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To the general meeting of

Orphée SA

Plan-les-Ouates

**Report of the statutory auditor
on the financial statements for the year 2016**

(for year ended 31.12.2016)

21 March 2017
12703/21510228/5-3

**Report of the statutory auditor
to the general meeting of**

Orphée SA, Plan-les-Ouates

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Orphée SA, which comprise the balances sheet as at 31 December 2016, and the income statement, cash flow statement and notes for the year then ended.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

**Report on Key Audit Matters based on the circular 1/2015
of the Federal Audit Oversight Authority**

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

Key Audit Matter

As disclosed in note 3 to the financial statements, the company's investments for a total net value of CHF 14.2 million are valued at historical cost less depreciation, in accordance with the provisions of the Swiss Code of Obligations. We focused our audit on this position because of its significance to the financial statements.

How our audit addressed the key audit matter

We audited the company's analysis on whether the various significant investments were impaired as of 31 December 2016.

We audited the methodology, the assumptions and the results of impairment tests on the company's significant investment.

We also made sure that the company disclosed the result of the impairment test in the notes of the financial statements accordingly.

Other Matter

The financial statements of Orphée SA for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on 17 March 2016.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligation (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

During our audit, in accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we noted that an internal control system for the preparation of financial statements, designed in accordance with the instructions of the Board of Directors, is not commensurate with the entity's risks, given its size, complexity and risk profile.

In our opinion, the internal control system is not in accordance with Swiss law and accordingly we are unable to confirm the existence of the internal control system for the preparation of the financial statements.

We recommend that the financial statements submitted to you be approved.

Geneva, 21 March 2017

BDO Ltd



Nigel Le Masurier

Licensed Audit Expert



Matthias Paffrath

Licensed Audit Expert
(Auditor in Charge)

Enclosures

Financial statements



	<u>Note</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents		139 767	164 291
Trade debtors -net of provision	9.1	1 026 124	1 066 123
Other receivables	9.2	1 016	8 941
Inventory-net of provision	9.3	2 210 766	1 988 371
Accrued income and prepaid expenses		240 859	205 143
Advance to PZ Cormay SA-net of provision		404 808	3 927 574
TOTAL CURRENT ASSETS		4 023 341	7 360 443
NON CURRENT ASSETS			
Loan to a subsidiary - net of provision	9.4	-	-
Investment in subsidiaries - net of provision	3	14 225 897	21 411 897
Financial assets		25 340	25 203
Tangible fixed assets	9.5	26 989	38 552
Intangible fixed assets	9.6	1 755 881	1 084 854
TOTAL FIXED ASSETS		16 034 107	22 560 506
TOTAL ASSETS		20 057 448	29 920 949



	<u>Note</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
<u>LIABILITIES AND SHAREHOLDERS'EQUITY</u>			
CURRENT LIABILITIES			
Trade payables	9.7	1 666 753	3 171 142
Other current liabilities		170 310	233 663
Deferred income and accrued expenses	9.8	84 827	97 224
Provisions	9.9	2 395 447	352 814
TOTAL CURRENT LIABILITIES		4 317 337	3 854 843
NON CURRENT LIABILITIES			
Long-term interest-bearing liabilities		-	2 000 000
TOTAL NON CURRENT LIABILITIES		-	2 000 000
TOTAL LIABILITIES		4 317 337	5 854 843
SHAREHOLDERS EQUITY			
Share capital		3 860 850	3 860 850
Legal capital reserves			
- reserves from capital contributions	6	46 618 779	46 618 779
Own shares		(8 809 177)	(8 809 177)
Voluntary retained earnings :			
1- results carried forward		(17 604 346)	(11 796 005)
2- result for the year		(8 325 994)	(5 808 341)
Total voluntary retained earnings		(25 930 341)	(17 604 346)
TOTAL SHAREHOLDERS EQUITY		15 740 111	24 066 106
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		20 057 448	29 920 949



	Note	31.12.2016	31.12.2015
<u>OPERATING INCOME</u>			
Net revenue		8 148 128	7 210 931
Other operating income	10.1	6 507	6 656
TOTAL OPERATING INCOME		8 154 635	7 217 587
<u>OPERATING EXPENSES</u>			
Changes in inventory		215 821	(867 063)
Cost of goods		(5 991 562)	(5 103 876)
Salaries and social charges		(874 858)	(852 630)
Other operating expenses	10.2	(2 473 773)	(3 800 234)
TOTAL OPERATING EXPENSES		(9 124 372)	(10 623 803)
OPERATING RESULTS BEFORE INTERESTS, TAXES AND DEPRECIATION		(969 737)	(3 406 216)
Depreciation and value adjustments on fixed asset items		(19 839)	(23 064)
(Allocation) / reversal of the provision for bad debts		23 872	(36 844)
(Allocation) / reversal of the provision for inventory		15 100	215 403
(Allocation) / reversal of the provision for loan to a subsidiary		-	74 404
(Allocation) / reversal of the provision for investments		-	(469 577)
OPERATING RESULT BEFORE INTERESTS AND TAXES		(950 603)	(3 645 894)
Financial income	10.3	15 503	57 640
Financial expenses	10.4	(73 817)	(97 770)
Exchange (loss) / gain		11 175	(158 009)
ORDINARY OPERATING RESULT BEFORE TAXES		(997 742)	(3 844 033)
Non-operational costs and non-operational income		953	-
Extraordinary, non-recurring or prior-period income		-	-
Extraordinary, non-recurring or prior-period expenses	10.5	(7 203 225)	(1 909 308)
RESULT BEFORE TAXES		(8 200 014)	(5 753 341)
Taxes		(125 980)	(55 000)
RESULT FOR THE YEAR		(8 325 994)	(5 808 341)

**CASH FLOW STATEMENT**

	<u>2016</u>	<u>2015</u>
	CHF	CHF
LOSS FOR THE PERIOD	(8 325 994)	(5 808 341)
Depreciation on fixed assets items	19 839	23 064
Value adjustments on fixed assets	-	3 987
Unrealized exchange loss	-	829 638
Interests on loans	35 874	64 265
Change in provision for bad debts	20 117	(212 201)
Change in provision for inventories	(15 100)	(215 403)
Change in provision for loan to a subsidiary	-	(74 404)
Change in provision for investments	-	469 577
Change in trade receivables and other current receivables	3 550 573	644 381
Change in inventories	(207 295)	867 063
Change in income and prepaid expenses	(35 716)	(155 003)
Change in trade payables and other current liabilities	(1 567 742)	2 039 022
Change in deferred income and accrued expenses	(12 397)	(446 559)
Change in provisions	(2 582)	(1 362 186)
Other adjustments (provision for investments)	7 186 000	-
CASH FLOW FROM OPERATING ACTIVITIES	645 577	(3 333 100)
Purchase of tangibles assets	(3 094)	-
Purchase of intangible assets	(676 210)	(1 035 500)
Purchase of investments	-	-
Increase of loan granted	-	(348 533)
Decrease of loan granted	-	-
CASH FLOW FROM INVESTMENT ACTIVITIES	(679 304)	(1 384 033)
Purchase of own shares	-	(8 809 177)
Share capital increase (incl. additional paid in capital)	-	-
Interests on loans	-	(64 265)
Increase in long-term interest-bearing liabilities	-	-
Other proceeds	9 203	-
CASH FLOW FROM FINANCING ACTIVITIES	9 203	(8 873 442)
NET INCREASE/DECREASE IN CASH	(24 524)	13 590 575
Cash and cash equivalents at the beginning of the period	164 291	13 754 866
Cash and cash equivalents at the end of the period	139 767	164 291
NET INCREASE/DECREASE IN CASH	(24 524)	(13 590 575)

**1) GENERAL**

The Company was incorporated in Plan-les-Ouates (Switzerland) on June 7th, 2002.

The corporate purpose of the Company, according to Article 2 of its article of incorporation is the development and marketing of reagents, tests and instruments for in vitro diagnostics.

The share capital of CHF 3'860'850 consists of 38'608'500 fully paid bearer shares of CHF 0.10. each.

Financial statements are presented in accordance with the legal accounting policies applicable in Switzerland.

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

The current accounts were established in accordance with the Swiss law principles and in particular according to articles 957 to 962 on commercial accounting and Swiss codes of obligations accounts presentation.

Revenues and charges are recorded on base of the agreed services and commitments.

In addition to the statutory financial statements, Orphée SA prepares consolidated financial statements under International Financial Reporting Standards (IFRS), in accordance with the requirements of NewConnect Warsaw, where the Company's shares are listed.

2) NUMBER OF FULL-TIME POSITIONS

The number of full-time equivalents on a yearly average during the year 2016 did not exceed 10 employees. (2015 : dito).

3) INVESTMENTS IN SUBSIDIARIES, STATING SHARE OF CAPITAL AND VOTES HELD

	Share of capital held	Shares of votes held	31.12.2016	31.12.2015
Diesse Diagnostica Senese S.p.A. Milano (ITA) The company is in the business of manufacturing reagents and immunoassay apparatus in Italy.	45.00%	50.00%		
Purchase price			18 750 000	18 750 000
<u>Less : Provision</u>			<u>(7 186 000)</u>	-
			11 564 000	-
Orphée Technics Sp. z o.o., Lublin (POL) Polish company that manage real estate.	100.00%	100.00%		
Purchase price			2 407 705	2 407 705
<u>Less : Provision</u>			<u>(1 066 877)</u>	<u>(1 066 877)</u>
			1 340 828	1 340 828
Innovation Enterprises Ltd., Carrigtwohill (IRL) Irish company in the business of manufacturing and distributing reagents and biochemistry apparatus.	99.88%	99.88%		
Purchase price			2 359 676	2 359 676
<u>Less : Provision</u>			<u>(2 359 676)</u>	<u>(2 359 676)</u>
			-	-



Kormiej Rusland Sp. z o.o., Moscow (RUS)	100.00%	100.00%		
Russian company engaged in wholesale of medical equipment and reagents.				
Purchase price			1 614 147	1 614 147
Less : Provision			<u>(313 577)</u>	<u>(313 577)</u>
			1 300 570	1 300 570
Kormej Diana Sp. z o.o. , Minsk (BLR)	98,50%	98,50%		
Import of medical equipment, consumables and reagents to Belarus.				
Purchase price			20 499	20 499
Total			14 225 897	21 411 897

As of 31 December 2016, the Company booked a partial impairment of CHF 7'186'000 on the investment in Diesse Diagnostica Senese SpA. This resulted from an impairment tests, based on the discounted expected cash flows generated by the investment. There is an uncertainty on whether the expectations underlying the impairment test can be met. However, management is convinced that the expectations are reasonable and prudent under the circumstances and that the impairment of CHF 7'186'000 is adequate and sufficient.

4) COLLATERAL FOR THIRD-PARTY LIABILITIES

At December 31, 2016, the Company has two bank guarantees of CHF 17'500 in favour of Swisscard AECS GmbH and CHF 23'625 to Regie Rosset Immobilier.

5) THE BOARD OF DIRECTORS

The Board of Directors as at 31 December 2016 was as follows:

Janusz Plocica	- the Chairman of the Board of Directors
Domingo Dominguez	- the Member of the Board of Directors
Krzysztof Rudnik	- the Member of the Board of Directors
Piotr Skrzyński	- the Member of the Board of Directors
Wojciech Suchowski	- the Member of the Board of Directors

The Board of Directors as at 31 December 2015 was as follows:

Janusz Plocica	- the Chairman of the Board of Directors
Domingo Dominguez	- the Member of the Board of Directors
Krzysztof Rudnik	- the Member of the Board of Directors
Piotr Skrzyński	- the Member of the Board of Directors
Wojciech Suchowski	- the Member of the Board of Directors

6) OWN SHARES

In 2015, 3'859'118 shares were purchased by the Company for a total amount of CHF 8'809'177 (rounded down to 2.28 CHF per share).

	<u>31.12.2016</u>	<u>31.12.2015</u>
	CHF	CHF
Status of own shares as at 01.01	8'809'177	-
Purchases	-	8'809'177



Sales

Status of own shares as at 31.12.

8'809'1778'809'177**7) SIGNIFICANT SHAREHOLDERS**

The list of significant shareholders (holding directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting) on 31 December 2016 and at the date of this report:

Shareholder	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	No. shares/No. of votes in GSM	% of capital/votes in GSM	No. shares/No. of votes in GSM	% of capital/votes in GSM
PZ Cormay S.A	13 879 956	35,95%	8 879 956	23,00%
TOTAL FIZ directly and indirectly, through subsidiary TTL 1 Sp. z o.o.	7 239 814	18,75%	12 564 314	32,54%
Orphee SA	3 859 118	10,00%	3 859 118	10,00%
Quercus TFI S.A. (Investment funds: QUERCUS)	3 011 102	7,80%	3 011 102	7,80%
Tadeusz Wesolowski (with other subsidiaries)	2 141 445	5,55%	0	0,00%
Others	8 477 065	21,95%	10 294 010	26,66%
Total	38 608 500	100,00%	38 608 500	100,00%

8) SHARES OF CAPITAL HELD BY THE BOARD OF DIRECTORS**31.12.2016**

MEMBER OF THE BOARD OF DIRECTORS	THE NUMBER OF SHARES
Janusz Płocica	638 000
Domingo Dominguez	103 700
Krzysztof Rudnik	0
Piotr Skrzyński	0
Wojciech Suchowski	0

31.12.2015

MEMBER OF THE BOARD OF DIRECTORS	THE NUMBER OF SHARES
Janusz Płocica	338 000
Domingo Dominguez	103 700
Krzysztof Rudnik	0
Piotr Skrzyński	0
Wojciech Suchowski	0

9) INFORMATION RELATED TO ITEMS ON THE BALANCE SHEET**9.1) Trade receivables - net of provision**

	<u>31.12.2016</u>	<u>31.12.2015</u>
	CHF	CHF
Trade receivables - third parties	1 078 024	1 122 125



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

Trade receivables, subsidiaries and associates	47 964	23 745
<u>Less</u> : provision for bad debts	(99 864)	(79 747)
Total	<u>1 026 124</u>	<u>1 066 123</u>

9.2) Other receivables - net of provision

Suppliers with debit balance	1 016	8 941
Miscellaneous	-	-
Tax at source due by Directors	42 750	42 750
<u>Less</u> : provision for tax at source	(42 750)	(42 750)
Total	<u>1 016</u>	<u>8 941</u>

9.3) Inventory - net of provision

Finished goods	2 358 606	2 151 311
<u>Less</u> : provision for inventory	(147 840)	(162 940)
Total	<u>2 210 766</u>	<u>1 988 371</u>

9.4) Loan to a subsidiary - net of provision

Loan to a subsidiary	4 439 298	4 495 942
<u>Less</u> : provision	(4 439 298)	(4 495 942)
Total	<u>0</u>	<u>0</u>

9.5) Tangible fixed assets

	Depr. Rate %	Net value 31.12.2015 CHF	Purchase/ sales CHF	Depreciation 2016 CHF	Net value 31.12.2016 CHF
Machinery and equipment	10%	18 326	-	(6 026)	12 299
Motor vehicles	20%	9 165	-	(1 576)	7 589
IT equipment	33%	6 081	-	(4 425)	1 657
Office furniture	10%	4 980	3 094	(2 630)	5 444
Total		<u>38 552</u>	<u>3 094</u>	<u>(14 657)</u>	<u>26 989</u>

9.6) Intangible fixed assets

	Depr. Rate %	Net value 31.12.2015 CHF	Purchase/ sales CHF	Depreciation 2016 CHF	Net value 31.12.2016 CHF
Patents, license	10%	49 353	21 977	(5 183)	66 148
Developement costs	20%	1 035 500	654 233	-	1 689 733



Total	1 084 853	676 210	(5 183)	1 755 881
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9.7) Trade Payables

	<u>31.12.2016</u>	<u>31.12.2015</u>
	CHF	CHF
Trade payables, third parties	1 659 573	732 709
Trade payables, shareholder	2 860	2 306 433
Trade payables, subsidiaries	-	86 100
Trade payables to the statutory auditor	4 320	45 900
Total	<u>1 666 753</u>	<u>3 171 142</u>

9.8) Deferred income and accrued expenses

Audit fees	40 714	50 209
Tax at source	42 750	42 750
Other accrued expenses	1 363	4 265
Total	<u>84 827</u>	<u>97 224</u>

9.9) Provisions

Provision for litigation of loan Roberts	2 105 000	-
Provision for litigation against Diagnostica Holding s.r.l.	290 447	330 000
Provision for court in Poland	-	22 814
Other provision	-	-
Total	<u>2 395 447</u>	<u>352 814</u>

Orphee SA company is involved in a legal dispute with a natural person, which refers to claims related to a loan agreement dated 8 January 2010 of amount of 2 mln CHF. This person filed a court order for payment.

In the Company's opinion a received demand for payment is unjustified. The company points out that according to the agreement - the loan amount should become payable in case of achieving by Orphée SA in the loan period net profit of at least 2 million CHF. At the same time in case of failure in achieving by the Group CORMAY net profit of 3 million CHF within 5 years from the date of signing the Agreement, the loan in accordance with the content of that Agreement was supposed to subject to redemption. Until the final resolving the dispute, the Company created a provision of the amount of claim, taking into account cancellation of the loan.

On January 26, 2016 the Company received a claim submitted by Diagnostica Holding s.r.l. ("Diagnostica") to U.N.E.P. Corte d'Appello di Milano (Court of Appeal in Milan). Diagnostica appeals the judgment of the Court of Arbitration of Milan of 30 December 2014. In the lawsuit Diagnostica requests a compensation of EUR 6'750'000. In the opinion of the Board of Directors Diagnostica's claim is unfounded. Orphée SA created a provision not for value of Diagnostica's claim, but for court dispute costs in the amount of CHF 330 000 CHF, on 31.12.2016 the amount of reserve was 290 000 CHF.

**10) INFORMATION RELATED TO ITEMS IN THE INCOME STATEMENT****10.1) Other operating income**

	<u>2016</u>	<u>2015</u>
Management fees invoiced to an associate company	-	-
Administration fees	1 220	4 572
Miscellaneous income	5 287	2 084
Total	<u>6 507</u>	<u>6 656</u>

10.2) Other operating expenses

Consultancy fees	1 802 255	1 499 459
Legal and fiduciary fees	152 417	1 566 525
Rent and maintenance expenses	117 846	127 799
Travel expenses	96 842	244 684
Legal taxes	82 544	173 879
Directors' fees	72 000	6 000
Advertising and public relations expenses	45 050	81 334
Telecommunication expenses	39 780	26 514
Supplies and small equipment expenses	20 770	25 393
Insurance fees	18 131	17 244
Maintenance costs	17 445	14 497
Professional tax	8 694	8 694
Recruitment fees	-	8 212
Total	<u>2 473 773</u>	<u>3 800 234</u>

10.3) Financial income

Interests on trade receivables	6 300	37 927
Bank interest income	9 203	19 713
Total	<u>15 503</u>	<u>57 640</u>

10.4) Financial expenses

Interests on loan	45 000	60 000
Interest on bank facility	77	4 265
Interests and bank fees	28 707	33 505
Other financial expenses	33	-
Total	<u>73 817</u>	<u>97 770</u>

**10.5) Extraordinary, non-recurring or prior-period expenses**

	<u>2016</u> CHF	<u>2015</u> CHF
Depreciation of investment Diesse Diagnostica (see note 3)	7'186'000	
Honorary 2015	16 350	-
Expenses related to previous year	875	-
Services invoiced by PZ Cormay SA for fiscal years 2010-2013	-	1 571 024
Remuneration unilaterally withdrawn by Directors in 2015	-	200 000
Interest on loan for 2014	-	60 000
VAT polish account	-	34 494
Others	-	19 734
Loss on debtors	-	24 056
Total	<u>7'203'225</u>	<u>1 909 308</u>

The amount of CHF 200'000 was paid out by the Tomasz Tuora and Tadeusz Tuora from Company's bank account. This amount is formally objected by the actual directors and by the significant shareholders, and is subject to legal actions to enforce repayment to the Company.

11) ADDITIONAL INFORMATION IN THE NOTES (Art. 961a OR)**11.1) Fees for audit services and other services**

	<u>2016</u>	<u>2015</u>
Fees paid to the statutory auditor for audit services	31 000	35 500
Fees paid to the independent auditor for the audit of the consolidated accounts	9 714	16 784
Total	<u>40 714</u>	<u>52 284</u>

12) DETAILS OF ACCOUNTING PRINCIPLES APPLIED IN THE ANNUAL FINANCIAL STATEMENTS**Valuation methods of assets and liabilities and calculation of financial results.****Tangible fixed assets**

Tangible fixed assets shall be the assets acquired with the intention to be used or maintained within the period longer than 12 months. Office furniture, computer equipment, industrial equipment and transport means are among others classified by the Company as tangible fixed assets. Initially, tangible fixed assets shall be valued according to their purchase price or manufacturing cost. As of the balance sheet date, tangible fixed assets shall be valued at their purchase price or manufacturing costs reduced by total depreciation write-offs (amortisation) and total losses incurred due to impairment.

Fixed assets shall be depreciated on a straight-line basis starting from the month in which a fixed asset becomes available for use. Depreciation rates correspond to the expected useful life of the assets. Depreciation rates of fixed assets are applied as follows:

- technical equipment and machinery 10%
- computer equipment 33%
- transport means 20%
- office furniture 10%



Period and method of depreciation shall be verified once a year. Possible amendments shall be introduced with an effect from the first day of subsequent financial year.

As of each balance sheet date, the Company shall review tangible fixed assets in terms of impairment. Having identified any reasons for impairment, the Company shall initiate procedures to determine market value and estimating potential write-down of the assets. Impairment loss shall be included in the financial results with an immediate effect.

Intangible assets

Investments in development projects, the acquired permits, patents, licences, computer software shall be classified as intangible assets.

Initially, intangible assets shall be valued at their purchase price or cost of development. As of the balance sheet date, intangible assets shall be valued at their initial value less total depreciation write-offs and possible write-downs on account of impairment. Intangible assets shall be depreciated on a straight-line basis starting from the month in which they become available for use.

Depreciation rates result from the periods of economic useful life of the assets. Depreciation rates of intangible assets shall be applied as follows:

- development works 20%
- patents, permits, licences 10%-20%

Period and method of depreciation shall be verified once a year. Possible amendments shall be introduced with an effect from the first day of subsequent financial year.

The in-house development cost of an intangible asset shall include all outlays which might be directly assigned to the acts of creation, production and adaptation of an asset to its usage in the manner envisaged by the management. Such direct outlays shall include as follows:

- outlays on the materials and services used or worn out during development of an intangible asset;
- expenses incurred due to employee benefits resulting directly from the production of an intangible asset;
- fees for registration of legal titles;
- depreciation of patents and licences used in the production of an intangible asset.

At least once a year, the Company shall verify availability of the proper technical, financial and other means which shall support completion of development works. For this purpose, financial forecasts (the outlays necessary for completion of the essential development projects, financing sources, planned revenues and margin on sales of new products) shall be prepared. Based on the forecasts, the entity shall also undertake verification of development works in terms of impairment as of the balance sheet date.

As of each balance sheet date, the entity shall test the value of intangible [assets. Having identified any reasons for impairment, the Company shall initiate the procedures to determine market value and estimating potential revaluation write-down of the assets. Impairment loss shall be included in the financial results with an immediate effect.

Investments in subsidiaries, jointly controlled entities and associates

The investments in subsidiaries, jointly controlled entities and associates shall be valued according to their purchase price less the write-downs on account of impairment.

Inventory

Materials, goods, work in progress and finished products shall be considered as inventory.

Inventory shall be valued at purchase cost/manufacturing cost or the possible to obtain net sales price, whichever is lower.

Inventory shall be presented at its net value less devaluation write-downs. Inventory devaluation write-downs shall be made in relation to their impairment with the aim to bring inventory value to market value. A 100% write-down shall be applied to the reagents stored for more than one year whereby from the date of consolidated financial statement the extension of expiry date was not made plausible. A 100% write-down shall also include the remaining raw materials, products and goods stored



for more than two years.

Inventory issue shall be valued by using the FIFO method. Valuation of inventory issue through a detailed identification of actual prices/costs shall be acceptable.

Trade and other liabilities

Trade and other liabilities shall be valued at the amount due.

The financial statement shall present liabilities divided into short-term and long-term. The long-term liabilities shall include the liabilities due within the period exceeding 12 months from the balance sheet date whereas the liabilities due within a shorter period or held for trading shall be presented as short-term.

Trade and other receivables

Trade and other receivables shall be recognised and disclosed at the amounts initially invoiced, taking into account allowances for doubtful receivables. The allowance for receivables shall be estimated when the recovery of the full amount of receivables ceases to be probable.

The allowances shall be estimated as follows:

- receivables overdue by more than 360 days – 100% of the receivables,
- receivables in litigation – 100% of the receivables.

Receivables revaluation is effected taking into account their payment probability; an individual approach shall be applied to selected receivables apart from the above criteria if there is a certainty of the payment in spite of overdue receivables.

Receivables in a foreign currency shall be valued when they arise using an average monthly rate. As of the balance sheet date, the receivables in a foreign currency shall be valued using an official rate specified by the government.

Cash and cash equivalents

Cash and cash equivalents shall include cash at hand, in bank, cash in transit as well as bank deposits and other securities and interest on financial assets payable or due within 3 months from the date of their receipt, acquisition, purchase or establishment. Domestic assets shall be stated in the financial year and as of the balance sheet date in the accounting books at their face value. The face value shall include the added or possibly charged by the bank interest. As of the balance sheet date, the assets expressed in a foreign currency shall be calculated based on an official rate specified by the government.

Items expressed in foreign currencies

For the purpose of valuation of items expressed in foreign currencies, the Company shall apply a fixed monthly rate established at the beginning of each month. The balance sheet valuation shall be undertaken at the end of the financial year according to the official rate defined by the government.

At the time of making payments, the executed foreign exchange rate differences shall be presented as "loss on foreign exchange" or "gain on foreign exchange".

Accruals and prepayments

Prepayments shall be recognised for the expenses relating to more than one reporting period.

Prepayments shall include, among others, services paid for in advance. The expenses shall be settled in accordance to the lapse of time.

Accruals shall be recognised in the amount of probable liabilities being due in the current reporting period. An accrual allows the Company to record expenses and revenues for which it expects to expend cash or receive cash, respectively, in a future reporting period.

Deferred income

Deferred income shall include in particular the equivalent of funds received or due from contractors for the services to be rendered in subsequent reporting periods.



Provisions

Provisions shall be established if the Company has a legal or following from commercial practice obligation resulting from the past events and when it is probable that the fulfilment of this obligation would cause an outflow of economic benefits, and a reliable estimate of the value of these benefits can be made.

Taxes

Taxes shall be accounted for in accordance with the arrangements made with cantonal tax administration.

Equity

Equity shall be the assets less liabilities and provisions for liabilities. Equities shall be presented in the financial statements by type and according to the principles stipulated by the law and provisions of the Articles of Association.

Stock-taking of assets and liabilities

The rules of stock-taking, the documentation and settlement had been included in the Stock-taking Instruction. Every year, the Board of Directors issues the Order with respect to stock-taking, which defines the composition of stock-taking commission and the schedule of stocktaking performance.