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Haamann
statsautoriserede revisorer

BGI Europe A/S

Ole Maaløes Vej 3
2200 Copenhagen N

CVR no. 32 93 13 40

Annual Report 2018

The Annual Report was presented and adopted at the company's annual general meeting on:

04 July 2019

Yuan Liu
Chairman

Haamann
statsautoriserede revisorer

ANNUAL REPORT 2018
(9 financial year)

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COMPANY INFORMATION

Company

BGI Europe A/S
Ole Maaløes Vej 3
2200 Copenhagen N

CVR no.

32 93 13 40

Financial year

1 January - 31 December

Principal activities

The company's principal activities consist in provision of gene sequencing services.

The company's board of directors

Jian Wang
Yu Tak Kin Duncan
Ning Li

Executive Board

Ning Li

The company's auditor

Haamann A/S, State Authorized Public Accountant Firm
Filmbyen 20
2650 Hvidovre

CVR no. 24 25 69 95

Ownership

The following shareholders are registered in the company's register of shareholders as being the owner of minimum 5% of the votes of minimum 5% of the share capital:

BGI Genomics Co., Ltd., Shenzhen, China

MANAGEMENT'S STATEMENTS

The board of directors and the executive board have today presented the annual report for the financial year 1 January - 31 December 2018 for BGI Europe A/S.

The annual report is presented in accordance with the Danish Financial Statements Act.

We consider the accounting policies appropriate for the annual report to provide a true and fair view of the company's assets and liabilities, financial position and performance.

Moreover, in our opnion, the management's review includes a fair review of the matters described.

Copenhagen, 4 July 2019

Executive Board:

Ning Li

Board of Directors:

Jian Wang	Yu Tak Kin Duncan	Ning Li

INDEPENDENT AUDITOR'S REPORT

To the shareholders of BGI Europe A/S

Opinion with qualification

We have audited the Financial Statements of BGI Europe A/S for the financial year 1 January - 31 December 2018, which comprise an income statement, balance sheet and notes. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements, except for the possible impact of the circumstanses explained in the paragraph Basis for qualified opinion, give a true and fair view of the Company's financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for qualified opinion

Last year the previous auditor of the company issued a Disclaimer of opinion on the basis that they had not been able to obtain sufficient and appropriate audit evidence as to gross margin, trade receivables, and receivables from and payables to group enterprises. We suspect that the issue is mostly about the classification of the accounting items, but as we were appointed auditors on the 17th September 2018 we have not fully been able to audit the comparative numbers in the annual accounts.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management’s Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark 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 of accounting information taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company's internal control.

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance 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

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of Management's Review.

Report on other legal and regulatory requirements

Non-compliance with Danish VAT legislation

The Company has filed incorrect VAT statements to the Danish Customs and Tax Administration, thus breaching Danish VAT legislation, and Management may incur liability in this respect.

Hvidovre, 4 July 2019

Haamann A/S
State Authorized Public Accountant Firm
CVR.no. 24 25 69 95

Jan Østergaard
State Authorized Public Accountant
mne30203

MANAGEMENT'S REVIEW

Financial highlights and ratios

	2018	2017	2016	2015	2014
Income statement (DKK '000)					
Gross profit	14.720	48.935	28.884	12.909	15.978
Operating profit	3.709	37.596	18.245	1.354	2.693
Net financials	45	830	262	-2.196	-1.515
Net profit for the year	**2.841**	**29.240**	**14.500**	**-544**	**935**
Balance sheet (DKK '000)					
Balance sheet total	155.630	124.963	77.030	52.110	67.756
Purchase of property, plant and equipment	5.914	873	612	10.040	1.868
Equity	**71.292**	**68.451**	**39.211**	**24.711**	**25.255**
Employees					
Average number of employees	20	20	16	15	15
Financial ratios (%)					
Equity ratio	4,1	54,3	45,4	-2,2	3,8
Solvency ratio	45,8	54,8	50,9	47,4	37,3

MANAGEMENT'S REVIEW

The Company's principal activities

The company's principal activities consist in provision of gene sequencing services.

Uncertainty as to recognition and measurement

No material uncertainties have affected the annual report.

Exceptional circumstances

No exceptional circumstances have occurred in the financial year.

Development in activities and financial affairs

The company had a profit of DKK 2.841.474, which the company's management considers satisfactory.

The company's results and financial development did not meet the expectations of the management stated in the annual accounts last year. This mainly because the expected growth in the company´s core markets didn´t happen, and due to increases in costs of sales.

The management expects an improved result for the next financial year.

Events occurring after the end of the financial year

No events have occurred after the end of the financial year that would materially affect the company's financial position

Knowledge resources

The company's knowledge resources are distributed over a wide range of staff members with long seniority, and half the staff are doctors or master degree holders.

Environmental issues

The company has a tried and tested environmental policy ensuring continued focus on environmental and work environment considerations.

INCOME STATEMENT
1 January - 31 December 2018

	Note	2018 DKK	2017 TDKK
Gross result		14.719.783	48.935
Staff costs	1	-9.317.747	-8.165
Depreciation	2	-1.693.435	-3.174
Operating profit		3.708.601	37.596
Financial income	3	476.429	914
Financial expenses	4	-431.314	-84
Profit before tax		3.753.716	38.426
Tax on profit for the year	5	-912.242	-9.186
Net profit for the year		2.841.474	29.240

Proposed distribution of results

	2018 DKK	2017 TDKK
Dividend for the financial year	0	0
Retained earnings	2.841.474	29.240
	2.841.474	29.240

BALANCE SHEET 31 December 2018

ASSETS

	Note	2018 DKK	2017 TDKK
Fixed assets			
Property, plant and equipment	6		
Leasehold improvements		288.335	0
Fixtures, fittings, tools and equipment		7.903.084	4.124
		8.191.419	4.124
Financial assets	7		
Leasehold deposits		648.429	495
Fixed assets, total		8.839.848	4.619
Current assets			
Inventories			
Raw materials and consumables		4.248.307	1.468
Receivables			
Short-term trade receivables		47.375.892	15.523
Other short-term receivables		1.300.438	2.155
Short-term receivables from group enterprises		2.222.666	27.952
Corporation tax		0	0
Prepayments		217.867	2.907
		51.116.863	48.537
Cash and cash equivalents		91.425.188	70.339
Current assets		146.790.358	120.344
Total assets		155.630.206	124.963

BALANCE SHEET 31 December 2018

LIABILITIES AND EQUITY

	Note	2018 DKK	2017 TDKK
Equity	8		
Share capital		6.000.000	6.000
Retained earnings		65.292.179	62.451
Total equity		71.292.179	68.451
Provisions			
Provisions for deferred tax		316.000	591
Liabilities			
Short-term liabilities other than provisions			
Bank debt		11.728	26
Prepayments received from customers		8.846.044	1.158
Trade payables		4.754.254	13.289
Payables to group enterprises		68.398.863	30.786
Corporation tax payable		1.392.170	8.614
Other payables		618.968	2.048
		84.022.027	55.921
Total liabilities		84.022.027	55.921
Total liabilities and equity		155.630.206	124.963
Contingent liabilities etc.	9		

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
Equity at 1 January 2017	6.000.000	33.210.826	39.210.826
Profit/loss for the year 2017		29.239.879	29.239.879
Equity at 1 January 2018	6.000.000	62.450.705	68.450.705
Profit/loss for the year 2018		2.841.474	2.841.474
Equity at 31 December 2018	6.000.000	65.292.179	71.292.179

NOTES

		2018 DKK	2017 TDKK
1.	Staff costs		
	Wages and salaries	8.842.164	7.320
	Pension costs	250.012	376
	Social security costs	144.285	0
	Staff costs	81.286	469
		9.317.747	8.165
	Average number of employees	20	20
2.	Depreciation		
	Leasehold improvements	110.246	0
	Other fixtures and fittings	1.583.189	3.174
		1.693.435	3.174
3.	Financial income		
	Associated companies	0	0
	Other revenues	476.429	914
		476.429	914
4.	Financial expenses		
	Associated companies	0	0
	Other expenses	431.314	84
		431.314	84
5.	Tax on profit or loss for the year		
	Tax calculated on the taxable income for the year	1.108.316	8.614
	Adjustment of deferred tax	-275.000	-200
	Adjustment of tax from previous years	78.926	772
		912.242	9.186

NOTES

6. Property, plant and equipment

	Leasehold improve-ments	Fixtures, fittings, tools and equipment
Cost at 1 January 2018	508.827	11.591.660
Additions	0	5.761.069
Cost at 31 December 2018	508.827	17.352.729
Depreciation 1 January 2018	110.246	7.866.000
Depreciation of the year	110.246	1.583.645
Depreciation 31 December 2018	220.492	9.449.645
Accounting value 31 December 2018	288.335	7.903.084

7. Fixed assets

	Leasehold deposits
Cost at 1 January 2018	495.339
Additions	153.090
Cost at 31 December 2018	648.429
Accounting value 31 December 2018	648.429

8. Equity

Analysis of the share capital:

6,000 shares of DKK '000 1,000.00 nominal value each.

NOTER

	2018 DKK '000	2017 DKK '000
9. Contingent liabilities etc.		
Rent liabilities	535	470

Apart from the above the company has given a Negative Pledge to their bank regarding sale of assets and property.

ACCOUNTING POLICIES

The Annual Report of BGI Europe A/S for 2018 has been presented in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B with the option of certain provisions for class C.

The accounting policies applied remain unchanged from last year.

General principles for recognition and measurement

Income is recognised in the Income Statement as it is earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will accrue to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the Balance Sheet when it is probable that future financial benefits will flow out of the Company, and the value of the liability can be measured reliably

On initial recognition, assets and liabilities are measured at cost. Subsequent to initial recognition, assets and liabilities are measured as described below for each individual item.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the term. Amortised cost is calculated as original cost less repayments and with the addition/deduction of the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, foreseeable risks and losses arising before the annual report is presented and proving or disproving matters existing on the balance sheet date are taken into consideration.

INCOME STATEMENT

Revenue

Gross profit is made up of net sales less the direct sales costs attributable to net sales and less other external costs. Other operating income and expenses comprise items of a secondary nature to the principal activity of the company.

Income from the sale of goods is recognised in the income statement from the date of delivery and when the risk has passed to the buyer and services are possible to calculate the income reliably. The revenue is calculated exclusive of VAT, charges and discounts.

Other operating income

Other operation income include items of a secondary nature in relation to the company's activities, including profits from the sale of intangible assets and property, plant and equipment.

Other operating expenses

Other operating expenses include items of a secondary nature in relation to the company's activities, including losses on the sale of intangible and tangible fixed assets.

Other external expenses

Other external expenses include expenses concerning distribution, sale, losses on debtors, auto operations, facilities, small purchases, administration, operational leasing costs etc.

ACCOUNTING POLICIES

Staff expenses

Staff costs include wages and salaries, incl. holiday pay and pensions, as well as other social security costs, etc. of the company's employees. In personnel costs, allowances received from public authorities are deducted.

Financial income and expenses

Financial income and expenses are recognised in the Income Statement with the amounts that concern the financial year. Financial income and expenses include interest income and expenses, realised and unrealised capital gains and losses regarding securities, debt and foreign currency transactions, dividends received from other equity investments, amortisation of financial assets and liabilities as well as surcharges and allowances under the tax repayment scheme.

Tax on net profit/loss for the year

Tax on net profit/loss for the year comprises current tax on expected taxable income of the year and the year's adjustment of deferred tax. Current and deferred tax regarding changes in equity is recognised directly in equity.

BALANCE SHEET

Tangible assets

Plant and machinery, other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation.

Cost comprises acquisition price and costs directly related to acquisition until the time when the Company starts using the asset

Non-current assets are amortised on a straight line basis, based on cost, on the basis of the following assessment of useful life and residual values:

	Useful life:	Residual value:
Leasehold improvements	5 years	5-10%
Other fixtures and fittings, tools and equipment	3 - 5 years	5-10%

Gains or losses on disposal of property, plant and equipment are recognised in the income statement under 'other operating income' or 'other operating costs'.

Impairment of assets

The carrying amount of property, plant and equipment and of investments in subsidiaries is assessed annually for indications of impairment exceeding depreciation.

Where indications of impairment exist, an impairment test is performed for each individual asset or group of assets. Where the recoverable amount is lower than the carrying amount, the carrying amount is written down to the recoverable amount.

The recoverable amount is the higher of the net selling price and the value in use. The value in use is determined as the present value of expected net cash flows from the use of the asset or the group of assets and expected net cash flows from sale of the asset or asset group at the end of the useful life.

ACCOUNTING POLICIES

Leases

Leases regarding property, plant and equipment, where the company has all essential risks and benefits associated with the ownership (financial leasing), are included in the balance sheet as assets. The assets are initially measured at initial cost at the fair value or (if lower) at the present value of future payments. For the calculation of the present value, the lease agreement's internal rate is used as a discount factor or an approximate value for this. Financial leased assets are depreciated as other similar non-current assets.

The capitalized residual lease obligation is recognized in the balance sheet as a liability, and the lease payments interest rate is recognized over the term of the contract in the income statement.

Other leases are considered as operating leases. Services relating to operating leases and other lease agreements are recognized in the income statement over the term of the contract. The company's total liabilty relating to operating leases and other lease agreements is disclosed under contigencies etc.

Financial asset investments

Leasehold deposits are recognised in the balance sheet at cost.

Inventories

Inventories are measured at cost using the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

The cost of basic material and consumables comprises the purchase price and delivery costs.

Net realizable value of inventories is calculated as selling price less completion costs and costs incurred to effect sales and is determined taking into account marketability, ukurance and development in the expected selling price.

Receivables

Receivables are measured at amortised cost, usually corresponding to nominal value. The value is reduced by impairment losses for bad and doubtful debts

Deferred income

Deferred income recognised under assets comprise of prepaid costs, for the subsequent financial years.

Securities

Securities are recognised under current assets and measured at fair value (market value) on the balance sheet date.

Tax payable and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as calculated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured under the balance-sheet liability method for temporary differences between the carrying amount and the tax base of assets and liabilities. In those cases, e.g. in respect of shares where the calculation of the tax value can be made according to alternative tax rules, deferred tax is measured on the basis of the planned use of the asset or settlement of the liability.

ACCOUNTING POLICIES

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the expected realisable value of the asset, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity. Any net deferred tax assets are measured at net realisable value.

Deferred tax is measured on the basis of the tax regulations and rates that according to the rules in force at the reporting date, will be applicable at the time when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement. For the current year, a tax rate of 22% has been applied.

Liabilities

Financial liabilities are recognised initially at the proceeds received net of transaction costs incurred. In subsequent periods, financial liabilities are measured at amortised cost corresponding to the capitalised value using the effective interest rate, entailing that the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other debt is measured at amortised cost, usually corresponding to nominal value.

Foreign currency translation

Foreign currency transactions are converted to the exchange rate prevailing at the date of the transaction. Exchange differences arising between the exchange rate prevailing at the transaction date and the exchange rate at the payment date are recognised in the income statement as a net financial income or expence. If currency positions are regarded as a hedge of future cash flows, value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled on the reporting date are measured at the closing exchange rate. The difference between the closing rate and the rate at the time of the establishment of the receivable or payable is recognised in the income statement under financial income and expenses.

Non-current assets purchased in foreign currencies are measured at the exchange rate at the transaction date.