

ORPHÉE SA

Plan-les-Ouates

report of the statutory auditor on the
ordinary audit for the year 2015 to the
general meeting

Geneva, March 17, 2016

REPORT OF THE STATUTORY AUDITOR ON THE ORDINARY AUDIT FOR THE YEAR 2015 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 balance sheet as at December 31, 2015, the income statement, the cash flow statement and notes for the year then ended.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these 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 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 December 31, 2015 comply with Swiss law and the company's articles of incorporation.

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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 Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

During our audit performed in accordance with article 728a para. 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 was not documented.

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.

BERNEY & ASSOCIES SA
Société Fiduciaire



Lucien ZANELLA
Licensed Audit Expert



Claude HERI
Licensed Audit Expert
Auditor in charge

Enclosure : financial statements (balance sheet, income statement, cash flow statement and notes)

ORPHÉE SA, Plan-les-Ouates**BALANCE SHEET AT DECEMBER 31, 2015**

	Note	31.12.2015	31.12.2014
		CHF	CHF
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents		164'291	13'754'866
Trade receivables - net of provision	8.1	1'066'123	1'257'435
Other current receivables - net of provision	8.2	8'941	249'809
Inventories - net of provision	8.3	1'988'371	2'640'031
Accrued income and prepaid expenses		205'143	50'140
Advance to PZ Cormay S.A, shareholder		3'927'574	4'334'277
TOTAL CURRENT ASSETS		7'360'443	22'286'558
NON-CURRENT ASSETS			
Loan to a subsidiary - net of provision	8.4	-	-
Investments in subsidiaries - net of provisions	3	21'411'897	21'881'474
Financial assets		25'203	29'188
Tangible fixed assets	8.5	38'552	55'129
Intangible fixed assets	8.6	1'084'854	55'841
TOTAL NON-CURRENT ASSETS		22'560'506	22'021'632
TOTAL ASSETS		29'920'949	44'308'190

ORPHÉE SA, Plan-les-Ouates
BALANCE SHEET AT DECEMBER 31, 2015

	Note	31.12.2015	31.12.2014
		CHF	CHF
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES			
Trade payables	8.7	3'171'142	1'234'884
Other current liabilities		233'663	130'899
Deferred income and accrued expenses	8.8	97'224	543'783
Provisions	8.9	352'814	1'715'000
TOTAL CURRENT LIABILITIES		3'854'843	3'624'566
NON-CURRENT LIABILITIES			
Long-term interest-bearing liabilities	10.1	2'000'000	2'000'000
TOTAL NON-CURRENT LIABILITIES		2'000'000	2'000'000
TOTAL LIABILITIES		5'854'843	5'624'566
SHAREHOLDERS' EQUITY			
Share capital	1	3'860'850	3'860'850
Legal capital reserves			
- reserves from capital contributions		46'618'779	46'618'779
Own shares	5	(8'809'177)	-
Voluntary retained earnings :			
- results carried forward		(11'796'005)	771'450
- result for the year		(5'808'341)	(12'567'455)
Total voluntary retained earnings		(17'604'346)	(11'796'005)
TOTAL SHAREHOLDERS' EQUITY		24'066'106	38'683'624
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		29'920'949	44'308'190

ORPHÉE SA, Plan-les-Ouates

INCOME STATEMENT 2015

	Note	2015 CHF	2014 CHF
<u>OPERATING INCOME</u>			
Net revenue		7'210'931	9'290'542
Other operating income	9.1	6'656	253'214
TOTAL OPERATING INCOME		7'217'587	9'543'756
<u>OPERATING EXPENSES</u>			
Changes in inventory		(867'063)	286'398
Cost of goods		(5'103'876)	(6'203'117)
Salaries and social charges		(852'630)	(789'442)
Other operating expenses	9.2	(3'800'234)	(3'282'302)
TOTAL OPERATING EXPENSES		(10'623'803)	(9'988'463)
OPERATING RESULT BEFORE INTERESTS, TAXES AND DEPRECIATION		(3'406'216)	(444'707)
Depreciation and value adjustments on fixed asset items		(23'064)	(29'366)
(Allocation) / reversal of the provision for bad debts		(36'844)	(334'698)
Reversal / allocation of the provision for inventory		215'403	(378'343)
Reversal / allocation of the provision for loan to a subsidiary		74'404	(4'570'346)
(Allocation) / reversal of the provisions for investments		(469'577)	(3'270'553)
OPERATING RESULT BEFORE INTERESTS AND TAXES		(3'645'894)	(9'028'013)
Financial income	9.3	57'640	48'139
Financial expenses	9.4	(97'770)	(124'511)
Exchange loss		(158'009)	(797'562)
ORDINARY OPERATING RESULT BEFORE TAXES		(3'844'033)	(9'901'947)
Extraordinary, non-recurring or prior-period expenses	9.5	(1'909'308)	(2'560'908)
RESULT BEFORE TAXES		(5'753'341)	(12'462'855)
Taxes		(55'000)	(104'600)
RESULT FOR THE YEAR		(5'808'341)	(12'567'455)

ORPHÉE SA, Plan-les-Ouates
CASH FLOW STATEMENT FOR THE YEAR 2015

	2015	2014
	CHF	CHF
LOSS FOR THE PERIOD	(5'808'341)	(12'567'455)
Depreciation on fixed assets items	23'064	29'366
Value adjustments on fixed assets	3'987	387'469
Unrealized exchange loss	829'638	242'888
Interests on loans	64'265	85'200
Change in provision for bad debts	(212'201)	334'698
Change in provision for inventories	(215'403)	378'343
Change in provision for loan to a subsidiary	(74'404)	4'570'346
Change in provision for investments	469'577	3'270'553
Change in trade receivables and other current receivables	644'381	(826'496)
Change in inventories	867'063	91'946
Change in income and prepaid expenses	(155'003)	(44'914)
Change in trade payables and other current liabilities	2'039'022	(484'360)
Change in deferred income and accrued expenses	(446'559)	538'783
Change in provisions	(1'362'186)	1'715'000
Change in advance to PZ Cormay S.A., shareholder	-	(4'511'280)
CASH FLOW FROM OPERATING ACTIVITIES	(3'333'100)	(6'789'913)
Purchase of tangibles assets	-	(15'097)
Purchase of intangible assets	(1'035'500)	-
Purchase of investments	-	(2'431'905)
Increase of loan granted	(348'533)	(10'035'484)
Decrease of loan granted	-	5'489'700
CASH FLOW FROM INVESTMENT ACTIVITIES	(1'384'033)	(6'992'786)
Purchase of own shares	(8'809'177)	-
Share capital increase (incl. additional paid in capital)	-	14'845'986
Interests on loans	(64'265)	(85'200)
Repayments of short-term liabilities	-	(1'124'113)
Increase in long-term interest-bearing liabilities	-	72'000
CASH FLOW FROM FINANCING ACTIVITIES	(8'873'442)	13'708'673
NET DECREASE IN CASH	(13'590'575)	(74'026)
Cash and cash equivalents at the beginning of the period	13'754'866	13'828'892
Cash and cash equivalents at the end of the period	164'291	13'754'866
NET DECREASE IN CASH	(13'590'575)	(74'026)

ORPHÉE SA, Plan-les-Ouates

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

1) GENERAL

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

The corporate purpose of the Company, according to Article 2 of its articles 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.

The financial statements have been prepared in accordance with the Swiss law principles and in particular according to articles 957 to 961d of Swiss Codes of Obligations.

2) NUMBER OF FULL-TIME POSITIONS

The number of full-time equivalents on a yearly average during the year 2015 did not exceed 10 employees (2014: dito).

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

	share of capital held	share of votes held	31.12.2015 CHF	31.12.2014 CHF
Diesse Diagnostica Senese S.p.A, Milano (ITA)	45.00%	50.00%		
The company is in the business of manufacturing reagents and immunoassay apparatus in Italy.				
Purchase price			18'750'000	18'750'000
Orphée Technics Sp. Z o.o, Lublin (POL)	100.00%	100.00%		
Polish company that manages real estate.				
Purchase Price			2'407'705	2'407'705
<u>Less</u> : Provision			(1'066'877)	(910'877)
			1'340'828	1'496'828
Innovation Enterprises Ltd, Carrigtwohill (IRL)	99.88%	99.98%		
Irish company in the business of manufacturing and distributing reagents and biochemistry apparatus.				
Purchase price			2'359'676	2'359'676
<u>Less</u> : Provision			(2'359'676)	(2'359'676)
			-	-
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
<u>Less</u> : Provision			(313'577)	-
			1'300'570	1'614'147
Kormiej 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			21'411'897	21'881'474

ORPHÉE SA, Plan-les-Ouates**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015****4) COLLATERAL FOR THIRD-PARTY LIABILITIES**

At December 31, 2015, the Company has a bank guarantee of CHF 17'500 in favour of Swisscard AECS GmbH (2014: dito).

5) 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).

	31.12.2015	31.12.2014
	CHF	CHF
Status of own shares as at 01.01	-	-
Purchases	8'809'177	-
Sales	-	-
Status of own shares as at 31.12	8'809'177	-

6) SIGNIFICANT SHAREHOLDERS

	31.12.2015	31.12.2015	31.12.2014	31.12.2014
Shareholder	No. Shares / No. of votes in GSM	% of capital / votes in GSM	No. Shares / No of votes in GSM	% of capital / votes in GSM
TOTAL FIZ directly and indirectly, through subsidiary TTL 1 Sp. z o.o.	12'564'314	32.54%	3'274'616	8.48% 50.00% + 1 share
PZ Cormay S.A.	8'879'956	23.00%	19'304'251	8.73%
Quercus TFI S.A.	3'011'102	7.80%	3'371'385	0.00%
Orphée SA	3'859'118	10.00%	-	32.79%
Others	10'294'010	26.66%	12'658'248	
Total	38'608'500	100%	38'608'500	100%

7) SHARES OF CAPITAL HELD BY THE BOARD OF DIRECTORS

	31.12.2015	31.12.2015
	No. Shares / No of votes in GSM	% of capital / votes in GSM
Janusz Płocica	338'000	0.88%
Domingo Dominguez	103'700	0.27%
Krzysztof Rudnik	-	-
Piotr Skrzyński	-	-
Wojciech Suchowski	-	-
	31.12.2014	31.12.2014
	No. Shares / No of votes in GSM	% of capital / votes in GSM
Tomasz Tuora with subsidiary entities	3'232'395	8.37%
Tadeusz Tuora	910'000	2.36%
Domingo Dominguez	103'700	0.27%
Piotr Skrzyński	-	-

8) INFORMATION RELATED TO ITEMS ON THE BALANCE SHEET

8.1) <u>Trade receivables - net of provision</u>	31.12.2015	31.12.2014
	CHF	CHF
Trade receivables, third parties	1'122'125	1'420'215
Trade receivables, subsidiaries and associates	23'745	129'168
<u>Less</u> : provision for bad debts	(79'747)	(291'948)
Total	1'066'123	1'257'435
8.2) <u>Other current receivables - net of provision</u>		
Suppliers with debit balance	8'941	248'369
Miscellaneous	-	1'440
Tax at source due by Directors	42'750	42'750
<u>Less</u> : provision for bad debts	(42'750)	(42'750)
Total	8'941	249'809
8.3) <u>Inventories - net of provision</u>		
Finished goods	2'151'311	3'018'374
<u>Less</u> : provision for obsolescence	(162'940)	(378'343)
Total	1'988'371	2'640'031
8.4) <u>Loan to a subsidiary - net of provision</u>		
Loan to a subsidiary	4'495'942	4'570'346
<u>Less</u> : provision	(4'495'942)	(4'570'346)
Total	-	-
Balance as at 01.01.	4'570'346	387'500
Increase of the loan	348'533	4'248'734
Exchange difference	(422'937)	(65'888)
Balance as at 31.12	4'495'942	4'570'346
Balance as at 01.01.	4'570'346	-
Increase of the provision	(74'404)	4'570'346
Balance as at 31.12	4'495'942	4'570'346

8.5) Tangible fixed assets

	Depr. Rate	Net value 31.12.2014	Purchase/ sales	Depreciation 2015	Net value 31.12.2015
	%	CHF	CHF	CHF	CHF
Machinery and equipment	10%	25'217	-	(6'891)	18'326
Motor vehicles	20%	11'811	-	(2'646)	9'165
IT equipment	33%	10'107	-	(4'026)	6'081
Office furniture	10%	7'994	-	(3'014)	4'980
Total		55'129	-	(16'577)	38'552

8.6) Intangible fixed assets

	Depr. Rate	Net value 31.12.2014	Purchase/ sales	Amortization 2015	Net value 31.12.2015
	%	CHF	CHF	CHF	CHF
Patents	10%	52'348	-	(2'994)	49'354
Research and development costs	20%	3'493	1'035'500	(3'493)	1'035'500
Total		55'841	1'035'500	(6'487)	1'084'854

8.7) Trade payables

	31.12.2015	31.12.2014
	CHF	CHF
Trade payables, third parties	732'709	1'026'480
Trade payables, shareholder	2'306'433	208'404
Trade payables, subsidiaries	86'100	-
Trade payables to the statutory auditor	45'900	-
	3'171'142	1'234'884

8.8) Deferred income and accrued expenses

Charges due to an associate company	-	247'780
Arbitration costs	-	130'000
Audit fees	50'209	42'500
Tax at source	42'750	42'750
Other accrued expenses	4'265	80'753
	97'224	543'783

8.9) Provisions

General provision related to potential claim for undue retrospective compensations	-	1'715'000
Provision for litigation against Diagnostica Holding s.r.l (see note 11)	330'000	-
Provision for court in Poland	22'814	-
Total	352'814	1'715'000

The amount of CHF 1'715'000 was paid out lawlessly 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.

9) INFORMATION RELATED TO ITEMS IN THE INCOME STATEMENT

9.1) <u>Other operating income</u>	2015	2014
	CHF	CHF
Management fees invoiced to an associate company	-	250'404
Miscellaneous income	2'084	2'810
Administration fees	4'572	-
Total	6'656	253'214
9.2) <u>Other operating expenses</u>		
Legal and fiduciary fees	1'566'525	1'484'888
Consultancy fees	1'499'459	966'786
Travel expenses	244'684	281'373
Legal taxes	173'879	121'024
Rent and maintenance expenses	127'799	120'464
Advertising and public relations expenses	81'334	74'883
Telecommunication expenses	26'514	19'625
Supplies and small equipment expenses	25'393	20'585
Insurance fees	17'244	15'650
Maintenance costs	14'497	14'055
Professional tax	8'694	3'969
Recruitment fees	8'212	-
Directors' fees	6'000	159'000
Total	3'800'234	3'282'302
9.3) <u>Financial income</u>		
Interests on trade receivables	37'927	31'928
Bank interest income	19'713	16'211
Total	57'640	48'139
9.4) <u>Financial expenses</u>		
Interest on loan	60'000	60'000
Interest on bank facility	4'265	25'200
Interests and bank fees	33'505	39'311
Total	97'770	124'511

ORPHÉE SA, Plan-les-Ouates**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015****9.5) Extraordinary, non-recurring or prior-period expenses**

	2015	2014
	CHF	CHF
Services invoiced by PZ Cormay SA for fiscal years 2010-2013	1'571'024	138'600
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	72'129
Potential claim for undue retrospective compensations	-	1'715'000
R&D costs write off	-	387'469
Taxes related to prior fiscal year	-	247'710
Total	1'909'308	2'560'908

The amount of CHF 200'000 was paid out lawlessly 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.

The amount of CHF 1'571'024 invoiced by the shareholder is due on February 29, 2016.

10) ADDITIONAL INFORMATION IN THE NOTES (Art. 961a OR)**10.1) Information on long-term interests-bearing liabilities**

	31.12.2015	31.12.2014
	CHF	CHF
1 - 5 years	2'000'000	2'000'000
> 5 years	-	-
Total	2'000'000	2'000'000

10.2) Fees for audit services and other services

Fees paid to the statutory auditor for audit services	35'500	49'500
Fees paid to the independent auditor for the audit of the consolidated accounts	16'784	16'784
Total	52'284	66'284

11) SIGNIFICANT SUBSEQUENT EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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 (see note 8.9).

The Board of Directors of Innovation Enterprises Limited with registered office in Carrigtwohill, the Republic of Ireland (subsidiary), has decided on its liquidation at the meeting held on January 27, 2016. A motion to launch the liquidation proceedings and appoint Mr Neil Hughes and Mr Joseph Walsh from Hughes Blake, Chartered Accountants of Joyce House, Holies Street, Dublin 2 as joint temporary liquidators was filed with the High Court in Dublin, the Republic of Ireland on January 28, 2016. On January 29, the High Court in Dublin approved the appointment of Mr Neil Hughes and Mr Joseph Walsh as temporary liquidators.

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.

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.

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.

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 stock-taking performance.