BGI Europe A/S

Ole Maaløes Vej 3, 2200 CVR no. 32 93 13 40

Annual report 2017

Approved at the Company's annual general meeting on 6 July 2018
Chairman:
Yuan Liu

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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of BGI Europe A/S for the financial year 1 January - 31 December 2017.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Executive Board:			
Ning Li CEO			
Board of Directors:			
Jian Wang Chairman	Yu Tak Kin Duncan	Ning Li	

Independent auditor's report

To the shareholder of BGI Europe A/S

Disclaimer of opinion

We have been appointed to audit the financial statements of BGI Europe A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

We do not express any audit opinion on the financial statements. Because of the significance of the matter described in the "Basis for disclaimer of opinion" section, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an opinion.

Basis for disclaimer of opinion

The Company's bookkeeping records and other underlying documentation of the Company's financial statements are incomplete and erroneous in relation to gross margin, trade receivables, receivables from group enterprises and payables to group enterprises. As of the date of our auditor's report, Management had still not managed to rectify the system deficiencies and correct the errors. We have not otherwise been able to obtain sufficient and appropriate audit evidence as to gross margin of DKK 48,935 thousand, trade receivables of DKK 15,523 thousand, and receivables from and payables to group enterprises of DKK 27,952 thousand and DKK 30,786 thousand respectively. As a result of these matters, we have not been able to determine whether any adjustments may be considered necessary in relation to trade receivables and receivables from and payables to group enterprises and the potential effect thereof on the income statement, and the statement of changes in equity.

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 responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark and to issue an audit opinion.

However, because of the matter described in the "Basis for disclaimer of opinion" paragraph, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an opinion on the financial statements.

As required by the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, we are independent of the Company, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Statement on the Management's review

As appears from the "Basis for disclaimer of opinion" paragraph above, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an opinion on the financial statements. Accordingly, we make no statement on the 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.

Independent auditor's report

Non-compliance with the Danish Bookkeeping Act

In our opinion, the Company has not complied with the Danish Bookkeeping Act requirements that bookkeeping procedures must be planned and performed in accordance with good bookkeeping practice and in consideration of the nature and size of the entity. Furthermore, in our opinion, the Company has not complied with the Danish Bookkeeping Act requirements regarding retention of accounting records.

The Company's Management may incur liability for non-compliance with the Danish Bookkeeping Act.

Copenhagen, 6 July 2018 ERNST & YOUNG Godkendt Revisionspartnerselskab CVR no. 30 70 02 28

Ole Hedemann State Authorised Public Accountant MNE no.: mne14949 Anders Flymer-Dindler State Authorised Public Accountant MNE no.: mne35423

Management's review

Company details

BGI Europe A/S Name

Ole Maaløes Vej 3, 2200 Address, Postal code, City

CVR no. 32 93 13 40 Established 3 June 2013 København N Registered office

Financial year 1 January - 31 December

Jian Wang, Chairman Yu Tak Kin Duncan **Board of Directors**

Ning Li

Executive Board Ning Li, CEO

Ernst & Young Godkendt Revisionspartnerselskab **Auditors**

Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg,

Denmark

Financial highlights

DKK'000	2017	2016	2015	2014	2013
Key figures					
Gross margin	48,935	28,884	12,909	15,978	13,697
Profit before interest, tax and	,	.,	,		-,
amortisation of goodwill (EBITA)	37,596	18,245	1,354	2,693	521
Operating profit/loss	37,596	18,245	1,354	2,693	521
Net financials	830	262	-2,196	-1,515	1,067
Profit before tax	38,426	18,507	-842	1,178	1,588
Profit/loss for the year	29,240	14,500	544	935	1,096
Fixed assets	4,619	7,119	9,930	13,369	17,543
Non-fixed assets	120,344	69,911	42,180	54,387	18,118
Total assets	124,963	77,030	52,110	67,756	35,661
Equity	68,451	39,211	24,711	25,255	24,711
Financial ratios					
Return on assets	37.2%	28.3%	2.3%	5.2%	1.5%
Current ratio	215.2%	188.8%	0.0%	0.0%	0.0%
Equity ratio	54.8%	50.9%	47.4%	37.3%	69.3%
Return on equity	54.3%	45.4%	2.2%	3.7%	4.4%
Average number of employees	20	16	15	15	14

Management's review

Financial highlights (continued)

Management commentary

Business review

The company is principally engaged in genomerelated business in the European region. Besides, the company continues involving in non-profitmaking research projects in corporation with governmentbodies, hospitals and research institutes.

Financial review

The income statement for 2017 shows a profit of DKK 29,240 thousand against a profit of DKK 14,500 thousand last year, and the balance sheet at 31 December 2017 shows equity of DKK 68,451 thousand. Management considers the Company's financial performance in the year satisfactory.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Outlook

The Company's revenue for 2018 is expected to increase due to the continued growth in the Company's core markets.

Income statement

Note	DKK'000	2017	2016
2	Gross margin Staff costs Depreciation of property, plant and equipment	48,935 -8,165 -3,174	28,884 -7,583 -3,056
3 4	Profit before net financials Financial income Financial expenses	37,596 914 -84	18,245 437 -175
5	Profit before tax Tax for the year	38,426 -9,186	18,507 -4,007
	Profit for the year	29,240	14,500

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
,	Fixed assets		
6	Property, plant and equipment Fixtures and fittings, other plant and equipment	4,124	6,626
	Trixtures and fittings, other plant and equipment		
		4,124	6,626
7	Investments	405	402
	Deposits	495	493
		495	493
	Total fixed assets	4,619	7,119
	Non-fixed assets		
	Inventories	4.440	0.407
	Raw materials and consumables	1,468	3,107
		1,468	3,107
	Receivables		
	Trade receivables	15,523	20,070
	Receivables from group enterprises	27,952	139
8	Other receivables Prepayments	2,155 2,907	2,121 817
U	Тераутельз		
		48,537	23,147
	Cash	70,339	43,657
	Total non-fixed assets	120,344	69,911
	TOTAL ASSETS	124,963	77,030

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES Equity		
9	Share capital Retained earnings	6,000 62,451	6,000 33,211
	Total equity	68,451	39,211
	Provisions Deferred tax	591	791
	Total provisions	591	791
	Liabilities other than provisions Current liabilities other than provisions		
	Bank debt	26	26
	Prepayments received from customers	1,158	8,109
	Trade payables	13,289	471
	Payables to group enterprises	30,786	20,410
	Corporation tax payable	8,614	4,152
	Other payables	2,048	3,860
		55,921	37,028
	Total liabilities other than provisions	55,921	37,028
	TOTAL EQUITY AND LIABILITIES	124,963	77,030

¹ Accounting policies
10 Contractual obligations and contingencies, etc.
11 Collateral
12 Related parties

Statement of changes in equity

Note	DKK'000	Share capital	Retained earnings	Total
13	Equity at 1 January 2016 Transfer, see "Appropriation of profit"	6,000	18,711 14,500	24,711 14,500
13	Equity at 1 January 2017 Transfer, see "Appropriation of profit"	6,000	33,211 29,240	39,211 29,240
	Equity at 31 December 2017	6,000	62,451	68,451

Notes to the financial statements

Accounting policies

The annual report of BGI Europe A/S for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to medium-sized reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement is prepared for the parent company, as its cash flows are reflected in the consolidated cash flow statement.

Income statement

Revenue

Income from the rendering of services is recognised as revenue as the services are rendered. Accordingly, revenue corresponds to the market value of the services rendered during the year (percentage-of-completion method).

Gross margin

The items revenue, cost of sales and external expenses have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

Raw materials and consumables, etc.

Raw materials and consumables include expenses relating to raw materials and consumables used in generating the year's revenue.

External expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Depreciation and impairment

The item comprises depreciation and impairment of property, plant and equipment.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Fixtures and fittings, other plant and 3-5 years equipment

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Notes to the financial statements

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

Notes to the financial statements

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash in bank.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases

Other liabilities are measured at net realisable value.

Notes:	to the	financial	statements
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	DKK'000	2017	2016
2	Staff costs Wages/salaries	7,320	6,733
	Pensions Other staff costs	376 469	381 469
		8,165	7,583
	_	2017	2016
	Average number of full-time employees	20	16
	The Company did not pay any remuneration to Management during the	financial year (2	2016: 0).
	DKK'000	2017	2016
3	Financial income		
	Exchange gain	914	437
	_	914	437
4	Financial expenses Other interest expenses	84	175
	_	84	175
	DKK'000	2017	2016
5	Tax for the year		
	Estimated tax charge for the year Deferred tax adjustments in the year	8,614 -200	4,007 0
	Tax adjustments, prior years	772	0
	=	9,186	4,007
6	Property, plant and equipment		Fixtures and
	DKK'000		fittings, other plant and equipment
	Cost at 1 January 2017	-	13,485
	Additions Disposals		871 -2,366
	Cost at 31 December 2017	-	11,990
	Impairment losses and depreciation at 1 January 2017 Impairment losses Reversal of accumulated depreciation and impairment of assets dispos	ed	6,859 3,174 -2,167
	Impairment losses and depreciation at 31 December 2017	-	7,866
	Carrying amount at 31 December 2017	-	4,124
		-	-, -, -

Notes to the financial statements

7	Investments
/	mvestments

DKK'000	Deposits
Cost at 1 January 2017 Additions	493
Cost at 31 December 2017	495
Carrying amount at 31 December 2017	495

8 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years, including rent, insurance policies, etc.

	DKK'000				2017	2016
9	Share capital					
	Analysis of the share capi	ital:				
	6,000 shares of DKK'000 1,000.00 nominal value each				6,000	6,000
					6,000	6,000
	Analysis of changes in the share capital over the past 5 years:					
	DKK'000	2017	2016	2015	2014	2013
	Opening balance Capital increase	6,000 0	6,000 0	6,000 0	6,000 0	5,000 1,000
		6,000	6,000	6,000	6,000	6,000

10 Contractual obligations and contingencies, etc.

Other financial obligations

Rent and lease liabilities vis-à-vis the parent company and its other subsidiaries:

DKK'000	2017	2016
Rent and lease liabilities	470	748

11 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2017.

Notes to the financial statements

12	Related	parties

BGI Europe A/S' related parties comprise the following:

Significant	influence
Significant	IIIIIuelice

Related party	Domicile	Basis for significa	Basis for significant influence				
BGI Genomics Co., Ltd.	Shenzhen	Owner of shares					
Information about consolidated financial statements							
Parent	Domicile	Requisitioning of the parent company's consolidated financial statements					
BGI Genomics Co., Ltd.	Shenzhen	By contacting th	ne company				
DKK'000		2017	2016				
Appropriation of profit Recommended appropriation of	profit						
Retained earnings	•	29,240	14,500				
		29,240	14,500				