Genscript Biotech Corporation
金斯瑞生物科技股份有限公司 *
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1548)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

ANNUAL RESULTS HIGHLIGHTS

- For the year ended December 31, 2018, the revenue of the Group was approximately US$231.0 million, representing an increase of 51.4% as compared with approximately US$152.6 million for the year ended December 31, 2017.

- For the year ended December 31, 2018, the gross profit increased by 51.5% from approximately US$104.6 million in 2017 to approximately US$158.5 million.

- For the year ended December 31, 2018, the profit of the Group decreased by 23.0% from approximately US$27.0 million in 2017 to approximately US$20.8 million. The adjusted net profit (excluding share-based payment expenses) was approximately US$29.6 million, representing a decrease of 0.7% from approximately US$29.8 million in 2017. During the Reporting Period, the Group invested significantly into research and development activities to strengthen its technical cutting edge and also into the talent pools, both of which are key drivers for a sustainable business growth in the long run and a more robust foundation for growth in the future. For the year ended December 31, 2018, the Group's research and development expense was approximately US$74.1 million, representing an increase of 309% as compared with approximately US$18.1 million for the year ended December 31, 2017, in which the research and development expense in connection with the cell therapy segment was approximately US$52.1 million for the year ended December 31, 2018.

- For the year ended December 31, 2018, profit attributable to owners of the Company decreased by 18.8% from approximately US$26.1 million in 2017 to approximately US$21.2 million. The adjusted net profit attributable to owners of the Company (excluding share-based payment expenses) was approximately US$30.1 million, representing an increase of 4.2% from approximately US$28.9 million in 2017.

The board of directors (the "**Directors**") (the "**Board**") of Genscript Biotech Corporation (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2018 (the "**Reporting Period**" or the "**Year**"), together with the comparative figures for the year 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended December 31,	
		2018	2017
	Notes	***US$'000***	*US$'000*
REVENUE	*4*	**231,017**	152,649
Cost of sales		**72,478**	48,058
Gross profit		**158,539**	104,591
Other income and gains	*4*	**18,941**	6,386
Selling and distribution expenses		**(38,771)**	(24,908)
Administrative expenses		**(40,582)**	(22,039)
Impairment losses on financial and contract assets,net		**(977)**	–
Research and development expenses		**(74,076)**	(18,055)
Other expenses		**(121)**	(7,415)
Finance costs	*6*	**(52)**	–
Share of losses of associates		**(201)**	(39)
PROFIT BEFORE TAX	*5*	**22,700**	38,521
Income tax expense	*7*	**(1,941)**	(11,516)
PROFIT FOR THE YEAR		**20,759**	27,005
Attributable to:			
Owners of the parent		**21,216**	26,123
Non-controlling interests		**(457)**	882
		20,759	27,005
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	*9*	**US1.18 cents**	US1.52 cents
Diluted	*9*	**US1.15 cents**	US1.51 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31, **2018** *US$'000*	2017 *US$'000*
PROFIT FOR THE YEAR	**20,759**	27,005
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(13,498)**	12,816
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	**(13,498)**	12,816
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(11)**	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(11)**	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(13,509)**	12,816
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**7,250**	39,821
Attributable to:		
Owners of the parent	**8,471**	38,603
Non-controlling interests	**(1,221)**	1,218
	7,250	39,821

CONSOLIDATED BALANCE SHEET

		Year ended December 31,	
		2018	2017
	Notes	***US$'000***	*US$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**158,013**	80,508
Advance payments for property, plant and equipment		**4,037**	2,460
Prepaid land lease payments	*11*	**17,414**	10,189
Goodwill	*12*	**15,287**	1,470
Other intangible assets	*13*	**19,642**	2,467
Investment in associates	*16*	**2,924**	614
Financial assets at fair value through profit or loss	*14*	**3,405**	–
Equity investments designated at fair value through other comprehensive income	*15*	**4,949**	–
Available-for-sale investments	*15*	**–**	1,136
Deferred tax assets	*26*	**11,842**	7,525
Total non-current assets		**237,513**	106,369
CURRENT ASSETS			
Inventories	*17*	**12,429**	6,878
Trade and notes receivables	*18*	**67,843**	255,351
Prepayments, other receivables and other assets	*19*	**21,889**	8,329
Financial assets at fair value through profit or loss	*14*	**70,056**	–
Available-for-sale investments	*14*	**–**	3,088
Pledged short-term deposits	*20*	**12,688**	392
Cash and cash equivalents	*20*	**494,558**	123,857
Total current assets		**679,463**	397,895

		Year ended December 31,	
		2018	2017
	Notes	***US$'000***	*US$'000*
CURRENT LIABILITIES			
Trade and bills payables	*21*	**11,187**	8,154
Other payables and accruals	*22*	**73,944**	251,925
Interest-bearing bank borrowings	*23*	**10,502**	–
Tax payable		**16,766**	12,547
Contract liabilities	*24*	**41,018**	–
Government grants	*25*	**98**	90
Total current liabilities		**153,515**	272,716
NET CURRENT ASSETS		**525,948**	125,179
TOTAL ASSETS LESS CURRENT LIABILITIES		**763,461**	231,548
NON-CURRENT LIABILITIES			
Contract liabilities	*24*	**262,127**	–
Deferred tax liabilities	*26*	**4,017**	342
Government grants	*25*	**4,018**	2,887
Total non-current liabilities		**270,162**	3,229
NET ASSETS		**493,299**	228,319
EQUITY			
Equity attributable to owners of the parent			
Share capital	*27*	**1,836**	1,734
Reserves		**476,828**	216,075
Non-controlling interests		**14,635**	10,510
Total equity		**493,299**	228,319

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2018

	Attributable to owners of the parent										
	Share capital *US$'000*	Share premium* *US$'000*	Merger reserve* *US$'000*	Share option reserves* *US$'000*	Statutory surplus earnings* *US$'000*	Fair value reserve* *US$'000*	Retained earnings* *US$'000*	Exchange fluctuation reserve* *US$'000*	Total *US$'000*	Non-controlling interests *US$'000*	Total equity *US$'000*
At January 1, 2018	1,734	120,770	(20,883)	10,936	11,536	–	93,228	488	217,809	10,510	228,319
Effect of adoption of HKFRS 15	–	–	–	–	–	–	933	–	933	167	1,100
At January 1, 2018 (restated) (Note 2)	1,734	120,770	(20,883)	10,936	11,536	–	94,161	488	218,742	10,677	229,419
Profit for the year	–	–	–	–	–	–	21,216	–	21,216	(457)	20,759
Other comprehensive income for the period:											
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	(11)	–	–	(11)	–	(11)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(12,734)	(12,734)	(764)	(13,498)
Total comprehensive income for the year	–	–	–	–	–	(11)	21,216	(12,734)	8,471	(1,221)	7,250
Purchases of minority interest of the subsidiary	–	(297)	–	–	–	–	–	–	(297)	4,221	3,924
Acquisition of equity by minority shareholders	–	399	–	–	–	–	–	–	399	–	399
Equity-settled share option arrangements	–	–	–	8,852	–	–	–	–	8,852	–	8,852
Exercise of share options	33	3,479	–	(833)	–	–	–	–	2,679	–	2,679
Share repurchased	(6)	(11,469)	–	–	–	–	–	–	(11,475)	–	(11,475)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	958	958
Transfer from retained profits	–	–	–	–	2,823	–	(2,823)	–	–	–	–
Issue of shares under the share placing option	75	251,218	–	–	–	–	–	–	251,293	–	251,293
At December 31, 2018	1,836	364,100	(20,883)	18,955	14,359	(11)	112,554	(12,246)	478,664	14,635	493,299

* These reserve accounts comprise the consolidated reserves of US$476,828,000 (For the year ended December 31, 2017: US$216,075,000) in the consolidated statement of financial position.

Year ended December 31, 2017

	Attributable to owners of the parent									
	Share capital *US$'000*	Share premium* *US$'000*	Merger reserve* *US$'000*	Share option reserves* *US$'000*	Statutory surplus earnings* *US$'000*	Retained earnings* *US$'000*	Exchange fluctuation reserve* *US$'000*	Total *US$'000*	Non-controlling interests *US$'000*	Total equity *US$'000*
At January 1, 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 period:										
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 profits	–	–	–	–	2,289	(2,289)	–	–	–	–
At December 31, 2017	1,734	120,770	(20,883)	10,936	11,536	93,228	488	217,809	10,510	228,319

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Year ended December 31, 2018 *US$'000*	2017 *US$'000*
Net cash flows from operating activities	**295,412**	21,368
Net cash flows used in investing activities	**(181,666)**	(36,451)
Net cash flows from financing activities	**257,273**	2,039
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**371,019**	(13,044)
Net foreign exchange difference	**(318)**	437
Cash and cash equivalents at beginning of year	**123,857**	136,464
CASH AND CASH EQUIVALENTS AT END OF YEAR	**494,558**	123,857

NOTES:

1. GENERAL INFORMATION

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

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

The Group is a well-recognized 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 cell therapeutic solutions. The services and products include (i) bio-science services and products, (ii) biologics development services, (iii) industrial synthetic biology products, and (iv) cell therapy.

These consolidated financial statements are presented in United States dollars ("**US$**"), unless otherwise stated, and were approved for issue by the Board on March 22, 2019.

2. BASIS OF PREPARATION

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. They have been prepared under the historical cost convention, except for wealth management products and equity investments which have been measured at fair value. These financial statements are presented in United States dollars ("**US$**") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2. Changes in accounting policy and disclosures

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for HKFRS 15, the adoption of the above revised standards has had no significant financial effect on these financial statements.

HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 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 Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at January 1, 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at January 1, 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at January 1, 2018 as a result of the adoption of HKFRS 15:

	Increase/ (decrease) *US$'000*
Liabilities	
Contract liabilities	(1,930)
Tax payable	830
Total current liabilities	**(1,100)**
Equity	
Retained earnings	933
Non-controlling interests	167
Total equity	**1,100**

3. SEGMENT INFORMATION

The segment information for the year ended December 31, 2018, is as follows:

	Bio-science services and products *US$'000*	**Biologics development services** *US$'000*	**Industrial synthetic biology products** *US$'000*	**Cell therapy** *US$'000*	**Total** *US$'000*
Segment sales	**141,026**	**20,655**	**17,730**	**51,606**	**231,017**
Segment cost of sales	**45,437**	**11,826**	**15,215**	**–**	**72,478**
Segment gross profit	**95,589**	**8,829**	**2,515**	**51,606**	**158,539**

The segment information for the year ended December 31, 2017, is as follows:

	Bio-science services and products *US$'000*	Biologics development services *US$'000*	Industrial synthetic biology products *US$'000*	Cell therapy *US$'000*	Total *US$'000*
Segment sales	109,216	13,296	11,789	18,348	152,649
Segment cost of sales	32,477	7,032	8,549	–	48,058
Segment gross profit	76,739	6,264	3,240	18,348	104,591

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Revenue		
Rendering of services	**150,500**	115,289
License and collaboration revenue	**51,606**	18,348
Sale of goods	**28,911**	19,012
	231,017	152,649
Other income and gains		
Bank interest income	**10,004**	857
Foreign currency exchange gain, net	**3,959**	–
Government grants	**3,598**	4,272
Fair value gains on financial assets at fair value change through profit or loss	**1,295**	–
Investment income	**–**	131
Others	**85**	68
Debt relief	**–**	1,058
	18,941	6,386

5. PROFIT BEFORE TAX

		Year ended December 31,	
		2018	2017
	Notes	***US$'000***	*US$'000*
Cost of inventories sold		**6,726**	2,655
Cost of services provided		**36,148**	20,487
Depreciation of items of property plant and equipment	*10*	**11,122**	6,465
Amortization of other intangible assets*	*13*	**1,582**	352
Amortization of prepaid land lease payments	*11*	**230**	183
Impairment of financial and contract assets, net:			
Impairment of trade receivables		**968**	546
Impairment of financial assets included in prepayments, other receivables and other assets		**9**	–
Minimum lease payments under operating leases:			
Land and buildings		**1,655**	1,767
Auditors' remuneration		**505**	374
Employee benefit expenses (excluding directors' remuneration):			
Wages and salaries		**75,160**	43,340
Pension scheme contributions (defined contribution schemes)		**7,437**	3,256
Equity-settled share option expense		**8,652**	2,774
		91,249	49,370
Research and development costs (excluding employee benefit expenses)		**57,821**	13,573
Foreign currency exchange (gain)/loss		**(3,959)**	7,338
Loss on disposal of items of property, plant and equipment		**18**	260
Write-down of inventories to net realizable value		**388**	304

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

6. FINANCE COSTS

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Interest on bank loans	**52**	–

7. INCOME TAX EXPENSE

	Year ended December 31, 2018 US$'000	2017 US$'000
Current income tax expense – China	**961**	4,136
Current income tax expense – Elsewhere	**5,318**	10,005
Deferred income tax expense	**(4,338)**	(2,625)
Income tax expense	**1,941**	11,516

8. DIVIDENDS

	Year ended December 31, 2018 US$'000	2017 US$'000
Dividends on ordinary shares during the year	**-**	-

The Board has resolved not to recommend the payment of final dividend for the year ended December 31, 2018 (for the year ended December 31, 2017: Nil).

9. 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 1,792,336,607 (2017: 1,714,343,224) in issue during the year.

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

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

	Year ended December 31, 2018 US$'000	2017 US$'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**21,216**	26,123
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,792,336,607**	1,714,343,224
Effect of dilution – weighted average number of ordinary shares:		
Share options	**47,278,259**	14,375,400
	1,839,614,866	1,728,718,624

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *US$'000*	Machinery and equipment *US$'000*	Motor vehicles *US$'000*	Computer and office equipment *US$'000*	Construction in progress *US$'000*	Total *US$'000*
At December 31, 2017, and at January 1, 2018:						
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**
At January 1, 2018, net of accumulated depreciation and impairment	**29,742**	**19,505**	**317**	**2,224**	**28,720**	**80,508**
Acquisition of subsidiaries	**–**	**–**	**–**	**43**	**–**	**43**
Additions	**29,820**	**89**	**–**	**135**	**60,830**	**90,874**
Disposals	**–**	**(17)**	**–**	**(1)**	**–**	**(18)**
Depreciation provided during the year	**(2,576)**	**(7,096)**	**(57)**	**(1,393)**	**–**	**(11,122)**
Exchange realignment	**(1,388)**	**(766)**	**(13)**	**(81)**	**(24)**	**(2,272)**
Transfers	**13,934**	**27,409**	**43**	**2,068**	**(43,454)**	**–**
At December 31, 2018, net of accumulated depreciation and impairment	**69,532**	**39,124**	**290**	**2,995**	**46,072**	**158,013**
At December 31, 2018:						
Costs	**76,514**	**62,540**	**583**	**7,842**	**46,072**	**193,551**
Accumulated depreciation and impairment	**(6,982)**	**(23,416)**	**(293)**	**(4,847)**	**–**	**(35,538)**
Net carrying amount	**69,532**	**39,124**	**290**	**2,995**	**46,072**	**158,013**

	Land and buildings US$'000	Machinery and equipment US$'000	Motor vehicles US$'000	Computer and office equipment US$'000	Construction in progress US$'000	Total US$'000
At December 31, 2016, and at January 1, 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 January 1, 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 December 31, 2017, net of accumulated depreciation and impairment	29,742	19,505	317	2,224	28,720	80,508
At December 31, 2017:						
Costs	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

11. PREPAID LAND LEASE PAYMENTS

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Carrying amount at January 1,	**10,411**	7,955
Additions	**8,104**	2,173
Recognized	**(230)**	(183)
Exchange realignment	**(479)**	466
Carrying amount at end of year	**17,806**	10,411
Current portion included in prepayments, deposits and other receivables	**(392)**	(222)
Non-current portion	**17,414**	10,189

As at December 31, 2018, the directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned leasehold lands. All the land-use rights of the Group are located in China and are held on leases of 50 years.

12. GOODWILL

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Cost at January 1,	**1,470**	1,384
Acquisition of a subsidiary	**13,888**	–
Exchange realignment	**(71)**	86
Cost and net carrying amount at December 31,	**15,287**	1,470

Impairment testing of goodwill

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

The recoverable amount of the bio-science services and 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 16%~23%. The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 0%~3%, which is the same as the long-term growth rate of the industry.

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 16% (2017: 12.8%). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 3% (2017: 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 three cash-generating unit for December 31, 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

13. OTHER INTANGIBLE ASSETS

	Software	Patents and licenses	Customer relationship	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
December 31, 2018				
Cost at January 1, 2018, net of accumulated amortization	**968**	**1,364**	**135**	**2,467**
Acquisition of subsidiaries	**–**	**18,263**	**–**	**18,263**
Additions	**335**	**331**	**–**	**666**
Amortization provided during the year	**(370)**	**(1,197)**	**(15)**	**(1,582)**
Exchange realignment	**(49)**	**(116)**	**(7)**	**(172)**
At December 31, 2018	**884**	**18,645**	**113**	**19,642**
At December 31, 2018				
Cost	**1,927**	**20,114**	**151**	**22,192**
Accumulated amortization	**(1,043)**	**(1,469)**	**(38)**	**(2,550)**
Net carrying amount	**884**	**18,645**	**113**	**19,642**
December 31, 2017				
Cost at January 1, 2017, net of accumulated amortization	786	1,202	142	2,130
Additions	343	240	–	583
Amortization provided during the year	(202)	(135)	(15)	(352)
Exchange realignment	41	57	8	106
At December 31, 2017	968	1,364	135	2,467
At December 31, 2017				
Cost	1,730	1,592	158	3,480
Accumulated amortization	(762)	(228)	(23)	(1,013)
Net carrying amount	968	1,364	135	2,467

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE INVESTMENTS

	Year ended December 31, **2018**	2017
	US$'000	*US$'000*
Financial assets at fair value through profit or loss		
Unlisted equity investments, at fair value	**3,405**	–
Investment in financial products, at fair value	**70,056**	–
	73,461	–
Available-for-sale investments		
Investment in financial products, at fair value	**–**	3,088

15. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	Year ended December 31, **2018**	2017
	US$'000	*US$'000*
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**4,949**	–
Available-for-sale investments		
Unlisted equity investments, at cost	**–**	1,136

16. INVESTMENTS IN ASSOCIATES

	Year ended December 31, **2018**	2017
	US$'000	*US$'000*
Share of net assets	**2,924**	614

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	Year ended December 31, **2018**	2017
	US$'000	*US$'000*
Share of the associates' loss for the year	**(201)**	(39)
Share of the associates' total comprehensive loss	**(201)**	(39)
Aggregate carrying amount of the Group's investments in the associates	**2,924**	614

17. INVENTORIES

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Raw materials	**4,445**	3,109
Work in progress	**2,922**	1,756
Finished goods	**6,606**	3,169
	13,973	8,034
Less: Provision for inventories	**(1,544)**	(1,156)
	12,429	6,878

18. TRADE AND NOTES RECEIVABLES

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Trade receivables	**67,999**	255,156
Notes receivable	**2,429**	1,806
	70,428	256,962
Less: Impairment of trade receivables	**(2,585)**	(1,611)
	67,843	255,351

As at December 31, 2018 and 2017, the ageing analysis of the trade receivables based on invoice date was as follows:

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Within 3 months	**59,692**	250,841
3 to 6 months	**2,829**	2,100
6 to 12 months	**720**	610
Over 12 months	**4,758**	1,605
	67,999	255,156

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
VAT recoverable	**6,891**	3,399
Prepayments	**5,713**	3,122
Interest receivable	**6,071**	–
Other receivables	**1,811**	878
Prepaid expense	**1,048**	322
Advance to employees	**389**	633
	21,923	8,354
Less: Impairment of other receivables	**(34)**	(25)
	21,889	8,329

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Cash and bank balances	**494,558**	123,857
Pledged short-term deposits	**12,688**	392
Less: Pledged for letters of credit	**–**	(202)
Pledged for short term bank loans	**(11,004)**	–
Pledged for notes payable	**(1,684)**	(190)
Cash and cash equivalents	**494,558**	123,857

21. TRADE AND BILLS PAYABLES

	Year ended December 31, 2018 US$'000	2017 US$'000
Trade payables	**9,547**	7,047
Notes payable	**1,640**	1,107
	11,187	8,154

As at December 31, 2018 and 2017, the ageing analysis of the trade payables based on invoice date is as follows:

	Year ended December 31, 2018 US$'000	2017 US$'000
Within 3 months	**9,364**	6,432
3 to 6 months	**57**	122
6 to 12 months	**56**	105
Over 1 year	**70**	388
	9,547	7,047

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

22. OTHER PAYABLES AND ACCRUALS

	Year ended December 31, 2018 US$'000	2017 US$'000
Deferred revenue	**–**	209,152
Payables for purchases of machinery and construction of buildings	**22,817**	14,615
Accrued payroll	**12,852**	9,746
Advances from customers	**11,742**	9,188
Other payables	**2,366**	4,641
Accrued expenses	**23,631**	3,120
Taxes payable other than corporate income tax	**536**	1,463
	73,944	251,925

23. INTEREST-BEARING BANK BORROWINGS

	Year ended December 31,					
	2018			2017		
	Effective interest rate (%)	**Maturity**	***US$'000***	Effective interest rate (%)	Maturity	*US$'000*
Current						
Bank loans – secured	**0.1**	**2019**	**9,919**	–	–	–
Bank loans – unsecured	**6.6**	**2019**	**583**	–	–	–
			10,502			–

24. CONTRACT LIABILITIES

Details of contract liabilities as at December 31, 2018 and January 1, 2018 are as follows:

	December 31, 2018	January 1, 2018
	US$'000	*US$'000*
Non-current contract liabilities		
License and collaboration revenue	**262,127**	160,039
Current contract liabilities		
License and collaboration revenue	**41,018**	47,183
Total contract liabilities	**303,145**	207,222

Contract liabilities include advances received to provide services in service period. The increase in contract liabilities in 2018 was mainly due to the increase amounts received from customers in relation to the provision of services at the end of the year.

25. GOVERNMENT GRANTS

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
At January 1	**2,977**	2,393
Grants received during the year	**1,594**	505
Amount released	**(320)**	(66)
Exchange realignment	**(135)**	145
At end of year	**4,116**	2,977
Current	**98**	90
Non-current	**4,018**	2,887
	4,116	2,977

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

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	Fair value adjustments arising from acquisition of a subsidiary	Withholding tax	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
At January 1, 2018	**48**	**342**	**–**	**390**
Acquisition of a subsidiary	**6**	**3,884**	**–**	**3,890**
Deferred tax credited to the statement of profit or loss during the year	**(8)**	**(196)**	**–**	**(204)**
Exchange realignment	**–**	**(13)**	**–**	**(13)**
Gross deferred tax liabilities at December 31, 2018	**46**	**4,017**	**–**	**4,063**
At January 1, 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 December 31, 2017	48	342	–	390

Deferred tax assets

	Accrued expense US$'000	Decelerated depreciation for tax purposes US$'000	Impairment of assets US$'000	Unrealised profit from intercompany transactions US$'000	Government grants US$'000	Losses available for offsetting against future taxable profits US$'000	Total US$'000
At January 1, 2018	**1,318**	**–**	**934**	**4,874**	**447**	**–**	**7,573**
Acquisition of a subsidiary	**–**	**–**	**1**	**–**	**–**	**267**	**268**
Deferred tax credited to the statement of profit or loss during the year	**(184)**	**106**	**347**	**3,202**	**196**	**467**	**4,134**
Exchange realignment	**(33)**	**(3)**	**(17)**	**–**	**(26)**	**(8)**	**(87)**
Gross deferred tax assets at December 31, 2018	**1,101**	**103**	**1,265**	**8,076**	**617**	**726**	**11,888**
At January 1, 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 December 31, 2017	1,318	–	934	4,874	447	–	7,573

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:

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Net deferred tax liabilities recognized in the consolidated statement of financial position	**4,017**	342
Net deferred tax assets recognized in the consolidated statement of financial position	**11,842**	7,525

27. SHARE CAPITAL AND SHARE PREMIUM

	Year ended December 31,	
	2018	2017
	US$'000	*US$'000*
Authorized:		
Ordinary shares of US$0.001 each	**5,000**	5,000
Issued and fully paid:		
Ordinary shares of US$0.001 each	**1,836**	1,734

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

	Number of shares in issue	**Share capital**	**Share premium**	**Total**
		US$'000	*US$'000*	*US$'000*
At January 1, 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 December 31, 2017 and January 1, 2018	1,733,606,187	1,734	120,770	122,504
Purchases of minority interest of the subsidiary	**–**	**–**	**(297)**	**(297)**
Acquisition of equity by minority shareholders	**–**	**–**	**399**	**399**
Issue of shares under the share placing option	**75,000,000**	**75**	**251,218**	**251,293**
Share repurchase	**(6,278,000)**	**(6)**	**(11,469)**	**(11,475)**
Share options exercised	**33,094,890**	**33**	**3,479**	**3,512**
At December 31, 2018	**1,835,423,077**	**1,836**	**364,100**	**365,936**

POSITIONING OF THE COMPANY

The Group is a well-established global biotech company. Our mission "Make the Humankind and Nature Healthier through Biotechnology" has been deeply imprinted into our DNA. Over the past 16 years of our corporate development, we have successfully established a business platform based on advanced and proprietary technologies and know-hows. We have built and maintained a world-wide leading gene synthesis technology and achieved high protein and antibody engineering competences. Our business footprint has been spread throughout 100 countries worldwide with our operational hubs located in the United States, mainland China, Hong Kong, Japan, Netherlands and Ireland. Our workforce has increased to over 2,600 headcounts by the end of 2018. Our professional team is committed and devoted to serving our global customers.

The bio-science services and products segment serves as a strong and stable revenue generating foundation for the entire corporate. Starting as a gene synthesis company, we have kept the position as one of the world's largest molecular biology CRO (Contract Research Organization) companies with capabilities ranging from gene synthesis to biologics drug discovery, development and manufacturing (CDMO, contract development and manufacturing organization). Our bio-science services and products business has been a source of creative new technologies that have contributed to the development and expansion of our business portfolio. The bio-science services and products segment serves pharmaceutical, biotech, government and academic customers worldwide. We are proud of ourselves for our contribution to the advancement of science and the fact that our services and products have been cited in over 35,200 international peer reviewed journal articles as of December 31, 2018.

Legend Biotech Corporation ("**Legend**") is one of the subsidiary companies of the GenScript family. It was developed from our internal gene manipulation and antibody engineering capabilities. It has taken us to a whole new space with its proprietary CAR-T technology and clinical cell therapy programs. Working closely with our collaborators at Janssen Biotech, Inc. ("**Janssen**"), we have recently begun a Phase 1b/2 clinical trial in the United States. In China, Legend has been given the approval to move forward on a confirmative clinical trial with its innovative LCAR-B38M product targeting the relapsed and refractory multiple myeloma. We intend to conduct clinical trials and commercial development in China, the United States and Europe. Legend has invested heavily in team building in 2018 with the goal of solidifying our position by hiring senior level managers and professionals to make up the core of the Legend's management team. We aim to transform Legend into a world-class bio-pharmaceutical company.

Bestzyme Biotech Corporation and its subsidiaries make up the Bestzyme Group in the synthetic biology space. The Bestzyme Group uses our advanced enzyme engineering technology to develop products for food processing and feed additive markets. Our long-term goals are of three folds: to improve the quality of people's daily lives, to address environmental problems, and to use enzymes at a large scale in various industry sectors to improve the performance and to reduce costs. We believe synthetic biology offers us new opportunities from both the technical and commercial perspectives, and will lead to continuous and expanded growth.

During the Reporting Period, the Group achieved growth in sales revenue for all business units, and we also invested significantly into research and development activities to strengthen our technical cutting edge and also into the talent pools, both of which are key drivers for a sustainable business growth in the long run. We are fully confident that our persistent efforts on both technical and managerial aspects will be paid off ultimately and will allow us to achieve a better future.

BUSINESS REVIEW

During the Reporting Period, the overall revenue of the Group was approximately US$231.0 million, representing an increase of 51.4% as compared with approximately US$152.6 million for the year ended December 31, 2017. The gross profit was approximately US$158.5 million, representing an increase of 51.5% as compared with approximately US$104.6 million for the year ended December 31, 2017. The increase in both revenue and gross profit was primarily attributable to (i) the significant increase in revenue derived from the biologics business as well as the significant increase in the number of orders and customers subsequent to years of development of both novel antibody drugs and biosimilar development services, 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$20.8 million, representing a decrease of 23.0% as compared with approximately US$27.0 million for the year ended December 31, 2017. The adjusted net profit (excluding share-based payment expenses) was approximately US$29.6 million, representing a decrease of 0.7% from approximately US$29.8 million for the year ended December 31, 2017. The investment into research and development and team building, especially the recruitment of talents with years of industry experience, and capital investment into capacity upgrading contributed to the decrease in profit. Management team believes the investment and measures are well justified and will lay down a more robust foundation for growth in the future.

The profit attributable to owners of the Company was approximately US$21.2 million, representing a decrease of 18.8% as compared with approximately US$26.1 million for the year ended December 31, 2017. The adjusted net profit attributable to owners of the Company (excluding share-based payment expenses) was approximately US$30.1 million, representing an increase of 4.2% from approximately US$28.9 million for the year ended December 31, 2017.

During the Reporting Period, the Company generated approximately US$141.0 million, US$20.7 million, US$17.7 million and US$51.6 million from the four segments, namely, (i) bio-science services and products, (ii) biologics development services, (iii) industrial synthetic biology products, and (iv) cell therapy, representing approximately 61.0%, 9.0%, 7.7% and 22.3% of the total revenue, respectively.

Results Analysis of the Four Business Segments

1. Bio-science services and products

Results

During the Reporting Period, the revenue generated from bio-science services and products was approximately US$141.0 million, representing an increase of 29.1% as compared with approximately US$109.2 million for the year ended December 31, 2017. During the same period, the gross profit was approximately US$95.6 million, representing an increase of 24.6% as compared with approximately US$76.7 million for the year ended December 31, 2017. The increase in both revenue and gross profit was primarily attributable to (i) fully operational Zhenjiang production facility, along with the automated production line of the peptide business, increased production capacity of bio-science business that brought additional steady revenue stream to the segment, (ii) (a) establishment of Genscript Biotech (Netherlands) B.V. ("**GS EU**") to cope with the extensive market investment strategy, (b) reinforcement of the sales team by recruiting more experienced sales persons and engaging them in more exhibitions as well as advertising on diverse media platforms with new packaging launched to enhance brand image and visibility, (c) enhanced implementation of a wide range of user-friendly online services and their continuous upgrades so as to attract new customers and improve customers' loyalty of our services and products, and (iii) continued research and development investment that enabled more competitive new products and services to be launched onto the market, thereby expanding the customer range and reinforcing customers' loyalty, in addition to the enhancement of our core competitiveness.

Development Strategies

The Company intends to (i) continue to upgrade GenSmart, our online gene design tool and integrated ordering system, streamline online experience and secure current position as one of the top providers in the gene synthesis industry, (ii) automate and standardize the production and research and development platform to further improve service and product quality and reproducibility to lead the industrial standard, (iii) develop services and products to satisfy the needs for emerging industries in synthetic biology to generate stable revenue with higher profit margin, (iv) engage in research and development projects with leading professors in academia to gain access into top minds in the field, (v) build a novel platform of protein analysis and protein purification based on magBeads and e-Stain technology to form a complete solution for discovery, development and production of protein and recombinant antibodies, and commercialize the solution to fast growing markets, such as biologics development.

2. *Biologic development service*

Results

During the Reporting Period, the revenue generated from biologic development services was approximately US$20.7 million, representing an increase of 55.6% as compared with approximately US$13.3 million for the year ended December 31, 2017. During the same period, the gross profit was approximately US$8.8 million, representing an increase of 39.7% as compared with approximately US$6.3 million for the year ended December 31, 2017. The increase in both revenue and gross profit was primarily attributable to the consistent development of our competitiveness in antibody drug pre-clinical development and novel antibody drugs and biosimilar development services.

Development strategies

The Company intends to (i) continue to enhance the antibody drug discovery platform by developing and introducing the most advanced technologies, including but not limited to fully-human antibody from transgenic mouse and human naïve library, (ii) exploit the power of single-domain antibody fused to Monoclonal Antibody ("**SMAB**") bi-specific antibody platform through the collaboration with external biopharma or biotech companies and continue the development of in-house new molecules, (iii) increase the capacity in pre-clinical and clinical development through the opening of new GMP facilities for both antibody drug and virus, (iv) establish independent business unit to operate the biologics development business (contract development and manufacturing organization ("**CDMO**")) and keep introducing senior management and research and development talents with international biopharma background, (v) penetrate the market in the United States by extending the business from drug discovery stage to pre-clinical development stage.

3. *Industrial synthetic biology products*

Results

During the Reporting Period, the revenue generated from industrial synthetic biology products was approximately US$17.7 million, representing an increase of 50.0% as compared with approximately US$11.8 million for the year ended December 31, 2017. During the same period, the gross profit was approximately US$2.5 million, representing a decrease of 24.2% as compared with US$3.3 million for the year ended December 31, 2017. The increase in revenue was primarily attributable to (i) the launch of a number of innovative new products and market expansion, primarily due to our professional research and development team and continued research and development investment, (ii) the upgraded market strategy that repositioned the Company from a product seller to a solution provider, resulting in the involvement in customers' projects at the early stage with closer collaboration with customers and wining customers' trust, and (iii) the new fully operational manufacturing facility that improved the quality of products and ensured the stable supply to meet customers' demands.

Development Strategies

The Company intends to apply synthetic biology principles and techniques to modify and improve the industrial enzyme producing microorganisms, enabling microorganisms to produce industrial enzymes with a higher yield and/or better performance properties. It intends to improve enzyme application performance and reduce customer enzyme costs to serve all relevant industries with leading technology. At the same time, the Company intends to produce pharmaceutical intermediates by focusing on enzymatic catalysis to promote the pharmaceutical intermediate enzyme catalytic technology and extend its business field to high-tech and high-profit industries.

4. *Cell therapy*

Results

During the Reporting Period, the revenue generated from cell therapy was approximately US$51.6 million, representing an increase of 182.0% as compared with approximately US$18.3 million for the year ended December 31, 2017. During the same period, the gross profit was approximately US$51.6 million, representing an increase of 182.0% as compared with approximately US$18.3 million for the year ended December 31, 2017. The increase in revenue was primarily attributable to collaboration with Janssen.

During the Year, the clinical trial research of LCAR-B38M in the United States went smoothly and the first milestone has been achieved. Legend Biotech USA Inc. was entitled to a milestone payment in the amount of US$25.0 million. For details, please refer to the Company's announcement dated December 17, 2018. With the collaboration project pushed forward and milestone achieved, it is believed that continuous revenue will be recognized in the following years.

In December 2018, at the American Society of Hematology (ASH) Annual Meeting, an updated analysis of LCAR-B38M phase I data was presented orally. CAR-T cell therapy LCAR-B38M displayed a manageable safety profile consistent with its known mechanism of action and demonstrated deep and durable responses in patients with relapsed or R/R MM. The results showed an overall response rate ("**ORR**") of 88% and a complete response ("**CR**") rate of 74%. A phase 1b/2 study of LCAR-B38M in R/R MM has been initiated in the United States. For details, please refer to the Company's announcement dated December 4, 2018.

Development Strategies

The Company intends to apply antibody discovery, molecular biology and cellular engineering technologies to the discovery and development of immunotherapies with a focus on novel cell therapies for treating hematologic malignancies, solid tumors, autoimmune diseases and infectious diseases.

FINANCIAL REVIEW

	2018	2017	Change
	US$'000	*US$'000*	*US$'000*
Revenue	**231,017**	152,649	78,368
Gross profit	**158,539**	104,591	53,948
Profit after income tax	**20,759**	27,005	(6,246)
Net profit excluding share-based payment expenses	**29,611**	29,816	(205)
Profit attributable to shareholders of the Company	**21,216**	26,123	(4,907)
Profit attributable to shareholders of the Company, excluding share-based payment expenses	**30,068**	28,934	1,134
Earnings per share *(US cent per share)*	**1.18**	1.52	(0.34)

Revenue

In 2018, the Group recorded revenue of US$231.0 million, representing an increase of 51.4% from US$152.6 million in 2017. This was primarily attributable to (i) the significant increase in revenue derived from the biologics business as well as significant increase in the number of orders and customers subsequent to years of development of both novel antibody drugs and biosimilar development services, 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.

Gross Profit

In 2018, the Group's gross profit increased by 51.5% to US$158.5 million from US$104.6 million in 2017. This was primarily attributable to the increase of sales, especially in the cell therapy segment. The gross profit margin of the Group remained stable in 2018.

Selling and distribution expenses

The selling and distribution expenses increased by 55.8% to US$38.8 million in 2018 from US$24.9 million in 2017. This was mainly attributable to (i) enhanced marketing activities including participating in high-profile exhibitions and industry conferences and enhanced advertisements placed to improve the Group's brand image, and (ii) increased investment into the commercial talent pool by recruiting more experienced personnel and improved incentive packages to enable our services and products to be able to penetrate into the key markets and improve the business.

Administrative expenses

In 2018, the administrative expenses increased by 84.5% to US$40.6 million from US$22.0 million in 2017. This was mainly caused by the increased investment into talent pool by recruiting more experienced personnel and improved incentive package to improve the effectiveness and efficiency of management.

Research and development expenses

The research and development expenses increased by 309.4% to US$74.1 million in 2018 from US$18.1 million in 2017.

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, cell therapy segments and novel antibody drugs and biosimilar development, which significantly strengthened our competitiveness in the market and improved our production efficiency.

Income tax expenses

The income tax expenses decreased from US$11.5 million in 2017 to US$1.9 million in 2018. The actual tax rate decreased from 29.9% in 2017 to 8.6% in 2018. The decrease of tax rate in 2018 was mainly caused by the tax reform in the United States and the increased tax credit obtained. The United States federal income tax rate was cut from 34% to 21% during the year, and PRC research and development expenses allowances raised from 50% to 75% for additional reduction for tax purpose; and at the same time, the research and development expense increased significantly by the PRC subsidiaries.

Net profit and unaudited adjusted net profit

Due to the aforementioned reasons, the net annual profit of the Group amounted to US$20.8 million in 2018, representing a decrease of 23.0% from US$27.0 million in 2017. To supplement the consolidated financial statements which are presented in accordance with the HKFRSs, the Group also used the unaudited adjusted net profit as an additional financial measure to evaluate the Group's financial performance by eliminating the impact of items that the Group does not consider indicative of the Group's business performance. The Group's adjusted net profit (excluding share-based payment expenses) was approximately US$29.6 million in 2018, representing a decrease of 0.7% from approximately US$29.8 million for the year ended December 31, 2017.

Trade receivables

	2018	2017
Trade receivables turnover *(day)*	**71**	66

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

Inventories

	2018	2017
Inventory turnover *(day)*	**55**	49

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, 2018, the property, plant and equipment of the Group amounted to US$158.0 million, representing an increase of 96.3% from the property, plant and equipment of US$80.5 million as at December 31, 2017. This was mainly due to the construction of new factories to support the increased scale of production, especially for biologics business as well as cell therapy.

Intangible assets

Intangible assets include software, patents and license. As at December 31, 2018, the Group's net intangible assets amounted to US$19.6 million, representing an increase of 684.0% from US$2.5 million as at December 31, 2017. The increase in intangible assets was mainly due to the patents and licenses obtained through the acquisition.

Working capital and financial resources

As at December 31, 2018, the cash and cash equivalents of the Group amounted to US$494.6 million (2017: US$123.9 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$295.4 million generated from operating activities.

During the Reporting Period, the annual cash outflow used in investing activities of the Group was US$181.7 million. This was mainly due to (i) the purchases of financial assets at fair value through profit or loss in the amount of US$70.0 million, (ii) 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$79.6 million, (iii) the purchases of a shareholding in subsidiaries in the amount of US$27.6 million, (iv) the purchase of equity investments designated at fair value through other comprehensive income in the amount of US$5.0 million, (v) the purchase of investment in associates in the amount of US$1.9 million, (vi) the receipt of government grants of US$1.6 million, and (vii) the investment income of US$0.8 million.

During the Reporting Period, the cash inflow in financing activities of the Group was US$257.3 million. This was mainly due to (i) proceeds from issue of shares amounted to US$251.3 million, (ii) the acquisition of equity by minority shareholders of US$4.6 million, (iii) exercise of share options of US$2.7 million, (iv) proceeds from bank loans of US$10.5 million, (v) share repurchased of US$11.5 million, and (vi) the purchase of minority shareholders' equity in the amount of US$0.3 million.

Capital expenditure and Capital Commitment

During the Reporting Period, the expenditure of purchasing intangible assets, namely software, patents and license, was US$0.7 million, the expenditure of purchasing property, plant and equipment amounted to US$70.8 million and the expenditure of purchasing land use right amounted to US$8.1 million.

Significant investments held, 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 May 11, 2018, the Company's indirect wholly-owned subsidiary, GenScript (Hong Kong) Limited 金斯康(香港)有限公司 and Zhenjiang New Area Administrative Committee* 鎮江新區管理委員會 (the "**Zhenjiang Committee**") entered into the second and third supplemental agreements to the investment agreement dated June 20, 2016 in relation to (i) the lease of a factory for conducting projects on plasmid products, and for providing office and warehouse facilities for gene synthesis services and polypeptide projects in the Zhenjiang Economic and Technical Development Zone* 中國鎮江經濟技術開發區, and (ii) the increase of the total area of reserved land and amendment to the subsidies to be provided by Zhenjiang Committee, respectively. Please refer to the announcements dated June 20, 2016, June 21, 2016, October 20, 2016 and May 13, 2018 for details.

On 15 August 2018, the Company's indirect wholly-owned subsidiary, Bestzyme Biotech HK Limited 香港百斯杰生物科技有限公司 ("**BSJ Hong Kong**"), entered into an agreement and a supplemental agreement with Shandong Shanghe Economic Development Zone Management Committee* 山東商河經濟開發區管理委員會 (the "**Committee**") in relation to the investment in the production and sale of bio-fermentation products in the economic development zone managed by the Committee. Please refer to the announcement dated August 15, 2018 for details.

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

Contingent liabilities and guarantees

As at December 31, 2018, the Group did not have any material contingent liabilities or guarantees.

Charges on group assets

As at December 31, 2018, bank balances of approximately US$11.0 million was pledged by GenScript (Hong Kong) Limited to secure a loan at JPY1.1 billion (equivalent to approximately US$9.9 million).

As at December 31, 2018, bank balances of approximately US$1.7 million was pledged by Nanjing Jinsirui Biotechnology Co., Ltd. and Nanjing Legend Biotech Co., Ltd. for notes payable at approximately US$1.6 million.

As of December 31, 2018, the Group did not have any other charges over its assets.

Current ratio and gearing ratio

As at December 31, 2018, the Group's current ratio (current assets to current liabilities) was approximately 4.4 (as at December 31, 2017: 1.5); and gearing ratio (total liabilities to total assets) was approximately 46.2% (as at December 31, 2017: 54.7%).

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 and short-term deposits with fixed interest rates, the Group has financial products of approximately US$73.5 million related to fair value interest rate risk.

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 of 2018 was a significant one for the United States and China in terms of regulatory innovation, which boosted the progress of biotech and pharmaceutical industries.

The Food and Drug Administration ("**FDA**") of the United States approved 59 novel drugs either as new molecular entities ("**NMEs**") under new drug applications ("**NDAs**") or as new therapeutic biologics under biologics license applications, representing an increase of 28% compared with last year. Among them, 32% (19 NMEs) was identified as first-in-class novel drugs, and 58% (34 NMEs) were approved to treat rare or "Orphan" diseases. But the most magnificent implication, from a regulatory perspective, was that 41% (24 NMEs) were approved through Fast Track Designation while 24% (14 NMEs) upon Breakthrough Designation. Both mechanisms have expedited the FDA review and approval process with the hope to address medical needs and benefit patients and the society. On the other side of the globe, the Chinese government has rolled out favorable policies to shorten anti-cancer drugs approval cycles, and will grant preferred tax policies, such as lowering the VAT ratio to 3% to those drugs treating rare and orphan diseases whenever they are imported or domestically manufactured.

Financially speaking, 2018 was a phenomenal year for biotech financing in terms of investment across the global market. The Stock Exchange of Hong Kong Limited welcomed pre-revenue biotech companies, which instilled vigor into biotech and biopharma companies. In mainland China, the upcoming opening of the Science and Technology Innovation Board at the Shanghai Stock Exchange may also mark a major milestone. As in the merger and acquisition field, followed by the acquisition of one of the major global CAR-T players by one of the leading biopharma companies, valued at US$10 billion in January 2018, the acquisition of such biopharma company by another biopharma company at a record-breaking amount of US$74 billion was announced in early January 2019. The news brought the CAR-T immune-cell therapy under the spotlight again due to its potential to cure a variety of tumors.

The United States Congress has approved a US$2 billion raise in funding, to US$39.1 billion, for the National Institutes of Health ("**NIH**"), a primary agency in the United States, responsible for supporting multidisciplinary biomedical and behavioral research. The raise represented an increase of 5% compared with the budget in 2018, making it the fourth year in a row that NIH has received a substantial increase in its budget.

Future Development Strategies

Looking forward to 2019, 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) Cell therapies – We will put increasing effort to this space. We aim to develop and gain advanced CAR-T, TCR (T cell receptor), and other gene therapy technologies, extend our current autologous platform into allogeneic platform. We intend to target onto hematologic malignancies, solid tumors, infectious diseases, and autoimmune diseases;

   b) Biological drug CDMO service platform – We aim to expand the application of our SMAB platform to provide advanced biologic drugs development services; further expand the GMP production capacity to enable fully integrated biological drug development and manufacturing capability; and

   c) Molecular biology CRO and product offering – 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) Establish cell therapy commercial team in the United States and the China markets to prepare for the necessary procedures and certification with the intention to conduct a global commercial launch of the product of LCAR-B38M;

   b) Further strengthen the collaboration between our CDMO platform with the biotech and biopharma community by providing innovative solutions from both scientific and commercial perspectives;

c) Enhance the penetration into the key accounts through strategic cooperation and to build up long term mutual beneficial relationships; and

d) Further consolidate our leading position on molecular biology services and products market by pushing the boundary into broader life science applications.

iii. We aim to pursue strategic acquisition opportunities for cutting-edge techniques and business entities as they arise in order to complement the existing internal capacity and to speed up the overall growth.

EMPLOYEES

As at December 31, 2018, the Group had a total of approximately 2,620 employees. The Group had entered into employment contracts covering positions, employment conditions and terms, salaries, employees' benefits, responsibilities for breach of contractual obligations and reason for termination with its employees. The remuneration package of the Group's employees includes basic salary, subsidies and other employees' benefits, which are determined with reference to experience, number of years with the Group and other general factors.

USE OF THE NET PROCEEDS FROM LISTING

Net proceeds from the listing of the Company (after deducting the underwriting fee and relevant expenses) amounted to approximately HK$527.3 million (equivalent to US$68.0 million). Such amounts are proposed to be used according to the allocation set out in the prospectus of the Company dated December 17, 2015 (the "**Prospectus**"). For the year ended December 31, 2018, the use of net proceeds from the listing is set out as follows:

Item	**Unutilized amount as at January 1, 2018**	**Utilized amount during the Reporting Year**	**Unutilized amount as at December 31, 2018**
	US$ million	*US$ million*	*US$ million*
Enhance information technology capability	0.2	0.2	–
Acquire interests in or business of companies to complement existing operations	2.2	2.2	–
Reinforce the sales and marketing team	7.2	7.2	–
Supplement working capital and for general corporate purposed	6.8	6.8	–
Total	**16.4**	**16.4**	**–**

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, 2018.

CORPORATE GOVERNANCE PRACTICES

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

Save as the deviation from code provision A.2.1 of the CG Code, the Company has complied with the applicable code provisions as set out in the CG Code during the year ended December 31, 2018, and up to the date of this announcement. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES

Save as disclosed in the table below, the Group had not purchased, sold, or redeemed any of the Company's listed securities during the year ended December 31, 2018.

Details of the repurchases are summarized as follows:

Date of the repurchase	Total number of shares	Repurchased price per Share Highest *(HK$)*	Lowest *(HK$)*	Aggregate consideration *(HK$)*
September 13, 2018	154,000	14.5	14.46	2,232,000
September 14, 2018	1,506,000	15.26	15.04	22,964,760
September 24, 2018	500,000	16.06	15.94	8,002,120
September 28, 2018	200,000	13.6	13.5	2,710,000
October 3, 2018	1,836,000	15.06	14.02	26,919,600
October 4, 2018	500,000	14.62	14.30	7,253,400
October 5, 2018	600,000	14.22	13.84	8,446,360
October 8, 2018	182,000	13.34	12.76	2,361,800
October 15, 2018	800,000	11.08	10.96	8,812,520

TOP-UP PLACING

On June 7, 2018, the Company, Genscript Corporation, one of the controlling shareholders of the Company (the "**Vendor**"), and J.P. Morgan Securities (Asia Pacific) Limited and Goldman Sachs (Asia) L.L.C. (the "**Placing Agents**") completed a placing of the Vendor's 75,000,000 ordinary shares in the Company by the Placing Agents on a fully underwritten basis to not less than six placees at the price of HK$26.50 per share (the "**Vendor Placing**") pursuant to a placing and subscription agreement dated June 5, 2018 (the "**Placing and Subscription Agreement**"). On June 13, 2018, the Vendor completed the subscription of an aggregate of 75,000,000 shares of the Company at the price of HK$26.50 per share pursuant to the Placing and Subscription Agreement (the "**Subscription**", together with the Vendor Placing, the "**Top-Up Placing**"). The net proceeds, after deducting commissions, fees and expenses payable to the Placing Agents and other incidental expense, is HK$1,971,702,660.50 (equivalent to approximately US$251.3 million). A detailed breakdown and description of the use of the net proceeds from the Top-Up Placing is set forth as follows:

Item	**Amount expected to be utilized**	**Utilized amount during the Reporting Period**	**Unutilized amount as at December 31, 2018**	**Intended year of application of unutilized amount**
	US$ million	*US$ million*	*US$ million*	
Building up CAR-T R&D and production facility in China, the US and Europe	125.0	24.3	100.7	2019 to 2020
Global team building for the Group's talent program and CAR-T therapies, including regulatory, R&D, production and commercialization	25.0	6.0	19.0	2019 to 2020
Building up the GMP manufacturing facilities for plasmid and biologics products	75.0	2.6	72.4	2019 to 2020
General working capital purpose	26.3	–	26.3	2019 to 2020
Total	**251.3**	**32.9**	**218.4**	

Please refer to the announcements dated June 4, 2018, June 5, 2018, June 8, 2018, June 13, 2018 and June 14, 2018 for details of the Top-Up Placing.

On June 7, 2018, Ms. Wang Ye 王燁, an executive director, the president and one of the controlling shareholders of the Company ("**Ms. Wang**"), and the Placing Agents completed a placing of Ms. Wang's 15,000,000 ordinary shares in the Company by the Placing Agents on a fully underwritten basis to not less than six placees at the price of HK$26.50 per share pursuant to a placing agreement dated June 5, 2018 (the "**Wang Placing**"). Please refer to the announcements dated June 4, 2018, June 5, 2018, June 8, 2018, June 13, 2018 and June 14, 2018 for details of the Wang Placing.

AUDIT COMMITTEE

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

The Audit Committee has, together with the management and external auditors, reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended December 31, 2018.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting (the "**AGM**") of the Company is scheduled to be held on Monday, May 20, 2019. A notice convening the AGM will be issued and disseminated to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of shareholders to attend and vote at the AGM to be held on Monday, May 20, 2019, the register of members of the Company will be closed from Wednesday, May 15, 2019 to Monday, May 20, 2019 (both dates inclusive), during which period no transfer of shares will be registered. All transfer documents, accompanied by the relevant share certificates, shall be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, May 14, 2019.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2018 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.genscript.com), and the 2018 annual report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, March 22, 2019

As at the date of this announcement, the executive Directors are Dr. Zhang Fangliang, Ms. Wang Ye and Mr. Meng Jiange; the non-executive Directors are Dr. Wang Luquan, Mr. Pan Yuexin and Ms. Wang Jiafen; and the independent non-executive Directors are Mr. Guo Hongxin, Mr. Dai Zumian and Mr. Pan Jiuan.

* *For identification purposes only*