Zhang is a member of our Audit Committee and Nomination Committee.

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

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

* *For identification purpose only*

SENIOR MANAGEMENT

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

Name	Age	Year of joining the Group	Date of Appointment
Zhang Fangliang	(see above)	(see above)	(see above)
Wang Ye	(see above)	(see above)	(see above)
Meng Jiange	(see above)	(see above)	(see above)
Zhu Li	68	March 1, 2010	March 1, 2010
Chou Chuan-Chu	64	October 1, 2012	January 1, 2014
Chen Zhiqiang	49	August 15, 2004	January 1, 2014
Zhang Chifa	42	June 5, 2005	January 1, 2014

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

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

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

Dr. Zhu Li (朱力), aged 68, was appointed as the vice president of strategy of the Group in 2010. On April 1, 2017, Dr. Zhu was appointed as the chief strategy officer of the Company. He is responsible for in-license and new business development and is involved in corporate business strategy.

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

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

Dr. Chou Chuan-Chu (周傳初), aged 64, was appointed as the senior vice president of corporate development of the Company in October 2012 upon joining the Company. In January 2014, Dr. Chou was appointed as the head of discovery and preclinical services of the Company.

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

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

Mr. Chen Zhiqiang (陳志強), aged 49, was appointed the senior vice president of the Company in January 2014 and was primarily responsible for the Company's public relations. His position was changed to vice president of the China Business Department in March 2016.

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

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

He is the brother-in-law of Dr. Zhang Fangliang, the co-founder, chairman, the executive Director, and the chief executive officer of the Company.

Mr. Zhang Chifa (張遲發), aged 42, was appointed as the department head of the industrial synthetic biology product segment of the Group in January 2014 and is primarily responsible for management of the research and development centre and the industrial synthetic biology product segment of the Group. Mr. Zhang joined the Group in June 2005. Mr. Zhang was the manager of the gene unit from June 2005 to July 2009 and vice president of operations, covering some of the departments of the life sciences research service segment and the life sciences research catalogue product segment of the Group from August 2009 to January 2014.

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

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

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2017.

CORPORATE INFORMATION AND GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on May 21, 2015 as an exempted company with limited liability under the laws of the Cayman Islands. The Shares were listed on the Main Board of the Stock Exchange on December 30, 2015 (the "**Listing**" or the "**Listing Date**").

PRINCIPAL ACTIVITIES

The Company is a well-recognised life sciences research and application service and product provider that applies its proprietary technology to various fields from basic life sciences research to translational biomedical development, industrial synthetic products, and precision immune-cell therapeutic solutions. The broad and integrated life sciences research and application service and product portfolio comprises three segments, namely, (i) bio-science services and products, (ii) industrial synthetic biology products, and (iii) precision immune-cell therapy. 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 industrial synthetic biology products are also used by industry users of industrial enzymes, such as those in the food and feed industries. Its precision immune-cell therapy products are used to treat refractory diseases including cancer and inflammatory diseases. Our customers are primarily located in North America, Europe, the PRC, Japan and the other Asia Pacific regions. The analysis of the principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

RESULTS AND APPROPRIATIONS

The consolidated results of the Group for the year ended December 31, 2017 are set out on pages 119 and 120 of this annual report.

FINAL DIVIDEND

In order to retain resources for the Group's business development, the Board did not recommend the payment of final dividend for the year ended December 31, 2017.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of shareholders to attend and vote at the forthcoming annual general meeting (the "**AGM**") to be held on Friday, June 1, 2018, the register of members of the Company will be closed from Tuesday, May 29, 2018 to Friday, June 1, 2018 (both dates inclusive), during which period no transfer of shares will be registered. All transfer documents, accompanied by the relevant share certificates, shall be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Monday, May 28, 2018.

FINANCIAL SUMMARY

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

USE OF THE NET PROCEEDS FROM LISTING

Net proceeds from the Listing of the Company (after deducting the underwriting fee and relevant expenses) amounted to approximately HK$527.3 million (equivalent to US$68.0 million). Such amounts have been used according to the allocation set out in the prospectus of the Company dated December 17, 2015 (the "**Prospectus**"). Use of net proceeds from the Listing Date to December 31, 2017 is set below as follows:

Items	Utilised amount as at December 31, 2017 *(US$ million)*
Expand life sciences research and application service and product portfolio	**20.4**
Expand production capacity	**20.4**
Enhance information technology capability	**1.8**
Acquire interests in or business of companies to complement existing operations	**8.0**
Reinforce the sales and marketing team	**1.0**
Total	**51.6**

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

The revenue attributable to the top five customers of 2017 accounted for 18.6% of the Company's operating income for the year ended December 31, 2017. The revenue from the largest single customer accounted for 12.0% of the Company's operating income for the year ended December 31, 2017.

Major Suppliers

In 2017, the turnover attributable to the top five suppliers accounted for 26.6% of the Company's total purchases for the year ended December 31, 2017. The turnover of the largest single supplier accounted for 9.7% of the Company's total purchases for the year ended December 31, 2017.

During the Reporting Period, to the knowledge of the Directors, none of the Directors or any of their close associates or any shareholders (which to the knowledge of the Directors own more than 5.0% of the Company's issued share capital) had an interest in any of the Company's top five customers or suppliers.

PROPERTY, PLANT, AND EQUIPMENT

Details of movements in the property, plant, and equipment of the Group during the Year are set out in note 12 to the financial statements in this annual report.

SHARE CAPITAL

As of December 31, 2017, 1,733,606,187 ordinary shares were issued. Details of movements in the share capital of the Company during the year ended December 31, 2017 are set out in note 27 to the financial statements in this annual report.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity on pages 123 and 124 in this annual report.

DISTRIBUTABLE RESERVES

As of December 31, 2017, the Company's reserves are available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, Cap 22 (Law 3 of 1961, as consolidated and revised), amounted to US$93,228,000 (as of December 31, 2016: approximately US$72,029,000).

BANK LOANS AND OTHER BORROWINGS

As of December 31, 2017, the Group did not have any outstanding/unpaid bank loans and/or other borrowings.

DIRECTORS

The Directors during the year ended December 31, 2017 and up to the date of this annual report were:

Executive Directors

Zhang Fangliang *(Chairman and Chief Executive Officer)*
Wang Ye *(President)*
Meng Jiange *(Vice President of Investor Relations)*

Non-executive Directors

Wang Luquan
Huang Zuie-Chin *(also known as James Zuie Huang) (resigned on January 5, 2018)*
Pan Yuexin

Independent Non-executive Directors

Guo Hongxin
Dai Zumian
Zhang Min

Pursuant to the Memorandum and Articles of Association of the Company (the "**Articles**"), each of Meng Jiange, Wang Luquan and Pan Yuexin will retire at the AGM and, being eligible, will offer himself or herself for re-election. Biographical details of the Directors to be re-elected at the AGM will be set out in the circular dated April 23, 2018 to the shareholders.

DIRECTORS' PROFILES

Biographical details of Directors and senior management of the Company is set out on pages 25 to 32 in this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation from each of the independent non-executive Directors in respect of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent throughout the year ended December 31, 2017 in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

REMUNERATION POLICIES

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

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

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

During the year ended December 31, 2017, 27,550,000 share options with an exercise price of HK$3.512 per Share, 11,650,000 share options with an exercise price of HK$8.330 per Share, and 9,280,000 share options with an exercise price of HK$9.350 per Share were granted under the Post-IPO Share Option Scheme to certain employees on April 25, 2017, October 11, 2017 and November 20, 2017, respectively. Please refer to our announcements dated April 25, 2017, October 11, 2017 and November 20, 2017 for the details. 8,100,000 share options with an exercise price of HK$0.50 per share of Legend Cayman were granted under the Subsidiary Share Option Scheme to certain employee on December 26, 2017. No option had been granted under the Pre-IPO Share Option Scheme once the Company is listed on the Stock Exchange on the Listing Date. For details of the Share Option Schemes, please see the paragraph headed "Share Option Schemes" below.

PERMITTED INDEMNITY PROVISION

The Articles provides that every Director is entitled to be indemnified out of the assets of the Company against all losses or liabilities which they may sustain or incur in or about the execution of the duties of their office or otherwise in relation thereto. A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers commencing from January 1, 2017.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Schemes of the Company as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2017.

SHARE OPTION SCHEMES

A. Pre-IPO Share Option Scheme

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

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

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share *(US$)*	Number of share options: Outstanding as at January 1, 2017	Granted during the Reporting Year	Cancelled during the Reporting Year	Lapsed during the Reporting Year	Exercised[1] during the Reporting Year	Outstanding as at December 31, 2017
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

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share *(US$)*	Number of share options Outstanding as at January 1, 2017	Granted during the Reporting Year	Cancelled during the Reporting Year	Lapsed during the Reporting Year	Exercised[1] during the Reporting Year	Outstanding as at December 31, 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, 2011 – July 31, 2019	0.103	24,188,480	–	–	–	11,220,000	12,968,480
	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

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share *(US$)*	Number of share options Outstanding as at January 1, 2017	Granted during the Reporting Year	Cancelled during the Reporting Year	Lapsed during the Reporting Year	Exercised[1] during the Reporting Year	Outstanding as at December 31, 2017
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
	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

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

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share *(US$)*	Outstanding as at January 1, 2017	Number of share options Granted during the Reporting Year	Cancelled during the Reporting Year	Lapsed during the Reporting Year	Exercised[1] during the Reporting Year	Outstanding as at December 31, 2017
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
Chen Zhiqiang	August 10, 2009	August 10, 2009 – December 31, 2019	August 10, 2009 – December 31, 2019	0.003	5,022,259	–	–	–	3,410,000	1,612,259
	March 28, 2014	December 31, 2014 – December 31, 2020 December 31, 2015 – December 31, 2020 December 31, 2016 – December 31, 2020	December 31, 2014 – December 31, 2020	0.077	1,343,320	–	–	–	512,000	831,320

Category/ Name of Grantee	Date of Grant	Vesting Period	Exercise Period	Exercise Price per Share *(US$)*	Outstanding as at January 1, 2017	Number of share options Granted during the Reporting Year	Cancelled during the Reporting Year	Lapsed during the Reporting Year	Exercised[1] during the Reporting Year	Outstanding as at December 31, 2017
		December 31, 2017 – December 31, 2020 December 31, 2018 – December 31, 2020								
Zhang Chifa	July 3, 2009	July 3, 2009 – July 31, 2019	July 3, 2009 – July 31, 2019	0.003	213,765	–	–	–	213,765	0
	July 3, 2009	July 3, 2009 – July 31, 2019	July 3, 2009 – July 31, 2019	0.005	213,765	–	–	–	213,765	0
	July 9, 2012	July 31, 2015 – July 31, 2019	July 31, 2015 – July 31, 2019	0.103	54,413	–	–	–	54,413	0
	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	–	–	1,476,944	23,926,062	78,666,961
					262,082,501	–	–	1,476,944	41,744,412	218,861,145

Notes:

(1) The weighted average closing price immediately before the dates on which the options were exercised was HK$5.71.

(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 28 to the financial statements in this annual report.

B. POST-IPO SHARE OPTION SCHEME

The Company approved and adopted the Post-IPO Share Option Scheme by written resolutions of its then sole shareholder on December 7, 2015. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules. Options to subscribe for 69,258,137 Shares had been granted (of which 2,000,000 options had lapsed) under the Post-IPO Share Option Scheme from the date of its adoption to the latest practicable date prior to the publication of this annual report.

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

						Number of share options					
Category/ Name of Grantee	**Date of Grant**	**Vesting Period**	**Exercise Period**	**Exercise Price per Share** *(HK$)*	**Closing Price Per Share immediately before the date of grant** *(HK$)*	**Outstanding as at January 1, 2017**	**Granted during the Reporting Year**	**Cancelled during the Reporting Year**	**Lapsed during the Reporting Year**	**Exercised during the Reporting Year**	**Outstanding as at December 31, 2017**
Other employees	June 22, 2016	June 22, 2016 – June 21, 2026	June 22, 2016 – June 21, 2026	1.204	1.21	8,478,137	–	–	–	–	8,478,137
	September 23, 2016	September 23, 2016 – September 22, 2026	September 23, 2016 – September 22, 2026	2.406	2.30	12,300,000	–	–	600,000	–	11,700,000
	April 25, 2017	April 25, 2017 – April 24, 2027	April 25, 2017 – April 24, 2027	3.512	3.45	–	27,550,000	–	1,400,000	–	26,150,000
Senior management of the Group											
Zhu Li	October 11, 2017	October 11, 2017 – October 10, 2027		8.330	8.07		1,000,000	–	–	–	1,000,000
Other employees	October 11, 2017	October 11, 2017 – October 10, 2027	October 11, 2017 – October 10, 2027	8.330	8.07	–	10,650,000	–	–	–	10,650,000
Other employees	November 20, 2017	November 20, 2017 – November 19, 2027	November 20, 2017 – November 19, 2027	9.350	8.91	–	9,280,000	–	–	–	9,280,000
						20,778,137	48,480,000	–	2,000,000	–	67,258,137

For further details of the Post-IPO Share Option Scheme, please refer to Appendix V "Statutory and General Information" of the Prospectus and note 28 to the financial statements in this annual report.

C. SUBSIDIARY SHARE OPTION SCHEME

The Company approved and adopted the Subsidiary Share Option Scheme on December 21, 2017. The Subsidiary Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules.

Options to subscribe for 8,100,000 shares of Legend Cayman had been granted (of which no options had lapsed) under the Subsidiary Share Option Scheme from the date of its adoption to the latest practicable date prior to the publication of this annual report.

Set out below are details of the outstanding options under the Subsidiary Share Option Scheme:

					Number of share options					
Category/ Name of Grantee	**Date of Grant**	**Vesting Period**	**Exercise Period**	**Exercise Price per Share** *(US$)*	**Outstanding as at January 1, 2017**	**Granted during the Reporting Year**	**Cancelled during the Reporting Year**	**Lapsed during the Reporting Year**	**Exercised during the Reporting Year**	**Outstanding as at December 31, 2017**
Senior management of the Group										
Chou Chaun-Chu	December 26, 2017	December 26, 2017 – December 25, 2027	December 26, 2017 – December 25, 2027	0.5	–	500,000	–	–	–	500,000
Other employees	December 26, 2017	December 26, 2017 – December 25, 2027	December 26, 2017 – December 25, 2027	0.5	–	7,600,000	–	–	–	7,600,000
						8,100,000	–	–	–	8,100,000

Apart from the movements as stated above, no options were granted, exercised, lapsed or cancelled under the Subsidiary Share Option Scheme during the year ended December 31, 2017.

SUMMARY OF THE SHARE OPTION SCHEMES

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	Subsidiary Share Option Scheme
1.	Purpose	To recognise and acknowledge the contributions that the eligible participants have or may have made to the Group and to provide the eligible participants with an opportunity to have a personal stake in the Company with a view to (1) attract skilled and experienced personnel; (2) incentivise them to remain with the Group; and (3) motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.	To provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its shareholders as a whole. The Post-IPO Share Option Scheme will provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating, and/or providing benefits to participants.	To provide participants with the opportunity to acquire proprietary interests in Legend Cayman and to encourage participants to work towards enhancing the value of Legend Cayman and its shares for the benefit of Legend Cayman and its shareholders as a whole. The Subsidiary Share Option Scheme will provide Legend Cayman with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to participants.
2.	Participants	Directors, employees, or consultants of any member of the Group.	The Board may offer to grant an option to any participants as the Board may, in its absolute discretion, select.	Directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group; provided that for any participant who is subject to the tax laws of the United States of America (the "**U.S. Participant**"), such participant must be a natural person and a director or employee of Legend Cayman or a subsidiary of Legend Cayman that is at least 50% owned by Legend Cayman.

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	Subsidiary Share Option Scheme
3.	Maximum number of Shares to be allotted	As of December 31, 2017, options to subscribe for an Shares aggregate of 218,861,145 were outstanding, representing approximately 12.62% of the issued share capital of the Company as of December 31, 2017. No further option may be granted under the Pre-IPO Share Option Scheme.	The maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme was 67,658,137, representing approximately 3.92% of the issued share capital of the Company as of December 31, 2017. The maximum number of Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time. Options to subscribe for 69,258,137 Shares had been granted (of which 2,000,000 options had lapsed) under the Post-IPO Share Option Scheme for the year ended December 31, 2017.	The maximum number of shares of Legend Cayman in respect of which options may be granted under the Subsidiary Share Option Scheme was 20,000,000, representing approximately 10% of the issued share capital of Legend Cayman as of December 31, 2017. The maximum number of shares of Legend Cayman that may be issued upon exercise of all outstanding options granted and yet to be exercised under the Subsidiary Share Option Scheme and other scheme of Legend Cayman must not exceed 30% of the shares of Legend Cayman in issue from time to time. Options to subscribe for 8,100,000 shares of Legend Cayman had been granted under the Subsidiary Share Option Scheme for the year ended December 31, 2017.

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	Subsidiary Share Option Scheme
4.	Maximum entitlement of each participant	–	1% of the issued share capital of the Company from time to time within any 12 month period up to the date of the latest grant.	1% of the issued share capital of Legend Cayman from time to time within any 12 month period up to the date of the latest grant.
5.	Option period	At any time and from time to time up to December 31, 2025.	The period of time to be notified by the Board to each grantee at the time of making an offer, which shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option. The terms of an offer may include any minimum periods for which an option must be held and/or any minimum performance targets that must be reached, before the options can be exercised in whole or in part, and may include at the discretion of the Board other terms imposed (or not imposed), either on a case by case basis or generally.	The period of time to be notified by the board of Legend Cayman to each grantee at the time of making an offer, which shall be determined by the board of Legend Cayman in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option (or 5 years in the case of an incentive stock option within the meaning of Section 422 of the United States Internal Revenue Code of 1986 (the "**Internal Revenue Code**") granted to a U.S. Participant who is an employee of Legend Cayman or a subsidiary corporation (as defined in Section 1.424-1(f)(1) and (2) of the U.S. Treasury Regulations) of Legend Cayman, who owns (or is treated as owning) stock possessing more than 10% of the total combined voting power of all classes of stock of the corporation employing the grantee or of any parent corporation or subsidiary corporation as defined in Section 1.424-1(f)(1) and (2) of the U.S. Treasury Regulations).

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	Subsidiary Share Option Scheme
				The terms of an offer may include any minimum periods for which an option must be held or any performance targets that must be reached, before the options can be exercised, and may include at the discretion of the board of Legend Cayman other terms imposed either on a case by case basis or generally.
6.	Acceptance of offer	On acceptance of the offer of the option, the participant shall execute and return an acceptance letter in accordance with the terms and conditions set by the Company.	An option shall remain open for acceptance by the participant concerned for a period of 21 days from the date of the offer. HK$1.00 is payable by the grantee to the Company on acceptance of the offer of the option.	An option shall remain open for acceptance by the participant concerned for a period of 21 days from the date of the offer. US$1.00 (or its equivalent in RMB) is payable by the grantee to Legend Cayman on acceptance of the offer of the option.

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	Subsidiary Share Option Scheme
7.	Exercise Price	From US$0.003 to US$0.103	The Subscription Price shall be no less than the highest of: (1) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (2) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange); and	The Subscription Price payable by any grantee (including a non-U.S. Participant or a U.S. Participant) shall be no less than the value of a share of Legend Cayman on the date of grant, determined by the board of Legend Cayman in good faith with reference to a valuation report to be obtained from time to time and in a manner that complies with Sections 409A and 422 of the Internal Revenue Code, subject to rounding adjustments as may be determined by the board of Legend Cayman at its absolute discretion, provided that with respect to the period from the date when the Company resolves to seek a separate listing of Legend Cayman on The Stock Exchange of Hong Kong Limited, Growth Enterprise Market, or an overseas stock exchange and up to the listing date (if any), the rules under note (2) to rule 17.03(9) of the Listing Rules is complied with.

	Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme	Subsidiary Share Option Scheme
			(3) the nominal value of a Share on the date of grant.	
8.	Remaining life of the scheme	The Pre-IPO Share Option Scheme expired on December 30, 2017.	It shall be valid and effective for a period of ten years commencing on December 7, 2017.	It shall be valid and effective for a period of ten years commencing on December 21, 2017.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

CHANGES TO INFORMATION OF DIRECTORS

With effect from January 5, 2018, Mr. Huang Zuie-Chin (also known as James Zuie Huang) resigned as a non-executive director of the Company in order to devote more time to his other work commitments. Please refer to the announcement of the Company dated January 5, 2018 for more details. Upon specific enquiry by the Company and following confirmations from the Directors, there had been no other change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51 (2) of the Listing Rules during the Reporting Period that required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

As of December 31, 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 under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, are set out as follows:

Long positions in the ordinary Shares and underlying Shares of the Company as of December 31, 2017

Name of Director	Capacity/Nature of Interest	Number of Shares held/interested	Approximate Percentage of Shareholding *(%)*
Zhang Fangliang	Interest in controlled corporation *(Note 1)*, parties acting in concert *(Note 2)* and founder of a discretionary trust *(Note 8)*	1,015,972,288	58.60
Wang Luquan	Interest in controlled corporation *(Note 3)*, parties acting in concert *(Note 2)*, beneficial owner *(Note 4)* and other *(Notes 8 and 9)*	1,015,972,288	58.60
Wang Ye	Interest in controlled corporation *(Note 5)*, parties acting in concert *(Note 2)*, beneficial owner *(Note 6)* and founder of a discretionary trust *(Note 9)*	1,015,972,288	58.60
Meng Jiange	Beneficial owner *(Note7)*	5,081,960	0.29

* The percentage has been calculated based on 1,733,606,187 Shares in issue as at December 31, 2017.

Notes:

(1) As of December 31, 2017, Zhang Fangliang held approximately 29.05% of the issued share capital of GS Corp and was deemed, or taken to be interested in, all the Shares held by GS Corp for the purpose of the SFO.

(2) On August 14, 2008, Zhang Fangliang, Wang Luquan, and Wang Ye entered into the GS Corp Shareholder Voting Agreement, whereby Zhang Fangliang, Wang Luquan, and Wang Ye agreed to vote unanimously in the shareholder meetings of GS Corp and, contemporaneously, proxies were conferred by Wang Luquan and Wang Ye to Zhang Fangliang authorising Zhang Fangliang to vote and exercise all voting and related rights with respect to the shares that each of Wang Luquan and Wang Ye beneficially owned in GS Corp, which held 890,902,024 Shares. On May 29, 2015, Wu Yongmei signed a proxy agreement whereby she conferred all her voting and related rights in relation to all the shares that she owned in GS Corp, i.e. 102,089,792 shares of GS Corp to Zhang Fangliang.

(3) As of December 31, 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 of December 31, 2017, Wang Ye held approximately 6.00% 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 121,183,624 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.

(8) On October 12, 2017, Zhang Fangliang set up 2017 Fang Liang Zhang Trust (the "**Zhang Trust**"), an irrevocable discretionary family trust, with his three children and their respective living issue as beneficiaries. Jin Weihong, the spouse of Zhang Fangliang, is the trustee of the Zhang Trust. Zhang Fangliang transferred 5 million shares and 50 million shares of GS Corp to the Zhang Trust on October 17, 2017 and December 1, 2017, respectively. The Zhang Trust (through its trustee), held approximately 12.00% of the entire issued share capital of GS Corp and was deemed, or taken to be interested in, all the Shares held by GS Corp for the purpose of the SFO.

(9) On October 5, 2017, Wang Ye set up 2017 Wang Ye Family Trust (the "**Wang Trust**"), an irrevocable discretionary family trust, with her spouse, her son and his living issue as beneficiaries. Hu Zhiyong, the spouse of Wang Ye, is the trustee of the Wang Trust. Wang Ye transferred 2.5 million shares and 25 million shares of GS Corp to the Wang Trust on October 17, 2017 and December 1, 2017, respectively. The Wang Trust (through its trustee) held approximately 6.00% of the entire issued share capital of GS Corp and was deemed, or taken to be interested in, all the Shares held by GS Corp for the purpose of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Schemes", no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouses or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouses or children under 18 years of age, to acquire such rights in any other body corporate at any time during the Year.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As of December 31, 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 that would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Long position in the ordinary Shares of the Company as of December 31, 2017

Name	Capacity/Nature of Interest	Number of Shares/ underlying Shares held/interested	Approximate Percentage of Shareholding *(%)*
GS Corp *(Note 1)*	Beneficial owner	890,902,024	51.39
KPCB China Fund *(Note 2)*	Beneficial owner	144,715,134	8.34
KPCB China Associates Ltd. *(Note 2)*	Interest in controlled corporation	155,574,381	8.97
Jin Weihong *(Note 3)*	Interest in controlled corporation, parties acting in concert and trustee	1,015,972,288	58.60
Hu Zhiyong *(Note 4)*	Interest in controlled corporation, parties acting in concert and trustee	1,015,972,288	58.60

* The percentage has been calculated based on 1,733,606,187 Shares in issue as at December 31, 2017.

Notes:

(1) As of December 31, 2017, GS Corp is a company incorporated in the State of Delaware in the United States and owned as to approximately 29.05%, approximately 12.00%, approximately 23.24%, approximately 22.27%, approximately 6%, approximately 6% and approximately 1.09% by Zhang Fangliang, the Zhang Trust, Wang Luquan, Wu Yongmei, Wang Ye, the Wang Trust and Mu Yingjun, respectively.

(2) KPCB China Fund and KPCB China Founders Fund, L.P. ("**KPCB China Founders Fund**") are exempted limited partnerships established in the Cayman Islands, whose general partner is KPCB China Associates, Ltd. ("**KPCB China**"), a company incorporated in the Cayman Islands. KPCB China has sole voting and investment power over the shares in KPCB China Fund and KPCB China Founders Fund. As of December 31, 2017, KPCB China was deemed to be interested in all 144,715,134 Shares held by KPCB China Fund and 10,859,247 Shares held by KPCB China Founders Fund under the SFO.

(3) On October 12, 2017, Zhang Fangliang set up the Zhang Trust, an irrevocable discretionary family trust, with his three children and their respective living issue as beneficiaries. Jin Weihong, the spouse of Zhang Fangliang, is the trustee of the Zhang Trust. Zhang Fangliang transferred 5 million shares and 50 million shares of GS Corp to the Zhang Trust on October 17, 2017 and December 1, 2017, respectively. Jin Weihong, as the trustee of the Zhang Trust, held approximately 12.00% of the entire issued share capital of GS Corp and was deemed, or taken to be interested in, all the Shares held by GS Corp for the purpose of the SFO.

(4) On October 5, 2017, Wang Ye set up the Wang Trust, an irrevocable discretionary family trust, with her spouse, her son and his living issue as beneficiaries. Hu Zhiyong, the spouse of Wang Ye, is the trustee of the Wang Trust. Wang Ye transferred 2.5 million shares and 25 million shares of GS Corp to the Wang Trust on October 17, 2017 and December 1, 2017, respectively. Hu Zhiyong, as the trustee of the Wang Trust, held approximately 6.00% of the entire issued share capital of GS Corp and was deemed, or taken to be interested in, all the Shares held by GS Corp for the purpose of the SFO.

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

PURCHASE, REDEMPTION, OR SALE OF THE LISTED SECURITIES

The Group had not purchased, sold, or redeemed any of the Company's listed securities during the year ended December 31, 2017.

PRE-EMPTIVE RIGHTS

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

NON-COMPETING UNDERTAKINGS

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

The Company has received the annual confirmation of controlling shareholders in respect of their compliance with the non-competition undertakings under the Deed of Non-competition during the year ended December 31, 2017.

The independent non-executive Directors also reviewed the Controlling Shareholders' compliance with the non-competition undertakings. The independent non-executive Directors confirmed that the Controlling Shareholders were not in breach of the non-competition undertakings during the year ended December 31, 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this annual report, as at December 31, 2017, no Director or any of their close associates had any interests in any business that competed or was likely to compete, either directly or indirectly, with the business of the Group.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

On October 19, 2017, the deemed disposal of the Company's equity interest in Legend Cayman constituted a connected transaction of the Company. Please refer to the section headed "Material Acquisitions and Disposals" of this report for details.

CHARITABLE DONATIONS

During the year ended December 31, 2017, the Group donated US$38,542 to non-profit organisations for charitable and community purposes.

MATERIAL LEGAL PROCEEDINGS

As of December 31, 2017, the Group was not involved in any material litigation or arbitration, and no material litigation or claim was pending or threatened against the Group as far as the Directors were aware of.

AUDIT COMMITTEE

The Audit Committee has reviewed the annual results announcement for 2017 and the financial statements for the year ended December 31, 2017 prepared in accordance with the HKFRS.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining the highest standards of corporate governance practices. The Company has applied the principles set out in the Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules. During the Reporting Period, save as disclosed in the Corporate Governance Report, the Company has complied with the mandatory code provisions of the CG Code. For details, please refer to the Corporate Governance Report on pages 62 to 76 in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

CONSULTING PROFESSIONAL TAX ADVISERS

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

AUDITORS

Ernst & Young, Certified Public Accountants ("**Ernst & Young**") was appointed as the auditors to audit the financial statements prepared in accordance with the HKFRS for the year ended December 31, 2017. Ernst & Young shall retire at the forthcoming AGM and is eligible and has offered itself for re-election. The resolution regarding the re-appointment of Ernst & Young as the auditors, of the Company will be proposed at the forthcoming AGM.

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

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the Reporting Period and the material factors underlying its results and financial position are provided in the section headed "Management Discussion and Analysis" from pages 13 to 24 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Commercial Risks

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

Operational Risks

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

Financial Risks

The principle financial risks are set out in the note 36 to the financial statements in this report headed "Financial Risk Management Objectives and Policies".

IMPORTANT EVENTS

On December 22, 2017, (i) Legend Biotech USA Inc., a non-wholly-owned subsidiary of the Company, (ii) Legend Biotech Ireland Limited, a non-wholly-owned subsidiary of the Company, and (iii) Janssen Biotech (collectively the "**Parties**") entered into a collaboration and license agreement in relation to the parties' collaboration in the development, manufacture and commercialization of certain products in the field of diagnostic, prophylactic and therapeutic uses in multiple myeloma and cross-license grants. Please refer to the announcement of the Company dated December 22, 2017 for details.

On December 29, 2017, Nanjing Jinsirui Biotechnology Co., Ltd.* (南京金斯瑞生物科技有限公司) ("**Genscript China**"), an indirect wholly-owned subsidiary of the Company, and Harbin Gloria Pharmaceuticals Co,. Ltd.* (哈爾濱譽衡藥業股份有限公司) ("**Harbin Gloria**") entered into a consigned technology development agreement, pursuant to which Genscript China agreed to undertake preclinical research and development of a biosimilar to Ipilimumab (trade name: Yervoy), a targeted immunotherapy for cancer, for Harbin Gloria. Please refer to the announcement dated January 3, 2018 for details.

On January 11, 2018, the Group completed the acquisition of 100.0% of the entire issued share capital of CustomArray, Inc. from the selling shareholders, the details of which are set out in the announcements of the Company dated December 27, 2017 and January 12, 2018.

FUTURE DEVELOPMENT

Looking forward to 2018, the Group continues to concentrate on implementing the following business strategies:

- Further investment in research and development and production capacity, focusing on the following key business areas:

  i. CAR-T cell immunology therapy – by further improving safety and efficacy while building up a strong pipeline to treat more tumours, both liquid and solid. And at the same time, building the standard production facility to meet clinical trial requirements and future demands for commercialization production;

  ii. Pre-clinical antibody drug discovery development service platform – to capture the opportunity of the currently unmet demand for antibody drug research and development services. And to work with biotech and pharmaceutical companies to push forward the drug discovery process; and

  iii. Molecular biology – to further strengthen our global leading position in gene synthesis and other life sciences technology products and services.

- Further strengthening of the sales and marketing forces in order to continue improving our market penetration into:

  i. CAR-T cell immunotherapy market – via building up three global operating centres located in the United States, Europe, and China;

  ii. Focus on the industrial enzyme market in China and the new major global international markets;

  iii. Pre-clinical antibody drug development service market; and

  iv. Molecular biology products and services market.

- Complement and enhancement of organic growth by pursuing strategic acquisitions of cutting-edge techniques and existing performances that demonstrate a valuable connection to our current businesses.

FINANCIAL KEY PERFORMANCE INDICATORS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

In support of sustainable development, the Company invested an amount of approximately RMB200,000 on the construction of a reclaimed water reuse system to reduce pollution, improve efficiency, conserve energy, and reduce water consumption. The reclaimed water reuse system has been build up and running since November 2017, and has reclaimed an average of 3,500 tons of wastewater per month which thereafter was contributed to secondary purposes.

To answer the call of reducing pollutions, the Group has spent RMB300,000 on two sets of level three activated carbon air filter systems to collect and treat gases from the laboratory rabbit housing facilities and prevent fugitive emissions. Since the establishment of these two air filter systems, continuous monitoring has shown the concentrations of ammonia, hydrogen sulfide and stench in our emissions are all within the standard limit.

COMPLIANCE WITH LAWS AND REGULATIONS

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

RELATIONSHIPS WITH EMPLOYEES

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

RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

We had established a highly diversified customer base, including pharmaceutical and biotech companies, colleges and universities, research institutes, government bodies (including government testing and diagnostic centres), and distributors. The Group strives to "make research easy" by offering life sciences research and application services and products for conducting fundamental life sciences research, translational biomedical research, and early stage pharmaceutical development. Our synthetic biology products are used by industry users, such as those in the food and feed industries. In 2017, we expanded the range of our services and products and developed new customer accounts. The total number of customers has increased by approximately 22.0% compared to the total number of customers in 2016.

Owing to our vast array of services and products, we procure a wide variety of raw materials from a large number of suppliers for our business segments. As of December 31, 2017, we had a total of approximately 363 suppliers of different raw materials for our production that are mostly located in China. In 2017, we maintained sound relationships with our suppliers such that we could meet business challenges and comply with regulatory requirements, thereby deriving cost effectiveness and reaping long term business benefits.

By order of the Board

Dr. Zhang Fangliang
Chairman and Chief Executive Officer

Hong Kong, March 16, 2018

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report as set out in the annual report of the Company for the year ended December 31, 2017.

CORPORATE GOVERNANCE PRACTICES

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

Save as disclosed in this corporate governance report on page 64 regarding the deviation from code provision A.2.1 of the CG Code, the Company has complied with all the applicable code provisions as set out in the CG Code during the year ended December 31, 2017 and up to the date of this annual report. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

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

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

Board Composition

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

Executive Directors

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

Non-executive Directors

Dr. Wang Luquan
Mr. Pan Yuexin

Independent Non-executive Directors

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

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

During the year ended December 31, 2017 and up to the date of this annual report, the Board met the requirements of Rules 3.10 (1) and 3.10 (2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

None of the Directors has any personal relationship (including financial, business, family, or other material/relevant relationship) with any other Director.

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

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

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

Name of Directors	Attending internal briefings or trainings, participating seminars, or reviewing materials
Executive Directors	
Zhang Fangliang	✓
Wang Ye	✓
Meng Jiange	✓
Non-executive Directors	
Wang Luquan	✓
Pan Yuexin	✓
Independent non-executive Directors	
Guo Hongxin	✓
Dai Zumian	✓
Zhang Min	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

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

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

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

BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly. Notices of not less than 14 days are given for regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

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

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

During the Reporting Period, the Board held four meetings on March 20, 2017, June 27, 2017, August 28, 2017 and December 19, 2017 to cover the following aspects:

(a) to consider and review the financial statement for the year ended December 31, 2016 and for the six-month period ended June 30, 2017 and matters concerning corporate governance and management;

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

(c) to consider and approve the external investments;

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

(e) to consider and discuss matters relating to sanctions, audition and remuneration.

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

Name of Directors	Attended/Eligible to attend Board meetings	General Meeting
Zhang Fangliang	4/4	2/2
Wang Ye	4/4	2/2
Meng Jiange	4/4	2/2
Wang Luquan	4/4	2/2
Huang Zuie-Chin *(also known as James Zuie Huang) (resigned on 5 January 2018)*	4/4	2/2
Pan Yuexin	4/4	2/2
Guo Hongxin	4/4	2/2
Dai Zumian	4/4	2/2
Zhang Min	4/4	2/2

The Company's external auditors also attended the annual general meeting of the Company held on May 31, 2017.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

DELEGATION BY THE BOARD

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

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

CORPORATE GOVERNANCE FUNCTION

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

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

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

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

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

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

BOARD COMMITTEES

Nomination Committee

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

The principal duties of the Nomination Committee include:

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

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

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

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

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

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

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

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

During the Reporting Period, the Nomination Committee held one meeting on March 25, 2017. The specific agenda of the Nomination Committee covered the following aspects:

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

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

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

(d) to make recommendation to the re-election of Directors.

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

Name of Committee Member	Committee meetings attended/ eligible to attend
Zhang Fangliang *(chairman)*	1/1
Zhang Min	1/1
Dai Zumian	1/1

Remuneration Committee

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

The principal duties of the Remuneration Committee include:

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

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

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

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

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

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

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

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

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

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

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

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

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

During the Reporting Period, the Remuneration Committee held four meetings on March 20, 2017, June 27, 2017, August 28, 2017 and December 19, 2017 to cover the following aspects:

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

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

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

Name of Committee Member	Committee meetings attended/ eligible to attend
Guo Hongxin *(chairman)*	3/4
Wang Ye	4/4
Dai Zumian	4/4

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended December 31, 2017 are set out in note 8 to the financial statements in this annual report.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. Remuneration paid to the senior management members (excluding the Directors) for the year ended December 31, 2017 is within the range below:

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

Audit Committee

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

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

During the Reporting Period, the Audit Committee held three meetings on March 20, 2017, June 27, 2017 and August 28, 2017. The specific agenda of the Audit Committee covered the following aspects:

(a) to consider and review the financial statement for the year ended December 31, 2016 and for the six-month period ended June 30, 2017; and

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

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

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

Name of Director	Committee meetings attended/ eligible to attend
Dai Zumian *(chairman)*	3/3
Zhang Min	3/3
Guo Hongxin	3/3

The Audit Committee met the external auditors once on December 19, 2017 without the presence of the executive Directors.

Sanctions Risk Control Committee

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

The principal duties of the Sanctions Risk Control Committee include:

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

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

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

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

During the Reporting Period, the Sanctions Risk Control Committee held four meetings on March 20, 2017, June 30, 2017, August 25, 2017 and December 14, 2017 to cover the following aspects:

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

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

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

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

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

(f) to review internal control policies and procedures with respect to the sanction risks.

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

Name of Committee Member	Committee meetings attended/ eligible to attend
Zhang Fangliang	4/4
Wang Ye	4/4
Meng Jiange	4/4
Eric Wang	1/4
Shawn Wu	4/4

The Sanctions Risk Control Committee has reviewed the sales of the Group to the Sanctioned Countries (as defined and disclosed in the Prospectus) for the year ended December 31, 2017 and the relevant legal opinions from the Company's legal adviser as to international sanctions laws to monitor the Group's exposure to risks of sanctions violations.

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

The Directors have acknowledged their responsibilities for preparing the consolidated financial statements of the Company for the year ended December 31, 2017, which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

The statement by the independent auditors of the Company regarding their reporting responsibilities for the audit of the consolidated financial statements of the Company is set out in the independent auditors' report on pages 114 to 118 in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate risk management and internal control systems to safeguard shareholders' investments and the Company's assets and reviewing the effectiveness of such systems on an annual basis. Such systems are designed to manage rather than eliminate the risks of failure to achieve business objectives, and each only provides reasonable and not absolute assurance against material mistreatment or loss.

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

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

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

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

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

AUDITORS' REMUNERATION

For the audit of the Group's consolidated financial statements for the year ended December 31, 2017, the total remuneration paid or payable to the Company's external auditors, Ernst & Young, for audit and audit related services amounted to US$374,000.

COMPANY SECRETARY

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

Ms. Wong has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules for the year ended December 31, 2017.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

SHAREHOLDERS' RIGHTS

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

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

CONVENING EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS

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

Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

With regards to proposing a person for election as a director, the procedures are available on the website of the Company.

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GENSCRIPT ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTS 2017

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ABOUT THIS REPORT

Overview

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

Basis for compiling the report

This report was compiled in accordance with the Environmental, Social and Governance Reporting Guide published by Hong Kong Stock Exchange Limited. The content of this report is determined by a set of procedures, including identifying and prioritising stakeholders, identifying and prioritising material environmental, social and governance issues, collecting environmental metrics, and verifying the reported metrics.

Reporting scope and boundary

The content and metrics reported in this document cover the Company and its subsidiaries. The data contained within this report covers January 1 through December 31, 2017, unless otherwise noted.

Source of data and assurance of reliability

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

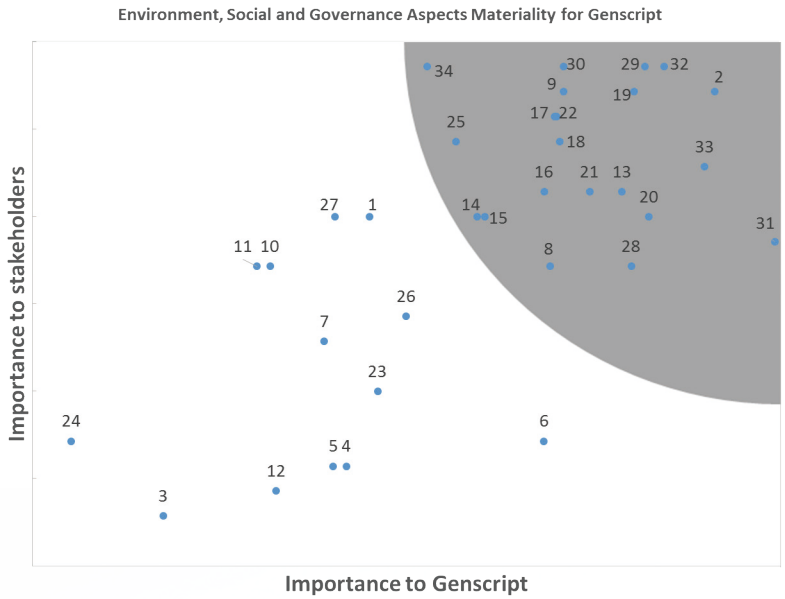
Board approval

Upon review by management, this report was approved by the Board on March 16, 2018.

Stakeholder engagement and materiality analysis

We uphold our mission of sustainable development, and unwaveringly push for a more objective and complete evaluation of our environmental, social and governance performance by listening to our stakeholders from different sectors. As part of our day-to-day operation, we communicate with stakeholders through interviews, customer hotlines and meetings. We also engage with our stakeholders proactively to understand how we can do better in managing our environmental, social and governance performance.

And based on analysis of the results, social and governance report this year, we have collaborated with an independent third party to conduct engagement with stakeholders on various environmental, social and governance issues. GenScript's key stakeholder groups are the target audience, including employees, suppliers, customers, media, academia, regulators and investors. We engage stakeholders through interviews. And based on analysis of the results, we have further refined our list of materiality issues and adjusted our materiality matrix, which provides us with guidelines and the direction of our future strategy development.



The aspects blanketed in the shaded area of the materiality matrix are important to stakeholders and are more relevant to GenScript's business. Material aspects are listed as follows. We will discuss the respective policies, management approaches and performance in this report:

Number	Subject	ESG aspects
2	Environment	Hazardous waste
8		Discharge of sewage
9		Compliance with environmental regulations
13	Employment	Employee benefits and remuneration
14		Fair working hours and holidays
15		Fair recruitment and reward mechanism
16		Non-discrimination
17		Compliance with labour regulations
18		Employee care and retention
19		Health and safety
20		Training and development
21		Against child or forced labour
22	Governance and community	Anti-corruption
25		Animal rights
28	Product responsibility	Labelling with clear and true product information
29		Intellectual property rights
30		Compliance with product and service-related regulations
31		After-sales service and customer feedbacks
32		Customer privacy
33		Enhancement of product and service quality
34		Biosecurity

Aspects that are not considered material are as follows:

Number	Subject	ESG aspects
1	Environment	Non-hazardous waste
3		Packaging material
4		Energy consumption
5		Carbon footprint
6		Emission of air pollutants
7		Water consumption
10		Providing products and services that enhance sustainability
11		Avoiding impaction natural habitats
12		Helping suppliers limit environmental impacts
23	Governance and community	Supply chain ESG management
24		Supplier diversity
26		Community development
27	Product responsibility	Protecting customer health and safety

FOREWORD

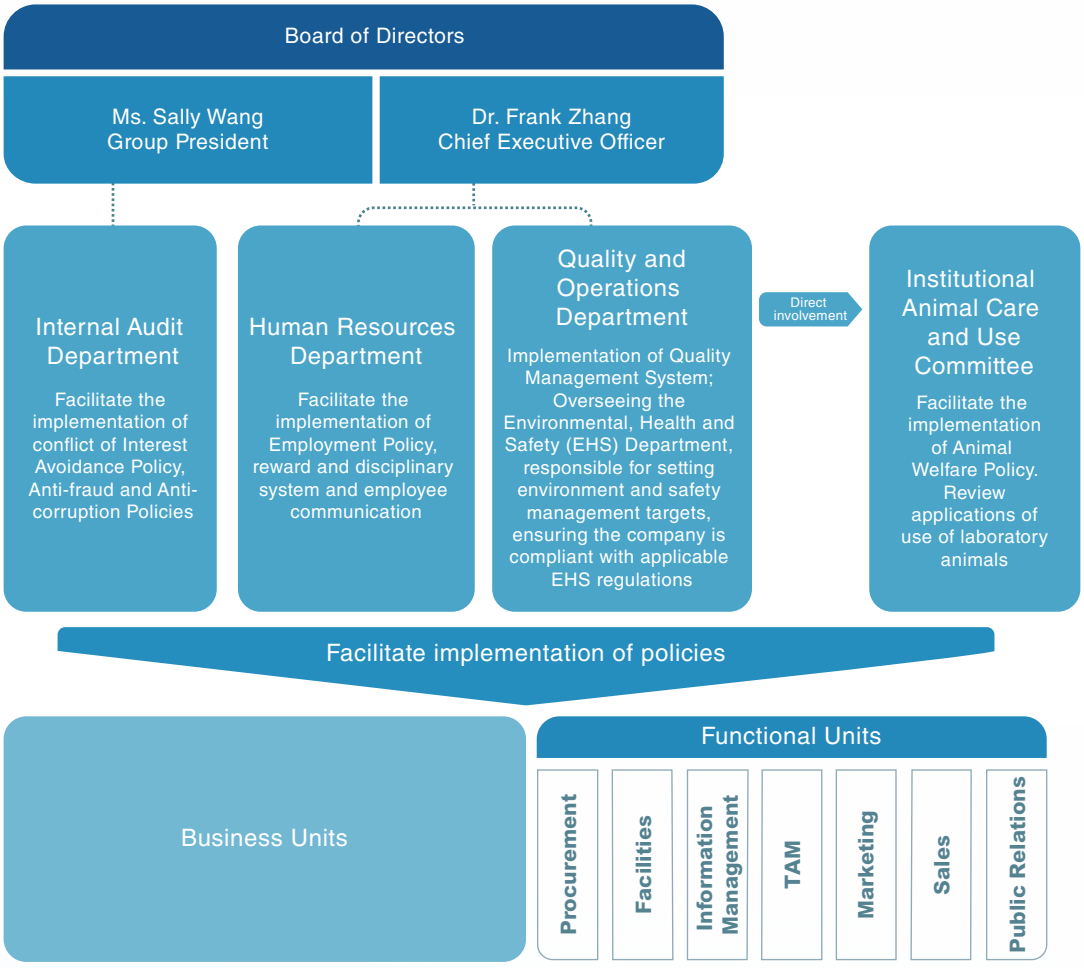
Since our inauguration in 2002, GenScript has been recognised as one of the world's leading biotech companies with a strong focus on genetics, peptides, proteins and antibodies research, establishing a reputation in life sciences research, application services, and product supply. Headquartered in New Jersey, USA, the Company has set up branch offices in Europe, Japan and China. Our mission is to make life science research more convenient, lead the development of biotechnology and create optimal value for society and employees. With robust business growth, we hope to actively create value for customers, serve the community and give back to the community, which will in turn win the support from our investors and stakeholders.

In this report, GenScript has made public and detailed disclosure and elaborated on our environmental, social and governance issues and other non-financial matters for the second consecutive year. We hope that the public will have a deeper understanding of GenScript's business philosophy and non-financial management. We also see the disclosure of the report as an important opportunity for GenScript to examine its environment and social performance. GenScript will continue its environmental, social and corporate governance efforts in the future, so as to become a more respectable business.

OUR GOVERNANCE OF ENVIRONMENTAL AND SOCIAL PERFORMANCE

Our Chief Executive Officer, Dr. Zhang Fangliang, and Group President, Ms. Wang Ye, lead the implementation of ESG programmes. The internal audit department, quality & operations department and human resources department are responsible for facilitating the implementation of ESG policies across our business units and other internal functions.

ESG Management structure of Genscript



COURAGE IN INNOVATION

GenScript adheres to its core values of pioneering and innovation and is devoted to making a difference in the world using its life science research and development technology. Our biological research addresses major challenges in the biomedicine field. Our innovative research and development achievements have brought hope of recovery to cancer patients. While actively exploring new measures of gene therapy applications and new peptide and protein synthesis technologies, we insist on rigorous management by acquiring third-party certification of intellectual property. In the past 16 years, GenScript's bold pioneering has resulted in medical and scientific breakthroughs. We will continue to fulfill our research and development values.

Biological "Legend"

As the world's leading product and service provider of gene synthesis, GenScriptis devoted to benefiting human health. We strive to innovate at many different levels in the field of genetics, in particular by leading in research for multiple myeloma CAR-T cell therapy (LCAR-B38M). Multiple myeloma is the second most common malignant tumour in the blood system. Although many new drugs have been listed in the past decade, multiple myeloma is still beyond cure. A "bi-specific chimeric antigen receptor T-cell immunotherapy" developed by Nanjing Legend Biotech Co., Ltd. (Hereinafter referred to as "**Nanjing Legend**"), our wholly-owned subsidiary, achieved an objective response rate of 100%, giving multiple myeloma patients hope.

Nanjing Legend presented in a number of key industrial events this year to contribute to academic discussions.

Key Industry Events Presented in 2017

2017 American Society of Gene and Cell Therapy (ASGCT)

2017 American Society of Clinical Oncology (ASCO)

2017 European Hematology Association (EHA) Annual Conference

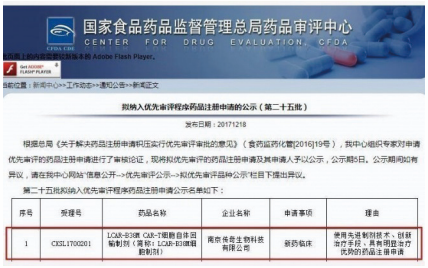
2017 American Society of Hematology (ASH) Annual Conference

2017 China Research Hospital Society

China Disease Cell Biotherapy Conference

Dr. Fan Xiaohu from Nanjing Legend was invited to give a presentation at the conference after submitting a research abstract in collaboration with clinical partners.

Nanjing Legend Being a Legend with its CAR-T Technology


国家食品药品监督管理总局药品审评中心
CENTER FOR DRUG EVALUATION, CFDA

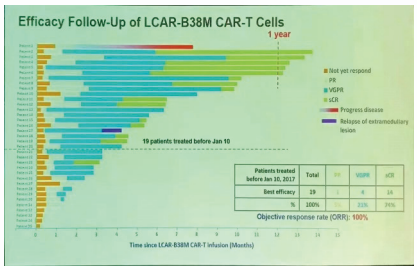
拟纳入优先审评程序药品注册申请的公示（第二十五批）

发布日期：20171218

根据总局《关于解决药品注册申请积压实行优先审评审批的意见》（食药监药化管[2016]19号），我中心组织专家对申请优先审评的药品注册申请进行了审核论证，现将拟优先审评的药品注册申请及其申请人予以公示，公示期5日。公示期间如有异议，请在我中心网站"信息公开-->优先审评公示-->拟优先审评品种公示"栏目下提出异议。

第二十五批拟纳入优先审评程序的药品注册申请公示名单如下：

序号	受理号	药品名称	企业名称	申请事项	理由
1	CXSL1700201	LCAR-B38M CAR-T细胞自体回输制剂（简称：LCAR-B38M细胞制剂）	南京传奇生物科技有限公司	新药临床	使用先进制剂技术，创新治疗手段，具有明显治疗优势的药品注册申请



Nanjing Legend drew the spotlight at the American Society of Clinical Oncology (ASCO) annual meeting. Nanjing Legend presented its CAR-T product, which may be a safe and effective therapy for recurring or refractory multiple myeloma. The researchers reported an early clinical trial in China that showed 33 (94%) out of 35 recurring multiple myeloma patients reached clinical remission 2 months after they were treated with Nanjing Legend's biotech experimental anti-BCMA CAR-T cells (LCAR-B38M) therapy, yielding an objective response rate of 100%.

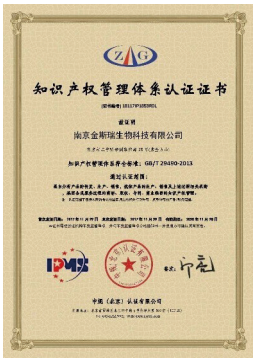
In addition, on August 30, 2017, Nanjing Legend was invited to attend a seminar on research progress and regulatory work on CAR-T cell therapy for multiple myeloma. Nanjing Legend conducted in-depth discussions with leaders of National Health and Family Planning Commission, China Food and Drug Administration, Centre for Drug Evaluation, Ministry of Human Resources and Social Security, Ministry of Science and Technology and other ministries' at the meeting and won recognition from them. GenScript hopes to pursue more effective treatment of multiple myeloma-related conditions through CAR-T cell therapy in the future for the benefit of all mankind.

On December 18, 2017, China Food and Drug Administration announced the 25th batch of drug registration applications eligible for priority clinical review process, which included the CAR-T cell preparations (LCAR-B38M) submitted by Nanjing Legend. In addition, Nanjing Legend has planned multiple myeloma clinical studies in the United States.

Patent management

GenScript greatly values innovation in research and development, so we have set up adequate and comprehensive systems to manage intellectual property, including the Patent Management Procedures, Patent and Trademark Application Process Management and relevant provisions and policies. For new employees, we focus on raising their awareness of maintaining the confidentiality of business secrets.

In 2017, the Company improved its intellectual property management system and passed third-party assessment to obtain certification of the system by fully implementing China's National Standard for Enterprise Intellectual Property Management. The certification marked a milestone in the standardisation, systematisation and specification of the Company's intellectual property management, maintaining and continuously adding value to its proprietary intellectual properties and other intangible assets. Also significant is the increase in its employees' initiative for innovation, contributing to a boost in the Company's intellectual property creation.


知识产权管理体系认证证书

南京金斯瑞生物科技有限公司

GenScript has obtained a large number of patents this year with a significant increase from last year. Meanwhile we obtained our first patents in Japan and Korea, which strengthened the patent security overseas. Moreover, we developed a comprehensive patent plan for the ongoing research project and submitted 15 PCT (Patent Cooperation Treaty) patent applications. PCT is an international cooperation treaty dealing primarily with the cooperation and reasonableness of the filing, search and examination of patent applications and the dissemination of technical information contained therein. Application for PCT patent is considered to be the most significant progress indicator for international cooperation in this area. Therefore, the PCT patent applications will help the Company open up overseas markets and enhance its competitiveness as a global player.

GenScript's 2017 Intellectual Property Management Summary

Obtained 10 patents, an increase of 9 from the previous year

46 cumulative patents, an increase of 28% from the previous year

15 PCT patent applications

Jinan Nornoon R&D Patents

As a subsidiary of the Company, Jinan Nornoon Biological Engineering Co., Ltd. (Hereinafter referred to as "**Jinan Nornoon**") is principally engaged in the research and development, production, sales and service of biological enzyme preparations and micro-ecology. Its patents are administered through policies such as the Reward and Punishment Measures for Intellectual Property Management, the Intellectual Property Budget System and the Procedures for the Control of Intellectual Property Rights.

In 2017, Jinan Nornoon was granted three patents for an enzyme mixing and packaging machine, enzyme preparation mixing line and fermenter combination device. The fermenter combination device is an upgrade of the current technology, with increased fermentation convenience and effectiveness and the capability to avoid reactions between excipients and feed. The upgrade is that the excipients and supplements required for fermentation are stored separately and sterilised respectively by high-temperature steam to prevent them from reacting at a high temperature. The device is easy to operate and has produced optimal fermentation results with higher success rate, better quality and greater yield.

Jinan Nornoon has made great progress in research innovation and intellectual property protection, been awarded many honorary titles from various third parties, including "Jinan Innovative Enterprise", "New High-Tech Enterprise","Intellectual Property Management System Accreditation" and "City's Agricultural Industry Leader". Jinan Nornoon has also founded Academician Expert Work Station.

PROVIDE SUPERIOR SERVICE, PROTECT CUSTOMER RIGHTS

In 2017, GenScript remained steadfast in carrying forward its core values of "Being accountable to customers" and complied with the principle of "Customers first" to meet the needs of each client. Our clients are mainly world-class large-scale pharmaceutical companies, biotechnology companies and world-renowned research institutes. For 16 years, GenScript has worked tirelessly with clients to achieve its goal of benefiting all mankind.

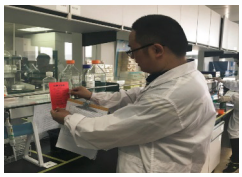
Superior quality

As a world leader in research and development on genes, peptides, proteins and antibodies, we are well aware that quality is an essential requirement for our customers and the foundation for our survival and development. GenScript focuses on improving the quality of products and services, continuously refining the Quality Management Systems, and actively responding to its quality mission: "stable, innovative, timely, professional and continuous improvement". This year, the quality & operations department fully revised the Company's quality management system along with its related procedures on document control to comply with the new version of the ISO9001 quality management system requirements. The new system successfully passed the third-party verification agency's audit without any non-compliance.

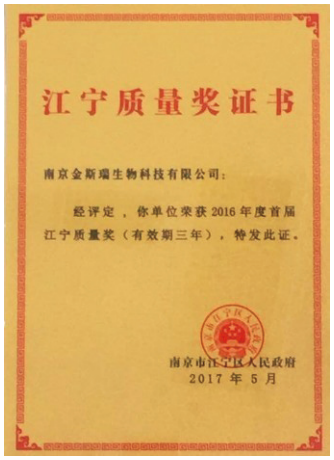
In 2017, GenScript strengthened control in every step of its production process to ensure it meets national regulations, industry standards and customer requirements. For raw materials, we revised the Critical Material Quality Control Standard Operating Procedure to clarify the responsibilities and operating standards in respect of quality control over supplier selection, assessment, and establishment of quality standards, procurement, incoming inspection, storage and collection of materials. These processes are controlled on the procurement management platform provided by the Company's SAP system. For the actual production, tighter control is implemented throughout the ordering, manufacturing, inspection and delivery processes, which is supported by the Company's MES system (Manufacturing Execution System). We have also established a batch management system which is effective in tracking information throughout the production process.

All operations have a corresponding SOP provision, and employees are trained and qualified before they are cleared for work. On production, QA (quality assurance) staff are responsible for on-site inspection and monitoring to ensure effective whole-process quality control. On finished products, we established a quality release standard, and finished products can only be released after they have been tested by QC (quality control) staff and proven up to the quality standards. On post-sales service, we developed the Product Recall and Withdrawal Procedure to manage situations such as negative feedback on products. In such cases, complete analysis is required to justify subsequent decision making on whether a recall shall be initiated, which holds us fully accountable for the quality and safety of our products. In 2017, there were no recalls due to product quality or safety issues.

In order to enhance overall awareness in upholding quality, GenScript has carried out many activities, such as the "Quality Month Campaign" and a number of quality training sessions.

Quality event	Introduction	Photo
"Quality Month Campaign"	In September 2017, Quality Month Campaign was launched, comprising a series of activities, including a quality knowledge competition and Red Card Contest. The Campaign logged a total of 1,144 participants, raising the employees' quality awareness and promoting the Company's quality culture.	
Quality training	In 2017, the quality & operations department organised a total of 52 quality training sessions to improve the quality awareness of all employees.	

In May 2017, with its top quality service and management, GenScript stood out among the 33 shortlisted companies and won the first Jiangning District Quality Award for its overall top ranking.


江宁质量奖证书

南京金斯瑞生物科技有限公司：

经评定，你单位荣获2016年度首届江宁质量奖（有效期三年），特发此证。

南京市江宁区人民政府
2017年5月

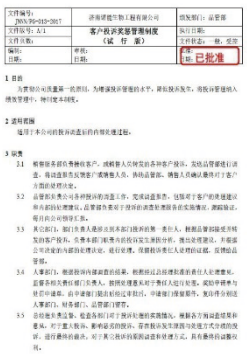
Business integrity

As a supplier, we proactively maintain efficient communication with our customers. We listen to our clients, respond to their needs, and serve with sincerity. In order to provide better services, this year we have established a differentiated customer management programme, which formulates service strategies based on the needs, purchase history and expectations of different customer groups, thus benefiting our customers through added value and efficiency. With these efforts, we have won and are proud of the recognition of many customers.

We place great emphasis on customer satisfaction and carry out satisfaction surveys through various channels, including regular visits by sales staff, satisfaction evaluation panels on the online order page, satisfaction surveys via email one month after the end of order, etc. We hope to take full advantage of feedback to understand our customers' needs concerning GenScript's product quality, customer service and overall process. Surveys have been implemented for both overseas markets and the Chinese market. The survey results are handled by relevant departments, which follow up on the results and conduct monthly analyses for the satisfaction survey report to be reviewed by management. In addition, each department has set performance indicators for customer satisfaction. The indicators cover internal satisfaction and customer satisfaction levels. Factoring in the difference of each department, internal and customer satisfaction levels account for different proportions of the overall score as a way to enhance the awareness of service of all our employees.

Apart from satisfaction surveys, we also have other channels for collecting customer complaints and feedbacks. Our customers may contact their sales representatives directly or provide feedback through the "customer message" column on GenScript's official website. This year, we have adjusted the customer feedback mechanism and collected information from multiple channels to ensure that each customer's opinions are properly addressed. Customer complaints from the Chinese market and overseas markets are handled by the relevant business teams and customer relations specialists, who refer these complaints to the respective departments at headquarters for investigation. The department in charge reviews the situation and assigns it to appropriate staff, who coordinate with customer relations specialists to provide a timely solution.

Jinan Nornoon Biological Engineering Co., Ltd.
set up a customer complaint reward and punishment system



客户投诉奖惩管理制度
（试 行 版）
已批准

To uphold our commitment of "customers first", Jinan Nornoon has integrated complaint management into performance review as a way of reducing complaints and improve customer satisfaction, which includes rewarding quality improvement, clarifying accountability for complaints, classifying responsibilities, improving the calculation method for point deductions, and setting a time limit for complaints.

In 2017, GenScript's average customer satisfaction score was 87.5.

In 2017, GenScript received 507 customer complaints and all were properly resolved.

Information privacy protection

GenScript is entrusted with confidential information from customers as we process their orders. Protection of confidential information is a crucial part of strengthening customer confidence.

Before each project, we sign confidentiality agreements with our customers. And our IT department has published many policies including Rules for the Use of Public Networks, System Permission Management, Business Data Management, and Mobile Storage Devices Use to protect customer privacy more effectively. By monitoring GenScript's mobile hard drives, isolating external networks, differentiating access permissions among staff, monitoring business data and implementing traceability system, we can ensure that the customer data can only be accessed and used when appropriate. IT department records daily usage of data and regularly analyses these records to prevent anomalous visits. A file encryption system and strict access control settings are used to control the inflow and outflow of data, thus preventing unauthorised use of confidential information.

In addition, our employee handbook clearly states the importance of the Company's confidentiality system and details employees' obligations in safeguarding data. Our confidentiality policy requires employees to maintain strong confidentiality awareness, and ensures proper use and careful handling of confidential data. The system also has clear guidelines on the destruction of classified data and procedures for handling confidential data leakage for employees' reference.

MOVING FORWARD TOGETHER

GenScript's development cannot be sustained without the professional and dedicated contributions of our employees. We regard our employees as our most valuable assets. To increase our employees' sense of belonging, we provide reasonable incentives and proper promotion channels, and continuously increase the value of human resources through diversified staffing, abundant training and practical care packages, which all provide solid support for the Company's strategic development.

Harmonious team

GenScript upholds the concept of using the right talent in the right place and focuses on providing our core talents with high-end technical skill training. We have strengthened our high-tech capabilities by introducing well educated talents while improved our market expansion capacity by recruiting experienced business leaders. In this way, we have maintained the competitiveness of our work force.

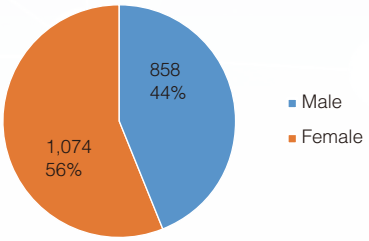
We value talent diversification and forbid discrimination on the basis of gender, age, rank, ethnicity, race, religion, marital status or degree of disability for candidates who meet the job requirements. Everyone who joins GenScript are treated equally.

Meanwhile, we abide by the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and other relevant laws and regulations. We respect internationally recognised principles of labour rights and protect the legitimate rights of employees.

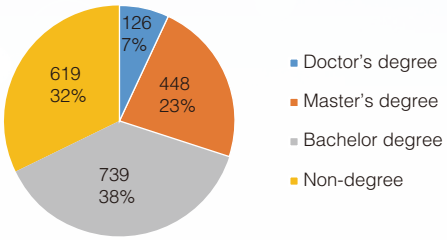
Number of employees of GenScript as of December 31, 2017

	Male	Female	Total
Total	858	1,074	1,932
Breakdown by academic qualification			
Doctors	77	49	126
Master	172	276	448
Bachelor	354	385	739
Non-degree	255	364	619
Breakdown by age			
< 30	501	734	1,235
30–50	335	325	660
> 50	22	15	37
Breakdown by region			
Mainland China	791	1,001	1,792
United States	64	71	135
Others	3	2	5
Breakdown by job function			
Production	427	599	1,026
Sales and marketing	119	156	275
Research and development	114	127	241
Administration	140	164	304
Management	58	28	86

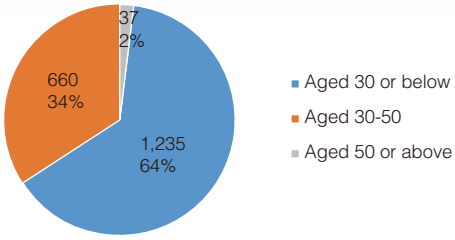
Data on Genscript employees as of December 31, 2017



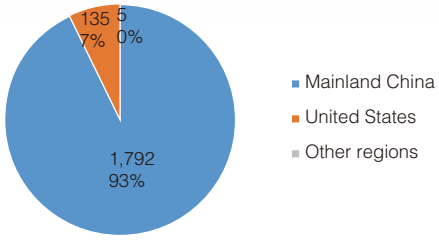
Breakdown by gender



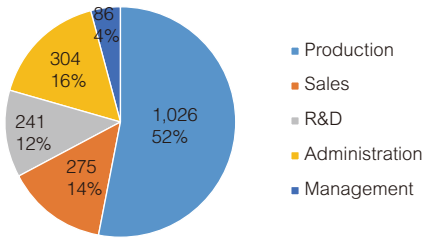
Breakdown by academic qualification



Breakdown by age



Breakdown by region



Breakdown by job function

Employee benefits

Based on the statutory employee benefits at each of our locations, GenScript has built a comprehensive benefit system that meets all aspects of employee needs, including accommodation allowance, transport allowance, meal allowance, holiday stipend, annual physical examination, and major illness insurance and accident insurance for employees in China. We also provide exquisite holiday gifts for our staff. In 2017, the Company's US division launched a lunch programme, which provides meals and a subsidy of US$7 per meal to employees.

As an incentive, employees who have worked in GenScript for certain years receive additional days of leave per year on top of the entitled annual leave. GenScript offers share options to outstanding employees on a case-by-case basis.

In addition, we have also set up the Caring Fund to provide financial support to employees with special needs and reduce the burden on employees' families. For employees with serious illnesses, the Caring Fund will provide medical assistance programmes on a case-by-case basis, offering staff monetary support for medical purposes.

Two-way communication

GenScript considers employee communication as a very important topic. We emphasise trust, understanding and confidence between management and employees, and promote good relationships. We have developed effective two-way communication channels that give employees the opportunity to have a direct dialogue with the Company to ensure we keep abreast of and respond to employee's needs. In addition, we have an open communication mechanism whereby employees can communicate with the leaders through online systems. All conversations are recorded.

Strengthen Communication with New Recruits

In 2017, we took action to help new recruits to adapt to their new working environment and reduce the staff turnover rate. We strengthened the collection of feedback from new employees and implemented the "180-day" HR Salon. The new employees who took part in the 180-day induction period were regularly assessed through the HR Salon, interviews and executive forums. At the forums, senior executives are invited to have face-to-face conversations with new employees where they can talk about problems encountered in the workplace and exchange ideas. In addition, the Company assigns a mentor to each new employee to help them with the transition more quickly. We care for new employees and support them both at work and in life.

"Rui-yi" is GenScript's corporate magazine edited by the human resources department. It is a key platform where employees' voice are heard and company's messages are conveyed. The magazine covers corporate news, corporate stories, announcements and employee sharing. We request employees to contribute to the magazine, and encourage them to share their thoughts and stories from outside work. We also respond to what we have heard from our employees.

"Golden Home" is our intranet platform where employees are allowed to voice their comments anonymously and GenScript's management would read and respond to these posts properly. On this platform, questions from our employees are answered timely, boosting their confidence in us and building strong rapport within the Company.

GenScript conducts Employee Engagement Survey annually as a way to measure and monitor employee satisfaction with the Company. The questionnaire offers our employees an opportunity to speak their mind and express their concerns and suggestions. The results are made available to department heads, who then create action plans to address specific gaps.

Staff development

As talents are the cornerstones of GenScript, expertise and skills are our pillars. Knowledge and innovation are our competitive edge. A well-rounded training, assessment and promotion system is essential for GenScript's development. We offer training and career development opportunities which provide our employees with a sense of accomplishment.

Our training system is based on the professional development needs of our employees. We developed the professional training system according to the job responsibilities, and qualification requirements, and capability requirements. Also, we have improved the assignment of internal trainers to ensure that the right man is given the right job.

We implement a dual career-track system for employee promotion with both professional and management career development ladders. By combining the staff training credit system with career development, our employees are fully motivated to participate in training courses. When employees participate in a certain amount of training, and complete the test to ensure that they achieve the required professional knowledge and skills, and to achieve a better performance contribution in the work position, they will be given a chance to be promoted and receive higher development returns. In the middle of each year, professional posts will have a chance at fast-track promotion, a notable edge over management posts. It's our way of encouraging employees to pursue a professional career.

We provide orientation training to all new recruits, in which we introduce the Company's background and operations and help them quickly adapt to the new work environment. More importantly, on-the-job training on technical and managerial skills has been designed and implemented to meet different departments' work demands. Here at GenScript, we regard professional skill development a high priority. Technical training materials are reviewed rigorously, and only competent trainers who have sound professional knowledge and skills and experience in delivering them are selected for our programmes. Also, all training courses are graded by the trainees, and trainees are assessed to see if they have mastered the required skills and if further hands-on practice sessions shall be arranged.

2017 Employee Training Highlights

Topic	Content	Course & Achievement
Captain 100 Programme	Based on the skill requirements for frontline managers and their current practice, we developed Captain 100 Programme with 8 training courses. Under our facilitation, trainees share and summarise what they have learned from managerial theories and practice, and refine it into a plan that they can apply to their work. The programme has boosted our overall managerial competence.	1. "Role Recognition" 2. "Goal Setting and Achieving" 3. "Performance Communication" 4. "Team Atmosphere Building" 5. "Interpersonal communication" 6. "Situational Leadership – Counselling Employees" 7. "Talent selection" 8. "Process Management and Optimization"
Selection of Excellent Junior In-house Trainers at Corporate Level	We organised a corporate-wide teaching contest and awarded the winners as junior trainer of the year. The trainers worked together and developed 5 general courses of superior quality.	1. "Seven Habits of Highly Effective People" 2. "Emotions and Stress Management" 3. "Problem Analysis and Resolution" 4. "Project Management" 5. "Communication Skills"
Online Course Platform	Our online managerial, vocational, and business courses and overseas training programmes are picked through several rounds of evaluations. Some online courses are not for free, and one can trade his training credits for access to such courses.	1. management courses 2. vocational skills courses 3. business courses 4. American team courses
Innovation Salon	We set up Innovation Salon, a platform where our senior scientists can share and discuss their work, cultivating an enlightening environment for new ideas and mutual help.	1. quarterly sessions 2. building an innovative environment for senior researchers

	Male	Female	All employees
Average training hours	8.1	8.8	8.5
Breakdown by job function			
Production	14.8	14.8	15.0
Sales and marketing	20.0	13.5	16.5
Research and development	13.7	14.7	14.2
Administration	16.5	17.2	17.0
Management	3.3	5.8	4.1

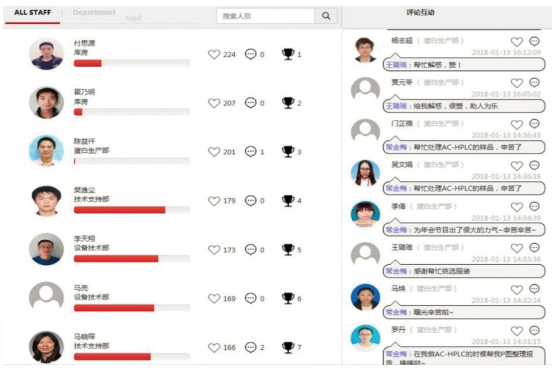
Work-life balance

GenScript advocates work-life balance. We believe sufficient rest contributes to high work efficiency. We do not encourage working overtime and have a strict limit on the overtime hour allowed. It is our policy that overtime is compensated with alternative days off to avoid burn-out. Long business trips are not encouraged for the same reason, and there is a time limit on business trips, too.

To enrich our employees' work life, we plan and hold various cultural and recreational activities, including anniversary celebrations, sports meetings, competitions, annual banquets and spring outings. For staff stationed in the United States, we also organise special gatherings on Chinese and Western holidays, such as on Mid-Autumn Festival, Thanksgiving Day and Christmas holidays, to create a sense of home and belonging.

2017 Employee Activity Highlights:

The Thumbs-up System



In July 2017, the Company developed and launched the Thumbs-up System, an internal work recognition platform, where staff can nominate colleagues with outstanding performance, thus raising awareness of service quality.

In 2017, a daily average of 978 thumbs-up were recorded in the system.

GenScript's Running Culture

Running has become a culture at GenScript. Our employees have made it part of their routine, which really made a difference. Running has given us a refreshing outlook, boosted our team spirit and enhanced corporate solidarity.

On April 16, 2017, more than 100 employees of GenScript participated in the first Jiangning Chunniushou International Marathon.

On October 19, 2017, nearly 60 GenScript management representatives participated in the 2017 GenScript Half Marathon.

On November 26, 2017, more than 170 GenScript employees participated in the 2017 Zhenjiang International Marathon.

Corporate Clubs – photography, badminton, basketball, table tennis and others

GenScript currently has several employee clubs, including basketball club, badminton club, table tennis club, football club, writing club, photography club, etc. These clubs aim to enhance the energy of the Company, promote the growth of employees, increase the sense of belonging of employees to the Company, and create a happy, harmonious and positive corporate culture.

June 16: GenScript Photography Contest was successfully held.

October 19: GenScript Badminton Tournament was successfully held.

November 2: GenScript Basketball Game was successfully held.

November 9: GenScript Ping-Pong Game was successfully held.

Employee Family Day

August 19 and 26, 2017 were our Family Visiting Day. More than 70 employees invited their families to GenScript, logging a total of 200 visitors.

BUSINESS INTEGRITY

As a leader in the gene synthesis market, we strive to become the most respected and trusted figure in the global business and academic community. Integrity and corporate image are our most prized assets. Therefore, we enshrine work ethics of biotechnology by meeting animal care expectations, avoiding conflicts of interest, and fighting fraud and corruption. We collaborate with peers around the world to prevent inappropriate use of synthesised genes.

Animal care

GenScript's research and development work covers a wide range of subjects, including gene, peptide, protein and the like. By designing excellent antibody structures and improving production techniques, we strive to further the health and safety of mankind and other beings. While we understand the necessity of continued use of animals, such as mice, rats and rabbits, for research and development, we also actively maintain international standards on animal care. Before executing each experiment, we carefully design every step and diligently go over protocols, not only for the science's sake but also for animal rights and welfare. GenScript promises that all experimental animals are kept and used properly and humanely. Our approach is to optimise experiments and reduce and avoid the use of experimental animals as much as scientifically possible.

We have created a reasonably comfortable living environment for experimental animals. And our staff are provided with sufficient training on animal care. All new recruits who are to work on laboratory animals are required to take lessons on animal welfare and animal rights protection. Also, there are systematic training programmes developed for staff who work at laboratory animal centre to further their understanding of animal biology, animal care and standard experimental techniques. The training ensured the effective implementation of animal care policies and our compliance with international standards.

2017 GenScript's training on animal care includes but is not limited to:

Animal Care Training Programme	**Target Staff**
Animal Care	Animal room staff
Mice Biology and Experimental Techniques	Technicians using rodents
Rat Biology and Experimental Techniques	Technicians using rodents
Rabbit biology and Experimental Techniques	Technicians using rabbits
Accident Reporting System	Animal room staff
Animal Disease Monitoring	Veterinary feeding team
Animal Euthanasia Training	Technicians using animals

GenScript's Institutional Animal Care and Use Committee (IACUC) is responsible for auditing and monitoring GenScript's treatment of laboratory animals during research, feeding, breeding and transportation. In 2017, the IACUC implemented a series of measures to further promote animal care.

2017 Animal Care Initiatives

- The IACUC conducted rigorous reviews of animal use applications submitted to control the number of animals used in studies in the coming three years.
- The IACUC performed reviews of animal test proposals and suggested best alternatives in minimising the number of animal used if necessary.
- Additional ventilation equipment was installed at the rabbit housing facility to improve air ventilation and improve air quality.
- Each breeding room had one more light installed to improve lighting uniformity, reduce lighting stimulation and provide animals with a more comfortable living environment.
- Additional animal waste and sewage treatment systems were installed at animal housing facilities to ensure that the sewage treatment meets Chinese national standards. The system has been audited by relevant authorities.
- When a laboratory animal has been experimented on and all meaningful data are logged, we euthanise it humanly as required by international standards.

In addition, with the approval of the IACUC chairman and veterinarians, some experimental animals are shown to employees and their families on Family Visiting Day under certain conditions as a way to promote the awareness of animal care. According to the pre-event risk assessment, experimental animals are not allowed to be touched and can only be observed from a distance.

GenScript's animal housing facilities in the Nanjing headquarters are accredited by the Association for Assessment and Accreditation of Laboratory Animal Care International (AAALAC) and assured by the Office of Laboratory Animal Welfare of the National Institutes of Health of the United States (OLAW). In order to maintain our qualifications, all departments that need to use laboratory animals have optimised their animal experiment schemes, which helped reduce the amount of adjuvant used in the immunisation process (given that the study effect is not compromised) and contributed to animal welfare. GenScript regularly discloses and reports to local authorities on the ordering and use of animals as required. For outsourced experiments, we proactively verify our contractor's AAALAC certification or other qualifications on experimental animals approved by a Chinese government agency.

Upholding ethical values

GenScript puts great emphasis on following its code of conduct and work ethics and complying with national laws and regulations. We remain steadfast in keeping the integrity of the Company and strive to promote a fair, just and honest work environment by raising ethical awareness right from the top. In 2017, we amended the Conflict of Interest Avoidance and Anti-Fraud System and supplemented it with implementation details, which is just one of our many actions to tighten internal control and ethical supervision.

GenScripth has developed and executed different training programmes on anti-fraud for employees at all levels. And every quarter we pick 3 departments for anti-fraud interviews and evaluate their awareness and understanding of the Conflict of Interest Avoidance and Anti-Fraud System. Then, based on our findings, we adjust our approaches and methods of anti-fraud education and promotion.

Anti-Fraud and Corruption Action

To strengthen our education on business ethics, in 2017, GenScript launched a WeChat public account on which we presented 3–4 internal audit/internal control cases every month as well as a summary every quarter. We help employees better understand the risks inside the Company and prevent violations of business ethics such as corruption or fraud.

In addition, employees are encouraged to report any unlawful act by members of the Company. A whistle blowing channel is also available on our website. The procurement team receives anti-fraud training. New suppliers are required to sign an integrity declaration.

As the world's leading gene synthesis company, GenScript plays an active role in safeguarding biosecurity. We co-founded the International Gene Synthesis Consortium ("**IGSC**") with other major global gene synthesis providers. IGSC advocates the ethical application of genetic synthesis technology. GenScript screens the gene sequences ordered by customers with our internal operation platform, in which the IGSC's database of viral and toxin gene sequence is embedded. We flag risky sequences and request more background information on the customers. If a risky sequence is detected, the department heads will be informed and the case will be recorded.

In addition to safeguarding gene security, GenScript also strictly abides by anti-unfair competition and anti-trust laws and regulations, such as the Anti-monopoly Law of the People's Republic of China and the Company Law of the People's Republic of China. We forbid acts by the Company or its employees which may result in collusion with potential competitors or hindrance to market competition.

In 2017, no lawsuits concerning unfair competition or violation of the monopoly law were filed against GenScript. The Company will continue to ensure its strict legal compliance in its marketing endeavour in order to achieve sustainable development.

In 2017, there were no incidents regarding conflicts of interest, fraud or bribery.

GREEN AND SAFE PRODUCTION

GenScript offers a broad and integrated portfolio of life sciences research and application services. Our core services include gene synthesis and bio-product manufacturing. Research and development and manufacturing require a variety of chemicals, viruses and laboratory animals, with potential impacts on the health and safety of employees and the environment. Therefore, we established the environment, health and safety (EHS) department to exert strict control on energy consumption, external emissions, and occupational health and safety hazards from research and development and manufacturing activities. In 2017, GenScript revised the EHS Management Manual, which provides the Company with overall guidance and action guidelines for EHS management, establishes more specific EHS goals and offers an overall framework to enhance the EHS management system of our subsidiary companies. We aim to eliminate environmental and occupational health and safety risks and to minimise the risk of incidents due to environmental pollution, occupational diseases and safety issues, so as to achieve the goal of enhancing our EHS performance.

Green production

GenScript places great importance in the environmental impact of the research and development and production process. We carefully handle wastewater, emissions and waste in accordance with the EHS Management Manual and related policies. Led by the EHS department, we operate in compliance with China's environmental laws and regulations.

The wastewater we generate mainly comes from laboratories and animal housing. Wastewater from experiments and cleaning contains substantial quantities of organic compounds. The wastewater will pass through sewer pipes to sewage treatment plants operated by the Company and the industrial park. After being properly treated, the wastewater is discharged in accordance with national standards. Our treatment facilities at the Nanjing headquarters treat over 200 cubic metres of sewage per day. The sewage quality and quantity is closely monitored at the sewage outfall. For air emissions, we have a qualified exhaust gas treatment system to ensure the exhaust meets local government standards. Emissions are filtered through activated carbon devices before being released into the atmosphere. Responsible personnel are required to inspect and perform maintenance on the fume hoods on a regular basis.

EHS department entrusts a third party to carry out regular environmental monitoring. Based on the results given by this third party along with the data collected by the Company's online wastewater monitoring system, EHS department oversees the operation of the Company's emission and wastewater treatment facilities as well as their regular maintenance managed by the equipment department. Information on our emissions is publicly available on the Company's environmental information webpage.

Reducing Emissions from the Rabbit Housing Facility

In April 2017, to reduce emissions, EHS and construction management department along with a third-party company conducted an onsite survey followed by a discussion. We invested RMB298,000 for the construction of two sets of level three activated carbon adsorption devices to treat gases from rabbit housing facility and prevent fugitive emissions. After the renovation, the concentrations of ammonia, hydrogen sulfide and odorants in the emissions were all in compliance with the discharge standards.

Sewage statistics	**2016[1]**	**2017**
Sewage disposal *(cubic metres)*	100,038	148,054
Number of non-compliance incidents for sewage COD content	0	0
Annual COD disposal *(tons)*	17.6	12.9
Annual NH-N disposal *(tons)*	1.17	0.8

[1] This figure is restated to include data from Jinan Nornoon. Jinan Nornoon has been a subsidiary of GenScript since June 30, 2016.

Exhaust emission statistics	**2016[2]**	**2017**
Exhaust emissions *('000 cubic metres)*	80,069	95,728
Emission of smoke and dust *(tons)*	2.19	1.70
Sulfur dioxide emissions *(tons)*	9.30	7.12
NOx emissions *(tons)*	15.67	13.54

[2] This figure is restated to include data from Jinan Nornoon. Jinan Nornoon has been a subsidiary of GenScript since June 30, 2016.

We have developed clear procedures to guide departments on how to deal with various types of hazardous wastes generated during the production process, including organic solvents, animal carcasses, laboratory solid waste and reagent bottles. Dedicated bins for medical waste, laboratory waste and domestic waste are put in place at laboratories. Medical and laboratory waste is collected and treated by authorised bodies, who in turn create reports according to the national requirements. We store our hazardous waste in compliance with the national standards and see to their proper disposal to lower possible environmental risks.

EHS arranges for personnel to log, weigh, store and segregate wastes every day, and is responsible for contacting a qualified third party in time to properly dispose of hazardous wastes as required by law. We also regularly carry out declaration of hazardous waste, analyse the waste generated in each department, perform daily inspections, and provide annual hazardous waste management training.

Filter Cake Recycling at Jinan Nornoon

Solid waste at Jinan Nornoon mainly consists of bacteria residue (after the bacterial fermentation process), which is a by-product of enzyme production. Bacteria residue in filter cakes used to be disposed of by simple desiccation. In recent years these filter cakes are collected by a third-party as an organic fertiliser.

Every month, 234 tons of bacteria residue is recycled.

Waste Disposed	**2016**[3]	**2017**
Domestic waste generated *(tons)*	2,502.33	2,703.13
Hazardous waste (excl. medical waste) *(tons)*	29.71	36.82
Medical waste *(tons)*	172.38	275.47

[3] This figure is restated to include data from Jinan Nornoon. Jinan Nornoon has been a subsidiary of GenScript since June 30, 2016.

We are committed to conserving energy and resources not only to reduce costs but also to protect our environment. This year, we have increased the reuse of greywater and introduced water recycling systems at the rabbit housing facility, landscaping ponds and lawn sprinklers. Through various equipment modification projects, we have reduced the wastage of water resources and increased the utilisation of recycled water. We also saved electricity and natural gas with management and supervision policies and equipment technological upgrades.

Greywater System at the Rabbit Housing Facility, Landscaping Ponds and Lawn Sprinklers

In order to make the most of water resources and reduce water wastage, the Company has set up a greywater recycling system, redirecting greywater to toilet flushing, landscaping ponds and landscaping sprinklers.

The project has achieved ideal results: Greywater reused every month totaled around 3,500 tons.

Solar Power Heating System to Save Natural Gas

Laboratory animals' need for constant temperature and humidity and sterile environment accounts for the Company's huge demand on natural gas. To reduce the amount of natural gas used, the emissions generated and the according costs, the Company has installed a solar power heating system along with an auxiliary air-source heat pump system to provide heating.

At present, the boiler usage time has been significantly reduced (mainly for winter use), saving about 200,000 cubic metres of natural gas.

Small-scale Water Heater Power Saving Project

The Company has installed about 30 small-scale water heaters in bathrooms, which are connected to power for heating 24 hours per day, but are needed for working hours only. In order to save electricity, the Company has installed a delay switch on the heaters, and pre-set the annual usage time which is 6 months from November to April.

Through the reconstruction and oversight policies improvement, we have saved about 6,804 kWh of electricity per month.

Water consumption statistics	**2016[4]**	**2017**
Water consumed *('000 cubic metres)*	223.11	212.99
Water recycled *('000 cubic metres)* (Greywater recycling system is only installed at the headquarters in Jiangning District, Nanjing)	7.34	10.23
Water consumption intensity *(cubic metre/USD10,000 revenue)*	20.14	13.95

[4] This figure is restated to include data from Jinan Nornoon. Jinan Nornoon has been a subsidiary of GenScript since June 30, 2016.

Energy consumption and carbon emissions	**2016[5]**	**2017**
Energy consumption *(MWh)*	16,164	17,819
Energy intensity *(MWh/USD10,000 revenue)*	1.46	1.17
Natural Gas Consumption *('000 cubic metres)*	110.83	810.62
Natural Gas Natural Gas Consumption Intensity *(cubic metre/USD10,000 revenue)*	10.01	53.10
Greenhouse gas emissions *(tons CO_2-e)* (Scope 1 only)	239.64	1752.70
Greenhouse gas emissions *(tons CO_2-e)* (Scope 2 only)	14361.3	13782.8
Carbon intensity *(kg CO_2-e/USD10,000 revenue)* (Scope 2 only)	1.32	1.02

[5] This figure is restated to include data from Jinan Nornoon. Jinan Nornoon has been a subsidiary of GenScript since June 30, 2016.

Note : The natural gas consumption has increased from last year because of the natural gas boiler of Jinan Nornoon was just complete for operation in August 2017.

Safe production

GenScript is committed to protecting our employees at work. The safety hazards identified include poisoning, chemical hazards, electric shock, frostbite and fire. EHS department is responsible for managing these safety hazards and mitigating the risk. Through inter-departmental collaboration, we have gradually improved our techniques, upgraded our facilities, regularly checked and maintained our equipment, and provided training to reach our zero incident goal.

We have strict guidelines on using hazardous substances. In compliance with "Double Lock Safeguarding" requirements, we assign two employees to supervise each other in the handling of hazardous substance to prevent potential accidents. Our guidelines also specify that only professional personnel with appropriate qualifications are allowed to handle hazardous substances. And warning signs are put up at storage sites for hazardous substances.

In terms of employee health, we conduct occupational hazard assessment and arrange occupational physical examinations for risk-prone positions every year. We have also established health records and provide high-risk positions with personal protective equipment. Occupational hazards are posted on the Company's bulletin board to ensure that all employees are fully aware of the safety and health risks inherent in their positions, keeping our staff vigilant of safety and health protection.

Every month EHS liaisons at different departments work with EHS staff on safety inspections of production sites, employee dormitories and canteens as required by their respective standards to exercise prompt examinations and effective remedies. We also actively cooperate with local authorities on safety inspections and swiftly correct any non-compliance identified therein.

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

To reduce the risk of accidents, GenScript also customised training materials and courses for staff at all levels. Our employees are required to attend these training sessions and pass the tests afterwards. The training courses include: "Electrical Safety", "Elevator Safety", "Hazardous Chemicals Safety Handling and Storage", "Pressurised Container Safety Operation", "Precursor Chemicals Control", "Hazardous Waste Management", "Protection against Occupational Hazards" and "Fire Emergency Evacuation and Fire Extinguisher Training", all designed to raise safety awareness of each employee.

Due to our efforts, the incident rate is reasonably low.

Safety statistics	**2016**	**2017**
Number of incidents	2	4
Number of days lost due to incidents	77	232

GIVING BACK TO THE COMMUNITY

As a global leader in gene synthesis, GenScript recognises its great responsibility and is devoted to giving back to the community. First and foremost, we bring hope of health to all mankind by pushing the boundaries of biological research and development. Second, being a high-tech company, we understand the importance of top talents and give our full support to the nurture of future pillars of society. What's more, we care about the lives of the socially underprivileged and have always been a major contributor to public welfare.

Benefiting mankind

Nanjing Legend upholds GenScript's vision of safeguarding the health of mankind. It has provided free treatment for nearly 100 patients with refractory multiple myeloma, bringing hope to the patients and their families. In August 2017, we successfully completed our first case where a US patient with multiple myeloma receive dour treatment in China and has been in complete remission so far.

Nurturing talents

GenScript is happy to help young talents who are interested in pursuing a career in biotechnology. Branded as an "Exemplary Site for Science Education", our base in Nanjing regularly organises field visits where college students come to observe how biotech operates in the real world and qualified graduates are offered a job with us. We also work closely with universities on a variety of events, including inviting industry experts to campus and give lectures on the latest developments in the biotechnology.

We have continuously supported the International Genetically Engineered Machine (iGEM) Competition to promote the exchange of synthetic biology in China. iGEM is the most recognised international academic competition in the field of synthetic biology, where top-notch graduates team up to design, build, test and evaluate their own systems designed with exchangeable biological components and standard molecular biology techniques. Nearly 6,000 people participate in iGEM every year. GenScript provides logistical services to all Chinese teams to ensure they receive timely iGEM-assigned DNA development kits and submit their samples to iGEM. Over a hundred doctorate-level staff from GenScript are ready to offer scientific and technical guidance to the Chinese teams. The iGEM competition helps young scientists worldwide to tackle real-world science and medical challenges. GenScript will continue to support iGEM through sponsorship, research grants and other appropriate means.

Caring for society

GenScript is actively involved in public welfare and respond swiftly to help the socially underprivileged and those in urgent need of basic living necessities. In case of natural disasters, such as earthquakes, we rush to the aid of impacted areas with disaster relief and ask our employees to contribute to the rebuilding effort. We have also funded a scholarship to support poor students with academic excellence and integrity.

Donation Activities

GenScript has always been passionate about philanthropy. On August 3, 2017, with over 80 employees participating, the Company held two clothing donations respectively at its Jiangning and Pukou sites. Nearly 1,000 pieces of used clothes were collected in total. Our staff were eager to do their part, a shining example of answering our call of GenScript giving back to the community.

In 2017, GenScript has donated USD$38,542 to non-profit organisations.

ESG GUIDELINE INDEX

Aspect, general disclosure and KPI	Description	Disclosed in	Remarks
Aspect A1: Emissions			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Green production	
KPI A1.1	The types of emissions and respective emissions data	Green production	The Chinese website of GenScript also discloses emission information.
KPI A1.2	Greenhouse gas emissions in total (in tons) and, where appropriate, intensity	Green production	
KPI A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity	Green production	
KPI A1.4	Total non-hazardous waste produced (in tons) and, where appropriate, intensity	Green production	
KPI A1.5	Description of measures to mitigate emissions and results achieved	Green production	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Green production	Our environmental management mainly focuses on appropriate treatment of hazardous wastes, for they pose greater threat to the environment. As for the reduction of hazardous waste output, we rely on improving production techniques. The quantity of hazardous waste output we reduced is not accounted for.
Aspect A2: Use of Resources			
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Green production	
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Green production	
KPI A2.2	Water consumption in total and intensity	Green production	
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Green production	
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Green production	GenScript does not have any problems in sourcing water that is fit for purpose.
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	Not applicable	GenScript does not produce physical goods which require packaging in large quantities.

Aspect, general disclosure and KPI	Description	Disclosed in	Remarks
Aspect A3: The Environmental and Natural Resources			
General disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	Not material	"Providing products and services that enhance sustainability" is not considered a material aspect to GenScript.
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Not material	"Providing products and services that enhance sustainability" is not considered a material aspect to GenScript.
Aspect B1: Employment			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Moving forward together	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Harmonious team	
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Not disclosed	This figure is considered confidential.
Aspect B2: Health and Safety			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Safe production	
KPI B2.1	Number and rate of work-related fatalities		In 2017, there were no work-related casualties.
KPI B2.2	Lost days due to work injury	Safe production	
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Safe production	
Aspect B3: Development and Training			
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Staff development	
KPI B3.1	The percentage of employees trained by gender and employee category		All employees must receive training.
KPI B3.2	The average training hours completed per employee by gender and employee category	Staff development	

Aspect, general disclosure and KPI	Description	Disclosed in	Remarks
Aspect B4: Labour Standards			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Not applicable	GenScript mainly employs individuals with higher education background, solid work experience or professional qualifications. Our risk of engaging child or force labour is considered insignificant. This aspect is considered immaterial and thus is not disclosed.
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Not applicable	
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Not applicable	
Aspect B5: Supply Chain Management			
General disclosure	Policies on managing environmental and social risks of the supply chain	Superior Quality	
KPI B5.1	Number of suppliers by geographical region	Not material	This figure is considered confidential.
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Superior Quality	
Aspect B6: Product Responsibility			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Provide superior service, protect customer rights	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons		In 2017, there were no product recalls due to safety and health concerns.
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Genuine service	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Superior quality	
KPI B6.4	Description of quality assurance process and recall procedures	Superior quality	
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Information privacy protection	

Aspect, general disclosure and KPI	Description	Disclosed in	Remarks
Aspect B7: Anti-corruption			
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Upholding ethical values	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Upholding ethical values	
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Upholding ethical values	
Aspect B8: Social Investment			
General disclosure	Policies to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Giving back to the community	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Giving back to the community	
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	Giving back to the community	

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Genscript Biotech Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 119 to 196, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – Life science goods and service	
Revenue recognition has been identified as a risk, particularly in respect of the occurrence and accuracy of a significant volume of transactions and the timing of revenue recognition for sales of goods and rendering of services with deliveries occurring on or around year-end. Due to the significant volume of transactions, minor errors could, in aggregate, have a material impact on the financial statements. The Group's disclosures about accounting policies for revenue recognition are included in Note 2.4 summary of significant accounting policies and about revenue breakdown in Note 5 revenue, other income and gains of the financial statements.	We carried out testing relating to internal controls. On a sample basis, we examined deliveries during the year to supporting documentation to assess whether the revenue recognition criteria were met for recognised sales of goods and rendering of services. We performed sales cut-off test to check to the goods delivery notes and client acceptance notes for sales of goods and check to the service report download record for the rendering of services. We performed monthly analysis to observe the sales trend and identify whether there is any unusual sales. We also performed testing on journal entries to test for any management override of internal controls related to revenue recognition.
Revenue recognition – License and collaboration arrangement	
Legend Biotech USA Inc., Legend Biotech Ireland Limited, (together "Legend") are subsidiaries of the Company. On 21 December 2017, Legend and Janssen Biotech, Inc. ("Janssen"), entered into a collaboration and license agreement (the "agreement") in the development, manufacture and commercialization of a chimeric antigen receptor (CAR) T-cell drug. There are significant management judgments and estimations involved in identification of deliverables, allocation of total consideration to each deliverable and assessing the respective recognition criteria. The revenue recognition for the collaboration and license agreement may have a material impact on the financial statements. The Group's disclosure about accounting policies of revenue recognition is included in Note 2.4 summary of significant accounting policies and about revenue breakdown in Note 5 revenue, other income and gains of the financial statements.	We obtained the collaboration and license agreement. We reviewed the announcement of Janssen and agreed the content with the collaboration and license agreement details. We also sent contract term confirmation to Janssen. We discussed the transaction background and agreement details with the management. We reviewed management's accounting treatment, including management's identification of deliverables within the agreement and evaluated management's judgement about whether the identified deliverables represent separate units of accounting. We reviewed allocation of total consideration to each deliverable and key assumption used in the allocation method and respective recognition criteria for each deliverable. We also involved internal valuation expert team to review management's assessment on respective standalone selling price.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
16 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000
REVENUE	5	**152,649**	114,735
Cost of sales		**(48,058)**	(38,506)
Gross profit		**104,591**	76,229
Other income and gains	5	**6,386**	7,745
Selling and distribution expenses		**(24,908)**	(20,867)
Administrative expenses		**(40,094)**	(30,429)
Other expenses		**(7,415)**	(159)
Finance costs	7	**–**	(10)
Share of losses of associates		**(39)**	–
PROFIT BEFORE TAX	6	**38,521**	32,509
Income tax expense	10	**(11,516)**	(5,974)
PROFIT FOR THE YEAR		**27,005**	26,535
Attributable to:			
Owners of the parent		**26,123**	26,170
Non-controlling interests		**882**	365
		27,005	26,535
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		**US1.52 cents**	US1.57 cents
Diluted		**US1.51 cents**	US1.53 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 *US$'000*	2016 *US$'000*
PROFIT FOR THE YEAR	**27,005**	26,535
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**12,816**	(10,646)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**12,816**	(10,646)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**12,816**	(10,646)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**39,821**	15,889
Attributable to:		
Owners of the parent	**38,603**	15,769
Non-controlling interests	**1,218**	120
	39,821	15,889

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 US$'000	2016 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**80,508**	43,735
Advance payments for property, plant and equipment		**2,460**	2,181
Prepaid land lease payments	13	**10,189**	7,782
Goodwill	14	**1,470**	1,384
Other intangible assets	15	**2,467**	2,130
Deferred tax assets	26	**7,525**	4,911
Available-for-sale investments	16	**1,136**	–
Investments in associates	17	**614**	–
Total non-current assets		**106,369**	62,123
CURRENT ASSETS			
Inventories	18	**6,878**	4,237
Trade and notes receivables	19	**255,351**	20,022
Prepayments, deposits and other receivables	20	**8,329**	2,984
Available-for-sale investments	21	**3,088**	–
Pledged short-term deposits	22	**392**	202
Cash and cash equivalents	22	**123,857**	136,464
Total current assets		**397,895**	163,909
CURRENT LIABILITIES			
Trade and notes payables	23	**8,154**	4,352
Other payables and accruals	24	**251,925**	30,326
Tax payable		**12,547**	4,493
Government grants	25	**90**	44
Total current liabilities		**272,716**	39,215
NET CURRENT ASSETS		**125,179**	124,694
TOTAL ASSETS LESS CURRENT LIABILITIES		**231,548**	186,817

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2017

	Notes	2017 US$'000	2016 US$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	**342**	447
Government grants	25	**2,887**	2,349
Total non-current liabilities		**3,229**	2,796
Net assets		**228,319**	184,021
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**1,734**	1,692
Reserves	29	**216,075**	175,921
		217,809	177,613
Non-controlling interests		**10,510**	6,408
Total equity		**228,319**	184,021

Zhang Fangliang
Director

Wang Ye
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent									
	Share capital *US$'000 (note 27)*	Share premium* *US$'000 (note 27)*	Merger reserves* *US$'000*	Share option reserve* *US$'000 (note 28)*	Statutory surplus reserve* *US$'000*	Retained earnings* *US$'000*	Exchange fluctuation reserves* *US$'000*	Total *US$'000*	Non-controlling interests *US$'000*	Total equity *US$'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 year	–	–	–	–	–	26,123	–	26,123	882	27,005
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	–	12,480	12,480	336	12,816
Total comprehensive income for the year	–	–	–	–	–	26,123	12,480	38,603	1,218	39,821
Acquisition of equity by minority shareholders	–	(1,463)	–	–	–	–	–	(1,463)	3,202	1,739
Purchases of minority shareholders' equity	–	(55)	–	–	–	–	–	(55)	(318)	(373)
Equity-settled share option arrangements	–	–	–	2,811	–	–	–	2,811	–	2,811
Exercise of share options	42	4,237	–	(1,344)	–	–	–	2,935	–	2,935
Dividend distribution	–	–	–	–	–	(2,635)	–	(2,635)	–	(2,635)
Transfer from retained earnings	–	–	–	–	2,289	(2,289)	–	–	–	–
At 31 December 2017	1,734	120,770	(20,883)	10,936	11,536	93,228	488	217,809	10,510	228,319

* These reserve accounts comprise the consolidated reserves of US$216,075,000 (For the year ended 31 December 2016: US$175,921,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2017

	Attributable to owners of the parent									
	Share capital *US$'000 (note 27)*	Share premium* *US$'000 (note 27)*	Merger reserves* *US$'000*	Share option reserve* *US$'000 (note 28)*	Statutory surplus reserve* *US$'000*	Retained earnings* *US$'000*	Exchange fluctuation reserves* *US$'000*	Total *US$'000*	Non-controlling interests *US$'000*	Total equity *US$'000*
At 1 January 2016	1,600	106,655	(20,883)	8,361	6,417	48,689	(1,591)	149,248	–	149,248
Profit for the year	–	–	–	–	–	26,170	–	26,170	365	26,535
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(10,401)	(10,401)	(245)	(10,646)
Total comprehensive income for the year	–	–	–	–	–	26,170	(10,401)	15,769	120	15,889
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	6,288	6,288
Issuance of shares under the over-allotment option	60	10,024	–	–	–	–	–	10,084	–	10,084
Share issuance expenses	–	(517)	–	–	–	–	–	(517)	–	(517)
Equity-settled share option arrangements	–	–	–	1,836	–	–	–	1,836	–	1,836
Exercise of share options	32	1,889	–	(728)	–	–	–	1,193	–	1,193
Transfer from retained earnings	–	–	–	–	2,830	(2,830)	–	–	–	–
At 31 December 2016	1,692	118,051	(20,883)	9,469	9,247	72,029	(11,992)	177,613	6,408	184,021

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		38,521	32,509
Adjustments for:			
Provision provided for trade receivables and other receivables		546	529
Write-down of inventories to net realisable value	18	304	505
Depreciation of property, plant and equipment	12	6,465	4,964
Amortisation of other intangible assets	15	352	255
Amortisation of prepaid land lease payments	13	183	171
Loss on disposal of items of property, plant and equipment	6	260	90
Interest income		(857)	(276)
Investment income		(131)	–
Share of losses of associates		39	–
Finance costs	7	–	10
Equity-settled share option expense		2,811	1,836
		48,493	40,593
Increase in trade and notes receivables		(235,875)	(2,519)
(Increase)/decrease in prepayments, deposits and other receivables		(5,296)	6,502
Increase in inventories		(2,945)	(1,223)
Decrease in government grants		(66)	(42)
Increase in trade and notes payables		3,802	806
Increase/(decrease) in other payables and accruals		218,596	(3,965)
Receipts in pledged		(190)	–
Cash generated from operations		26,519	40,152
Interest received		857	276
Income taxes paid		(6,008)	(7,153)
Net cash flows from operating activities		21,368	33,275

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale investments		(4,224)	–
Purchases of items of property, plant and equipment		(29,215)	(8,553)
Purchases of prepaid land lease payments		(2,173)	–
Proceeds from disposal of items of property, plant and equipment		134	–
Purchases of intangible assets		(583)	(428)
Receipt of government grants		505	595
Investment income		131	–
Acquisition of a subsidiary by capital injection		–	71
Purchases of a shareholding in an associate		(653)	–
Purchases of minority shareholders' equity		(373)	–
Net cash flows used in investing activities		(36,451)	(8,315)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		2,935	11,277
Acquisition of equity by minority shareholders		1,739	–
Share issuance expenses		–	(1,543)
Repayment of bank loans		–	(1,237)
Interest paid		–	(10)
Dividends paid		(2,635)	–
Net cash flows from financing activities		2,039	8,487
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(13,044)	33,447
Net foreign exchange differences		437	(703)
Cash and cash equivalents at beginning of year	22	136,464	103,720
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	123,857	136,464
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		72,951	85,361
Non-pledged time deposits with original maturity of less than three months when acquired		50,906	51,103
Cash and cash equivalents as stated in the statement of financial position	22	123,857	136,464
Cash and cash equivalents as stated in the statement of cash flows		123,857	136,464

1. CORPORATE INFORMATION

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

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the manufacture and sale of life sciences research products and services. The services and products mainly include bio-science services and products, industrial synthetic biology products and precision immune-cell therapy. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 December 2015.

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

Information about subsidiaries

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

Company	Place and date of incorporation/ registration and place of business	Issued ordinary shares/ paid-up capital	Percentage of equity interest attributable to the Company		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$ 88,020,000	–	100	Manufacture and sale of life sciences research products and services
Genscript USA Incorporated ("GS USA")	United States of America 26 March 2009	US$1,000	100	–	Manufacture and sale of life sciences research products and services
Jinsikang Technology (Nanjing) Co., Ltd. ("Nanjing Jinsikang")	China 30 April 2009	RMB 132,550,600	–	100	Manufacture and sale of life sciences research products and services
Genscript Japan Inc.	Japan 7 July 2011	JPY 8,300,000	–	100	Sale of life sciences research products and services
Nanjing Bestzyme Bioengineering Co., Ltd.	China 6 June 2013	US$ 30,178,743	–	92.59	Manufacture and sale of life sciences research products and services

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Company	Place and date of incorporation/ registration and place of business	Issued ordinary shares/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
Nanjing Legend Biotechnology Co., Ltd.	China 17 November 2014	US$ 2,500,000	–	84.84	Manufacture and sale of life sciences research products and services
Shanghai Jingrui Biotechnology Co., Ltd.	China 6 March 2015	RMB 5,000,000	–	100	Manufacture and sale of life sciences research products and services
Jinan Nornoon Biological Engineering Co., Ltd. ("Jinan Nornoon")	China 19 August 2009	RMB 24,648,000	–	53.3	Manufacture and sale of life sciences research products and services
Jiangsu Genscript Biotech Co., Ltd.	China 31 August 2016	US$ 22,000,000	–	100	Manufacture and sale of life sciences research products and services
Legend Biotech USA Incorporated	United States of America 31 August 2017	–	–	84.84	Manufacture 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 year or formed a substantial portion of the net assets of the Company and its subsidiaries (the "Group"). To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014–2016 Cycle	Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
HKFRS 17	*Insurance Contracts*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements 2015–2017 Cycle	Amendments to a number of HKFRSs

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

Currently, there are three categories of financial assets, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments. The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets at fair value through profit or loss and loans and receivables. The Group expects to apply the option to present all of the available-for-sale financial investments at fair value through profit or loss. For the available-for-sale financial investments stated at cost less any impairment losses, the Group does not expect any significant changes in the carrying amount as at 1 January 2018 even though the different measurement model will be introduced upon the initial adoption of the standard.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables, other receivables and finance lease receivables. Furthermore, the Group will apply the general approach for its loans and receivables. Under general approach, the Group recognises a loss allowance based on either twelve-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The Group does not expect any significant changes in the provision for impairment upon the initial adoption of the standard.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Impairment (Continued)

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. Moreover, the expected changes in accounting policies, will not have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group is a life sciences research and application service and product provider. The services and products include (i) bio-science services and products, (ii) industrial synthetic biology products, and (iii) precision immune-cell therapy. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(a) Variable consideration on service and products of precision immune-cell therapy

Legend Biotech USA Inc., Legend Biotech Ireland Limited, (together "Legend") are subsidiaries of the Company. On 21 December 2017, Legend and Janssen Biotech, Inc. ("Janssen"), entered into a collaboration and license agreement (the "agreement") in the development, manufacture and commercialization of a chimeric antigen receptor (CAR) T-cell drug. After signing this agreement, Janssen needs to make a non-refundable upfront payment to Legend and agrees to make further subsequent payments based on various milestones including various clinical trial achievements and regulatory approvals. Currently, the Group recognises revenue from the license and service measured at fair value of the consideration received or receivable. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty is resolved. Under HKFRS 15, a transaction price is considered variable if a customer is provided with milestone payments. The Group is required to estimate the amount of consideration to which it will be entitled in the sales of license and service and the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group has decided to use the most likely amount method to estimate the milestone payment as this method better predicts the amount of variable consideration to which the Group will be entitled. The Group has estimated that, when it adopts HKFRS 15, an adjustment to increase revenue for milestone payment by US$4 million will be recorded as an adjustment to the opening balance of retained earnings at 1 January 2018, with a corresponding increase in contract assets. The Group expects that the constraint on recognition of variable consideration may result in more revenue being deferred.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

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

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

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

Research and development costs

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

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

Leases

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Available-for-sale investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Available-for-sale investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

(a) from the rendering of services, when the services have been rendered and it is probable that the economic benefits will flow to the Group and the relevant fees can be measured reliably;

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

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

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

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension schemes

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

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

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgement

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

Withholding tax arising from the distribution of dividends

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

Estimation uncertainty

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

The estimates used in the recognition of license and collaboration revenue

The Group analyses agreement with more than one element, or deliverable. The Group identifies the deliverables within the agreement and evaluate which deliverables represent separate units of accounting. Analysing the agreement to identify deliverables requires the use of judgement. A deliverable is considered a separate unit of accounting when deliverable has value to the collaborator licensee on a standalone basis based on the consideration of the relevant facts and circumstances for each agreement. In assessing whether an item has standalone value, the Group considers factors such as the research, manufacturing, and commercialization capabilities of the collaboration partner and the availability of the associated expertise in the general marketplace. In addition, the Group considers whether the other deliverables can be used for their intended purpose without the receipt of the remaining elements, whether the value of the deliverable is dependent on the undelivered items and whether there are other vendors that can provide the undelivered elements.

Consideration is allocated at the inception of the agreement to all identified units of accounting based on their relative selling price. The relative selling price for each deliverable is estimated using objective evidence if it is available. If objective evidence is not available, the Group use best estimate of the selling price for the deliverable. The Group recognises the revenue allocated to each unit of accounting over the period of performance or at a point in time. Revenue is recognised using either a proportional performance or straight line method, depending on whether the Group can reasonably estimate the level of effort required to complete the performance obligations under an arrangement. The license and collaboration revenue for the year ended 31 December 2017 was US$18,348,000 (2016: Nil).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The outcome of their actual utilisation may be different. The carrying value of deferred tax assets relating to recognised deductible temporary differences at 31 December 2017 was US$7,525,000 (2016: US$4,911,000). The amount of unrecognised tax losses at 31 December 2017 was US$1,817,000 (2016: US$1,939,000). Further details are contained in note 26 to the financial statements.

Income tax

The Group is subject to income taxes in various regions. As a result, certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised. The income tax expense for the year ended 31 December 2017 was US$11,516,000 (2016: US$5,974,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment losses over the period in which such estimate has been changed. At 31 December 2017, the provision for impairment of trade and other receivables was US$1,636,000 (2016: US$1,090,000).

Useful lives of property, plant and equipment

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

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at each reporting date. At 31 December 2017, the net carrying value of inventories was US$6,878,000 (2016: US$4,237,000).

Share-based compensation

The fair value of most share options granted by the Group is estimated using the binomial model. The use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Management estimates expected volatility based on the historical volatility of the stock of comparable companies. Expiration date is the basis for determining the expected life of an option. The risk-free interest rate is based on treasury yield curve rates with a remaining term which approximates to the expected life assumed at the date of grant. Changes in these input variables would affect the amount of expense associated with share-based compensation. The compensation expense recognised for all share-based awards is net of estimated forfeitures. The Company estimates forfeiture rates based on historical analysis of option forfeitures. If actual forfeitures vary from estimated forfeitures, adjustments to compensation expense may be required. For the year ended 31 December 2017, the equity-settled share option expense was US$2,811,000 (2016: US$1,836,000).

4. OPERATING SEGMENT INFORMATION

In light of the reduction in size of life sciences research catalogue products and preclinical drug development services business, the segment information previously presented under "life sciences research catalogue products" segment and "preclinical drug development services" segment have been reclassified to the "life sciences research services" segment from 1 January 2017 onwards. The "life sciences research services" segment was renamed to "bio-science services and products" segment at the same time. In addition, in light of the increase in size of the Group's precision immune-cell therapy business, a new segment has been added from 1 January 2017 onwards. Both in the internal management reports adopted by the chief operating decision-makers, and in the consolidated financial statements of the Group. The comparative figures have also been reclassified to conform to the new presentation. The above changes in segment information were taken to better reflect the current operations of the Group, as well as the resource allocation and future business developments of the Group.

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

(a) Bio-science services and products combines the three previous segments, namely, life sciences research services, life sciences research catalogue products, and preclinical drug development services. Under the life sciences research services sub-segment, it provides comprehensive research services in six key categories, namely, gene synthesis, oligonucleotide synthesis, DNA sequencing, protein production, peptide synthesis, and antibody development. Under the life sciences research catalogue products sub-segment, it provides pre-packaged, ready-to-use, and off-the-shelf products. Under the preclinical drug development services sub-segment, it provides integrated contract research services in three key categories, namely, antibody and protein engineering;

(b) Precision immune-cell therapy, was initially generated from the company's proprietary antibody development platform. It discovers and develops the innovative therapies for the treatment of liquid tumour through optimised CAR structures and the development of bispecific CAR-T therapies;

(c) Industrial synthetic biology products, comprising the construction of non-pathogenic microbial strains and industrial enzyme development and production.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource 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.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2017

	Bio-science services and products *US$'000*	Precision immune-cell therapy *US$'000*	Industrial synthetic biology products *US$'000*	Total *US$'000*
Segment revenue				
External customers	122,512	18,348	11,789	152,649
Segment results	83,003	18,348	3,240	104,591
Other income and gains				6,386
Selling and distribution expenses				(24,908)
Administrative expenses				(40,094)
Other expenses				(7,415)
Share of losses of associates				(39)
Profit before tax				38,521

Year ended 31 December 2016

	Bio-science services and products *US$'000*	Precision immune-cell therapy *US$'000*	Industrial synthetic biology products *US$'000*	Total *US$'000*
Segment revenue				
External customers	107,731	–	7,004	114,735
Segment results	74,210	–	2,019	76,229
Other income and gains				7,745
Selling and distribution expenses				(20,867)
Administrative expenses				(30,429)
Other expenses				(159)
Finance costs				(10)
Profit before tax				32,509

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographic information

(a) Revenue from external customers

	2017 US$'000	2016 US$'000
United States of America	**85,834**	61,421
China	**30,810**	21,735
Europe	**20,153**	18,181
Asia Pacific (excluding China and Japan)	**7,797**	7,899
Japan	**4,634**	3,927
Others	**3,421**	1,572
Total	**152,649**	114,735

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

(b) Non-current assets

	2017 US$'000	2016 US$'000
China	**97,878**	56,670
Other countries	**966**	542
Total	**98,844**	57,212

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

Information about major customers

Revenue of approximately US$18,348,000 (2016: Nil) was derived from sales by the immunotherapy treatment technology segment to a single customer, Janssen Biotech, Inc.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2017	2016
	US$'000	*US$'000*
Revenue		
Rendering of services	**115,289**	102,397
Sale of goods	**19,012**	12,338
License and collaboration revenue	**18,348**	–
	152,649	114,735
Other income and gains		
Foreign currency exchange gain, net	**–**	5,878
Government grants	**4,272**	1,492
Debt relief	**1,058**	–
Bank interest income	**857**	276
Investment income	**131**	–
Others	**68**	99
	6,386	7,745

6. PROFIT BEFORE TAX

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

	Notes	2017 US$'000	2016 US$'000
Cost of inventories sold		**2,655**	1,922
Cost of services provided		**20,487**	15,552
Depreciation of items of property, plant and equipment	12	**6,465**	4,964
Amortisation of other intangible assets*	15	**352**	255
Amortisation of prepaid land lease payments	13	**183**	171
Provision for impairment of trade receivables	19	**546**	658
Reversal of provision for impairment of other receivables	20	**–**	(129)
Minimum lease payments under operating leases:			
– Land and buildings		**1,767**	1,250
Auditors' remuneration		**374**	399
Employee benefit expense (excluding directors' remuneration):			
Wages and salaries		**43,340**	38,359
Pension scheme contributions (defined contribution schemes)		**3,256**	4,156
Equity-settled share option expense		**2,774**	1,361
		49,370	43,876
Research and development costs		**18,055**	9,467
Foreign currency exchange loss		**7,338**	–
Loss on disposal of items of property, plant and equipment		**260**	90
Write-down of inventories to net realisable value		**304**	505

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

7. FINANCE COSTS

	2017 *US$'000*	2016 *US$'000*
Interest on bank loans	–	10

8. DIRECTORS' REMUNERATION

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

	2017 *US$'000*	2016 *US$'000*
Fee	128	124
Other emoluments:		
Salaries, allowances and benefits in kind	894	797
Performance related bonuses	31	257
Equity-settled share option expense	37	475
Pension scheme contributions	12	12
	974	1,541
	1,102	1,665

(a) Independent non-executive directors

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

	2017 *US$'000*	2016 *US$'000*
Mr. Guo Hongxin	32	31
Mr. Dai Zumian	32	31
Ms. Zhang Min	32	31
	96	93

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive director

	Fees *US$'000*	Salaries, allowances and benefits in kind* *US$'000*	Performance related bonuses *US$'000*	Equity-settled share option expense *US$'000*	Pension scheme contributions *US$'000*	Total remuneration *US$'000*
2017						
Executive directors:						
Mr. Zhang Fangliang	–	312	–	–	6	318
Ms. Wang Ye	–	483	–	–	–	483
Mr. Meng Jiange	–	99	31	37	6	173
	–	894	31	37	12	974
Non-executive director:						
Mr. Pan Yuexin	32	–	–	–	–	32
2016						
Executive directors:						
Mr. Zhang Fangliang	–	283	104	–	6	393
Ms. Wang Ye	–	421	122	421	–	964
Mr. Meng Jiange	–	93	31	54	6	184
	–	797	257	475	12	1,541
Non-executive director:						
Mr. Pan Yuexin	31	–	–	–	–	31

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2016: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017	2016
	US$'000	*US$'000*
Salaries, allowances and benefits in kind	**716**	397
Performance related bonuses	**203**	60
Equity-settled share option expense	**21**	10
	940	467

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

	Number of employees	
	2017	2016
HK$1,000,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$3,000,000	**2**	1
	3	2

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

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

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

Nanjing Bestzyme and Jinan Nornoon are qualified as High and New Technology Enterprise. Both of them were subject to income tax at a preferential tax rate of 15% for the reporting period.

	2017	2016
	US$'000	*US$'000*
Current – China	**4,136**	4,937
Current – Elsewhere	**10,005**	3,062
Deferred	**(2,625)**	(2,025)
Total tax charge for the year	**11,516**	5,974

10. INCOME TAX (CONTINUED)

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

	2017	2016
	US$'000	*US$'000*
Profit before tax	**38,521**	32,509
At the PRC's statutory income tax rate of 25%	**9,630**	8,127
Effect of tax rate differences in other countries	**3,815**	427
Preferential income tax rates applicable to subsidiaries	**(2,847)**	(3,084)
Effect on opening deferred tax of decrease in rates	**453**	–
Effect of withholding tax on the distributable profit of subsidiaries	**1,579**	135
Additional deductible allowance for research and development expenses	**(1,866)**	(589)
Effect of non-deductible expenses	**926**	547
Tax losses not recognised	**314**	475
Tax losses utilised from previous years	**(406)**	–
Others	**(82)**	(64)
Tax charge at the Group's effective rate	**11,516**	5,974

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,714,343,224 (2016: 1,667,244,523) in issue during the year, as adjusted to reflect the rights issue during the year.

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

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

	2017	2016
	US$'000	*US$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**26,123**	26,170

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,714,343,224**	1,667,244,523
Effect of dilution – weighted average number of ordinary shares:		
Share options	**14,375,400**	41,796,461
	1,728,718,624	1,709,040,984

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings *US$'000*	Machinery and equipment *US$'000*	Motor vehicles *US$'000*	Computer and office equipment *US$'000*	Construction in progress *US$'000*	Total *US$'000*
31 December 2017						
At 31 December 2016 and at 1 January 2017:						
Cost	31,125	29,675	450	3,995	1,968	67,213
Accumulated depreciation and impairment	(3,328)	(17,258)	(189)	(2,703)	–	(23,478)
Net carrying amount	27,797	12,417	261	1,292	1,968	43,735
At 1 January 2017, net of accumulated depreciation and impairment	27,797	12,417	261	1,292	1,968	43,735
Additions	745	499	–	69	40,098	41,411
Disposals	(21)	(92)	(7)	(14)	(260)	(394)
Depreciation provided during the year	(1,215)	(4,320)	(50)	(880)	–	(6,465)
Exchange realignment	1,760	578	16	(74)	(59)	2,221
Transfers	676	10,423	97	1,831	(13,027)	–
At 31 December 2017, net of accumulated depreciation and impairment	29,742	19,505	317	2,224	28,720	80,508
At 31 December 2017:						
Cost	34,525	37,602	568	5,782	28,720	107,197
Accumulated depreciation and impairment	(4,783)	(18,097)	(251)	(3,558)	–	(26,689)
Net carrying amount	29,742	19,505	317	2,224	28,720	80,508

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings *US$'000*	Machinery and equipment *US$'000*	Motor vehicles *US$'000*	Computer and office equipment *US$'000*	Construction in progress *US$'000*	Total *US$'000*
31 December 2016						
At 31 December 2015 and at 1 January 2016:						
Cost	29,259	22,032	311	3,269	1,875	56,746
Accumulated depreciation and impairment	(2,241)	(14,508)	(153)	(2,125)	–	(19,027)
Net carrying amount	27,018	7,524	158	1,144	1,875	37,719
At 1 January 2016, net of accumulated depreciation and impairment	27,018	7,524	158	1,144	1,875	37,719
Additions	459	28	–	4	6,491	6,982
Acquisition of a subsidiary	3,127	2,786	32	183	505	6,633
Disposals	(9)	(24)	–	(1)	(56)	(90)
Depreciation provided during the year	(1,002)	(3,272)	(39)	(651)	–	(4,964)
Exchange realignment	(1,840)	(498)	(10)	(56)	(141)	(2,545)
Transfers	44	5,873	120	669	(6,706)	–
At 31 December 2016, net of accumulated depreciation and impairment	27,797	12,417	261	1,292	1,968	43,735
At 31 December 2016:						
Cost	31,125	29,675	450	3,995	1,968	67,213
Accumulated depreciation and impairment	(3,328)	(17,258)	(189)	(2,703)	–	(23,478)
Net carrying amount	27,797	12,417	261	1,292	1,968	43,735

13. PREPAID LAND LEASE PAYMENTS

	2017	2016
	US$'000	*US$'000*
Carrying amount at 1 January	**7,955**	7,746
Acquisition of a subsidiary	**–**	911
Additions	**2,173**	–
Recognised	**(183)**	(171)
Exchange realignment	**466**	(531)
Carrying amount at end of year	**10,411**	7,955
Current portion included in prepayments, deposits and other receivables	**(222)**	(173)
Non-current portion	**10,189**	7,782

At 31 December 2017, the directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned leasehold lands. All the land-use rights of the Group are located in China and are held on leases of 50 years.

14. GOODWILL

	2017	2016
	US$'000	*US$'000*
Cost at 1 January	**1,384**	–
Acquisition of a subsidiary	**–**	1,448
Exchange realignment	**86**	(64)
Cost and net carrying amount at 31 December	**1,470**	1,384

14. GOODWILL (CONTINUED)

Impairment testing of goodwill

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

- *Industrial synthetic biology products*

  The recoverable amount of the industrial synthetic biology products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12.8% (2016: 12.8%). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 0% (2016: 0%), which is the same as the long term growth rate of the industry.

  Assumptions were used in the value in use calculation of the industrial synthetic biology products cash-generating unit for 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

15. OTHER INTANGIBLE ASSETS

	Software *US$'000*	Patents and licenses *US$'000*	Customer relationship *US$'000*	Total *US$'000*
31 December 2017				
Cost at 1 January 2017, net of accumulated amortisation	**786**	**1,202**	**142**	**2,130**
Additions	**343**	**240**	**–**	**583**
Amortisation provided during the year *(note 6)*	**(202)**	**(135)**	**(15)**	**(352)**
Exchange realignment	**41**	**57**	**8**	**106**
At 31 December 2017	**968**	**1,364**	**135**	**2,467**
At 31 December 2017:				
Cost	**1,730**	**1,592**	**158**	**3,480**
Accumulated amortisation	**(762)**	**(228)**	**(23)**	**(1,013)**
Net carrying amount	**968**	**1,364**	**135**	**2,467**
31 December 2016				
Cost at 1 January 2016, net of accumulated amortisation	874	27	–	901
Additions	95	333	–	428
Acquisition of a subsidiary	–	953	156	1,109
Amortisation provided during the year *(note 6)*	(177)	(70)	(8)	(255)
Exchange realignment	(6)	(41)	(6)	(53)
At 31 December 2016	786	1,202	142	2,130
At 31 December 2016:				
Cost	1,317	1,274	149	2,740
Accumulated amortisation	(531)	(72)	(7)	(610)
Net carrying amount	786	1,202	142	2,130

16. AVAILABLE-FOR-SALE INVESTMENTS

	2017 US$'000	2016 US$'000
Unlisted equity investments, at cost	1,136	–

The above investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2017, certain unlisted equity investments with a carrying amount of US$1,136 were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

17. INVESTMENTS IN ASSOCIATES

	2017 US$'000	2016 US$'000
Share of net assets	614	–

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 US$'000	2016 US$'000
Share of the associates' loss for the year	(39)	–
Share of the associates' total comprehensive loss	(39)	–
Share of net assets	614	–

18. INVENTORIES

	2017	2016
	US$'000	*US$'000*
Raw materials	**3,109**	1,892
Work in progress	**1,756**	1,437
Finished goods	**3,169**	1,760
	8,034	5,089
Less: Provision for inventories	**(1,156)**	(852)
	6,878	4,237

Inventory provision of US$304,000 was recognised for the year ended 31 December 2017 (2016: US$505,000). Inventory provision has been included in "cost of sales" in the consolidated statement of profit or loss.

19. TRADE AND NOTES RECEIVABLES

	2017	2016
	US$'000	*US$'000*
Trade receivables	**255,156**	20,037
Notes receivable	**1,806**	1,050
	256,962	21,087
Less: Impairment of trade receivables	**(1,611)**	(1,065)
	255,351	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.

19. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	Total *US$'000*
At 1 January 2017	**1,065**
Impairment losses recognised	**634**
Impairment losses reversed	**(88)**
At 31 December 2017	**1,611**
At 1 January 2016	1,109
Acquisition of a subsidiary	185
Impairment losses recognised	658
Amount written off as uncollectible	(887)
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.

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

	2017 ***US$'000***	2016 *US$'000*
Within 3 months	**250,841**	16,948
3 months to 6 months	**2,100**	1,081
6 months to 12 months	**610**	837
Over one year	**1,605**	1,171
	255,156	20,037

19. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	2017	2016
	US$'000	*US$'000*
Neither past due nor impaired	**243,061**	11,294
Less than 3 months past due	**9,180**	6,356
Over 3 months past due	**1,304**	1,322
	253,545	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. Notes receivable of approximately US$628,000 were endorsed as at 31 December 2017 (2016: Nil). A subsidiary has pledged notes receivable of approximately US$295,000 (2016: US$375,000) to secure a credit limit up to US$3,826,000 (2016: US$2,162,000) from a bank.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	US$'000	*US$'000*
VAT recoverable *(i)*	**3,399**	344
Prepayments	**3,122**	1,475
Other receivables	**878**	664
Prepaid expense	**322**	371
Advance to employees	**633**	155
	8,354	3,009
Less: Impairment of other receivables	**(25)**	(25)
	8,329	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.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

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

	Individually impaired *US$'000*
At 1 January 2017	**25**
Impairment losses reversed	**–**
At 31 December 2017	**25**
At 1 January 2016	143
Acquisition of a subsidiary	11
Impairment losses reversed	(129)
At 31 December 2016	25

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

	2017 ***US$'000***	2016 *US$'000*
Neither past due nor impaired	**8,329**	2,984

21. AVAILABLE-FOR-SALE INVESTMENTS

	2017 ***US$'000***	2016 *US$'000*
Investments in financial products, at fair value	**3,088**	–

On 9 October 2017, the Company purchased a financial product from Pingan Bank, which has a fixed maturity date on 4 January 2018, and a floating coupon rate.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017	2016
	US$'000	*US$'000*
Cash and bank balances	**123,857**	136,464
Pledged short-term deposits	**392**	202
	124,249	136,666
Less: Pledged short-term deposits:		
Pledged for letters of credit	**(202)**	(202)
Pledged for notes payable	**(190)**	–
Cash and cash equivalents	**123,857**	136,464
Denominated in US$	**103,387**	64,832
Denominated in HKD	**1,072**	53,169
Denominated in RMB	**15,534**	16,727
Denominated in EUR	**2,318**	932
Denominated in JPY	**503**	503
Denominated in GBP	**1,043**	301
Cash and cash equivalents	**123,857**	136,464

At the end of the year, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$15,534,000 (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 and notes payable. 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.

23. TRADE AND NOTES PAYABLES

	2017 US$'000	2016 US$'000
Trade payables	7,047	4,304
Notes payable	1,107	48
	8,154	4,352

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

	2017 US$'000	2016 US$'000
Within 3 months	6,432	4,068
3 months to 6 months	122	78
6 months to 12 months	105	112
Over 1 year	388	46
	7,047	4,304

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

24. OTHER PAYABLES AND ACCRUALS

	2017 US$'000	2016 US$'000
Deferred revenue *(note)*	209,152	–
Payables for purchases of machinery and construction of buildings	14,615	2,638
Accrued payroll	9,746	13,182
Advances from customers	9,188	7,516
Other payables	4,641	3,713
Accrued expenses	3,120	2,105
Taxes payable other than corporate income tax	1,463	1,172
	251,925	30,326

Note: Deferred revenue represents deferred license and collaboration revenue, which will be amortised over the service period.

25. GOVERNMENT GRANTS

	2017 US$'000	2016 US$'000
At 1 January	2,393	1,965
Grants received during the year	505	595
Amount released	(66)	(42)
Exchange realignment	145	(125)
At end of year	2,977	2,393
Current	90	44
Non-current	2,887	2,349
	2,977	2,393

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

26. DEFERRED TAX

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation *US$'000*	**Fair value adjustments arising from acquisition of a subsidiary** *US$'000*	**Withholding tax** *US$'000*	**Total** *US$'000*
At 1 January 2017	**37**	**316**	**131**	**484**
Deferred tax credited to the statement of profit or loss during the year	**11**	**6**	**(135)**	**(118)**
Exchange realignment	**–**	**20**	**4**	**24**
Gross deferred tax liabilities at 31 December 2017	**48**	**342**	**–**	**390**
At 1 January 2016	55	–	–	55
Acquisition of a subsidiary	–	328	–	328
Deferred tax credited to the statement of profit or loss during the year	(18)	3	135	120
Exchange realignment	–	(15)	(4)	(19)
Gross deferred tax liabilities at 31 December 2016	37	316	131	484

26. DEFERRED TAX (CONTINUED)

Deferred tax assets

	Accrued expenses *US$'000*	Decelerated depreciation for tax purposes *US$'000*	Impairment of assets *US$'000*	Unrealised profit from intercompany transactions *US$'000*	Government grants *US$'000*	Total *US$'000*
At 1 January 2017	**2,401**	**827**	**1,123**	**238**	**359**	**4,948**
Deferred tax credited to the statement of profit or loss during the year	**(1,131)**	**(852)**	**(210)**	**4,636**	**64**	**2,507**
Exchange realignment	**48**	**25**	**21**	**–**	**24**	**118**
Gross deferred tax assets at 31 December 2017	**1,318**	**–**	**934**	**4,874**	**447**	**7,573**
At 1 January 2016	950	621	623	303	295	2,792
Acquisition of a subsidiary	131	–	30	–	–	161
Deferred tax credited to the statement of profit or loss during the year	1,385	254	485	(65)	86	2,145
Exchange realignment	(65)	(48)	(15)	–	(22)	(150)
Gross deferred tax assets at 31 December 2016	2,401	827	1,123	238	359	4,948

26. DEFERRED TAX (CONTINUED)

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

	2017	2016
	US$'000	*US$'000*
Net deferred tax liabilities recognised in the consolidated statement of financial position	**342**	447
Net deferred tax assets recognised in the consolidated statement of financial position	**7,525**	4,911

The Group has tax losses arising in Hong Kong of US$65,000 (2016: US$109,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group has tax losses arising in Mainland China of US$1,752,000 (2016: US$1,830,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

	2017	2016
	US$'000	*US$'000*
Tax losses	**1,817**	1,939

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

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

27. SHARE CAPITAL AND SHARE PREMIUM

Shares

	31 December 2017 *US$'000*	31 December 2016 *US$'000*
Authorised:		
Ordinary shares of US$0.001 each	**5,000**	5,000
Issued and fully paid:		
Ordinary shares of US$0.001 each	**1,734**	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 2016	1,600,000,000	1,600	106,655	108,255
Issuance of shares under the over-allotment option	60,000,000	60	10,024	10,084
Share options exercised	31,861,775	32	1,889	1,921
Share issue expenses	–	–	(517)	(517)
At 31 December 2016 and 1 January 2017	**1,691,861,775**	**1,692**	**118,051**	**119,743**
Acquisition of equity by minority shareholders	**–**	**–**	**(1,463)**	**(1,463)**
Purchases of minority shareholders' equity	**–**	**–**	**(55)**	**(55)**
Share options exercised	**41,744,412**	**42**	**4,237**	**4,279**
At 31 December 2017	**1,733,606,187**	**1,734**	**120,770**	**122,504**

28. 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 dates from 25 April 2019 to 25 April 2024 and an exercise price of HK$3.512. The expiration date of the options granted is 10 years after the grant date.

On 11 October 2017, under the Company's Post-IPO share option scheme adopted on 7 December 2015, 11,650,000 share options to subscribe for an aggregate of 11,650,000 ordinary shares of US$0.001 each of the Company were granted to 30 employees with vesting dates from 31 December 2019 to 31 December 2024 and an exercise price of HK$8.330. The expiration date of the options granted is 10 years after the grant date.

On 20 November 2017, under the Company's Post-IPO share option scheme adopted on 7 December 2015, 9,280,000 share options to subscribe for an aggregate of 9,280,000 ordinary shares of US$0.001 each of the Company were granted to 20 employees with vesting dates from 31 December 2019 to 31 December 2023 and an exercise price of HK$9.350. The expiration date of the options granted is 10 years after the grant date.

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

The following share options were outstanding during the year:

	2017		2016	
	Weighted average exercise price *US$ per share*	**Number of options *'000***	Weighted average exercise price *US$ per share*	Number of options *'000*
At 1 January	**0.0883**	**282,861**	0.0718	302,261
Granted during the year	**0.7421**	**48,480**	0.2469	20,778
Forfeited during the year	**0.2452**	**(4,011)**	0.0806	(8,316)
Exercised during the year	**0.0679**	**(41,745)**	0.0374	(31,862)
At 31 December	**0.1996**	**285,585**	0.0883	282,861

28. SHARE OPTION SCHEME (CONTINUED)

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

31 December 2017 Number of options exercisable *'000*	Exercise price* *US$ per share*	Exercise period
1,612	0.0026	2008/05/12–2019/12/31
86	0.0046	2009/07/03–2019/07/31
136	0.0072	2008/09/26–2019/07/31
1,603	0.0103	2010/12/31–2018/01/15
225	0.0139	2011/12/08–2019/07/31
904	0.0154	2013/12/31–2019/12/20
987	0.0206	2012/12/31–2018/10/08
4,588	0.0257	2010/12/31–2019/12/31
194	0.0515	2013/08/10–2025/07/31
68,016	0.0617	2014/12/31–2025/07/31
59,092	0.0772	2010/12/31–2025/07/31
54,742	0.1029	2011/07/15–2025/07/31
117	0.1552	2016/06/22–2026/06/21
400	0.3102	2016/09/23–2026/09/22
192,702		

28. SHARE OPTION SCHEME (CONTINUED)

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

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

The fair value of the share options granted during the year was US$16,816,584 (US$0.347 each) (2016: US$2,210,304, US$0.106 each), of which the Group recognised a share option expense of US$2,811,000 (2016: US$1,836,000) during the year ended 31 December 2017.

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

	2017	2016
Dividend yield *(%)*	**–**	–
Expected volatility *(%)*	**40–42**	42–43
Risk-free interest rate *(%)*	**1.35–1.71**	0.93–1.15
Expected life of options *(year)*	**10**	10
Weighted average share price *(HK$ per share)*	**3.45–9.33**	1.18–2.30

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.

28. SHARE OPTION SCHEME (CONTINUED)

At 31 December 2017, the Company had 285,584,890 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 285,584,896 additional ordinary shares of the Company, an additional share capital of approximately US$285,585 and a share premium of approximately US$56,725,990 (before issue expenses).

At the date of approval of these financial statements, the Company had 193,907,015 share options outstanding under the share option scheme, which represented approximately 11.2% of the Company's shares in issue as at that date.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 123 to 124 of the financial statements.

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

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

30. PLEDGE OF ASSETS

Details of the Group's notes receivable pledged for the Group's bank drafts issued to several suppliers are included in note 19 to the financial statements.

31. OPERATING LEASE COMMITMENTS

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

	2017	2016
	US$'000	*US$'000*
Within one year	**1,359**	1,024
In the second to fifth years, inclusive	**2,146**	2,734
After five years	**28**	–
	3,533	3,758

32. CAPITAL COMMITMENTS

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

	2017 *US$'000*	2016 *US$'000*
Contracted, but not provided for:		
Plant and machinery	**32,615**	4,016

33. RELATED PARTY TRANSACTIONS

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

Company	Relationship
Chongyang Jinrui Rabbit Breeding Limited ("Jinrui Rabbit")	An entity controlled by an immediate family member of the controlling shareholder
Anhui Tianda Precision Biotechnology Co., Ltd ("Tianda Precision").	Associate
Hunan Gomeet Biotechnology Co., Ltd. ("Gomeet")	Associate

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

	Notes	2017 *US$'000*	2016 *US$'000*
Purchases of raw materials from Jinrui Rabbit	(i)	**11**	18
Purchases of raw materials from Tianda Precision	(i)	**914**	–
Sales of products to Gomeet	(i)	**137**	–

Note:

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

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties:

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

(i) Due to related parties

	2017	2016
	US$'000	*US$'000*
Tianda Precision	**107**	–
Jinrui Rabbit	**–**	1
	107	1

(ii) Due from related parties

	2017	2016
	US$'000	*US$'000*
Tianda Precision	**545**	–
Gomeet	**141**	–
	686	–

The balances are unsecured, interest-free and have no fixed terms of repayment.

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

	2017	2016
	US$'000	*US$'000*
Short-term employee benefits	**1,855**	1,777
Pension scheme contributions	**30**	23
Equity-settled share option expense	**77**	541
Total compensation paid to key management personnel	**1,962**	2,341

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

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

34. OTHER MATTERS

On October 19, 2017, Nanjing Jinbai L.P. made a capital contribution to Nanjing Bestzyme Bioengineering Co., Ltd. ("**Nanjing BSJ**") at the amount of RMB15,718,000. After the capital contribution, the Company's shareholding percentage in Nanjing BSJ was diluted from 100% to 92.59%. On the same day, AquaPoint L.P. acquired 1,516,000 shares of Legend Biotech Corporation ("**Legend Cayman**") from the Company at the consideration of RMB3,790,000. After the acquisition, the Company's shareholding percentage in Legend Cayman was diluted from 100% to 84.84%. Each of BSJ Nanjing and Legend Cayman has become a non-wholly owned subsidiary of the Company.

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

As at 31 December 2017

Financial assets

	Loans and receivables *US$'000*
Trade and notes receivables	**255,351**
Financial assets included in prepayments, deposits and other receivables	**853**
Cash and cash equivalents	**123,857**
Pledged short-term deposits	**392**
	380,453

Financial liabilities

	Financial liabilities at amortised cost *US$'000*
Trade and notes payables	**8,154**
Financial liabilities included in other payables and accruals	**22,086**
	30,240

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

As at 31 December 2016

Financial assets

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

Financial liabilities

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 3% (2016: 4%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales, whilst approximately 2% (2016: 2%) of costs were denominated in currencies other than the units' functional currencies.

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

	Increase/ (decrease) in rate of foreign currency *%*	**Increase/ (decrease) in profit before tax** *US$'000*
Year ended 31 December 2017		
If US$ strengthens against RMB	**5**	**584**
If US$ weakens against RMB	**(5)**	**(584)**
Year ended 31 December 2016		
If US$ strengthens against RMB	5	2,726
If US$ weakens against RMB	(5)	(2,726)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 19 and 20 to the financial statements.

Liquidity risk

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

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

Year ended 31 December 2017

	On demand *US$'000*	Less than 3 months *US$'000*	3 to 12 months *US$'000*	1 to 5 years *US$'000*	Over 5 years *US$'000*	Total *US$'000*
Trade and notes payables	517	7,637	–	–	–	8,154
Other payables and accruals	3,120	18,966	–	–	–	22,086
	3,637	26,603	–	–	–	30,240

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Year ended 31 December 2016

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

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

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

	2017 ***US$'000***	2016 *US$'000*
Total liabilities	**275,945**	42,011
Total assets	**504,264**	226,032
Gearing ratio	**54.7%**	18.6%

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017	2016
	US$'000	*US$'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**80,892**	46,082
CURRENT ASSETS		
Trade and notes receivables	**50**	–
Due from subsidiaries	**4,010**	31,520
Prepayments, deposits and other receivables	**38**	128
Cash and cash equivalents	**51,964**	53,012
Total current assets	**56,062**	84,660
CURRENT LIABILITIES		
Due to subsidiaries	**9,019**	7,753
Other payables and accruals	**216**	245
Total current liabilities	**9,235**	7,998
NET CURRENT LIABILITIES	**46,827**	76,662
TOTAL ASSETS LESS CURRENT LIABILITIES	**127,719**	122,744
Net assets	**127,719**	122,744
EQUITY		
Share capital	**1,734**	1,692
Reserves *(note)*	**125,985**	121,052
Total equity	**127,719**	122,744

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

Note:

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

	Share premium *US$000*	Share option reserve *US$'000*	Accumulated losses *US$'000*	Total *US$'000*
At 1 January 2016	106,655	8,361	(5,616)	109,400
Total comprehensive loss for the year	–	–	(852)	(852)
Issuance of shares under the over-allotment option	10,024	–	–	10,024
Share options exercised	1,889	(728)	–	1,161
Share issuance expenses	(517)	–	–	(517)
Equity-settled share option arrangements	–	1,836	–	1,836
At 31 December 2016 and 1 January 2017	**118,051**	**9,469**	**(6,468)**	**121,052**
Total comprehensive loss for the year	**–**	**–**	**(771)**	**(771)**
Share issuance expenses	**4,237**	**(1,344)**	**–**	**2,893**
Equity-settled share option arrangements	**–**	**2,811**	**–**	**2,811**
At 31 December 2017	**122,288**	**10,936**	**(7,239)**	**125,985**

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 March 2018.

GENSCRIPT BIOTECH CORPORATION

金斯瑞生物科技股份有限公司*