ANNUAL REPORT 2018

WuXi Biologics
Global Solution Provider

WuXi Biologics (Cayman) Inc.
藥明生物技術有限公司*

(Incorporated in the Cayman Islands with Limited Liability)
Stock Code: 2269

For identification purpose only

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Zhisheng Chen *(Chief Executive Officer)*
Dr. Weichang Zhou *(Chief Technology Officer)*

Non-executive Directors

Dr. Ge Li *(Chairman)*
Mr. Edward Hu
Mr. Yibing Wu
Mr. Yanling Cao

Independent Non-executive Directors

Mr. William Robert Keller
Mr. Teh-Ming Walter Kwauk
Mr. Wo Felix Fong

AUDIT COMMITTEE

Mr. Teh-Ming Walter Kwauk *(Chairman)*
Mr. William Robert Keller
Mr. Edward Hu

REMUNERATION COMMITTEE

Mr. William Robert Keller *(Chairman)*
Mr. Wo Felix Fong
Mr. Edward Hu

NOMINATION COMMITTEE

Dr. Ge Li *(Chairman)*
Mr. William Robert Keller
Mr. Teh-Ming Walter Kwauk

STRATEGY COMMITTEE

Dr. Zhisheng Chen *(Chairman)*
Dr. Ge Li
Mr. Yibing Wu

AUTHORISED REPRESENTATIVES

Dr. Zhisheng Chen
Ms. Cheng Pik Yuk

JOINT COMPANY SECRETARIES

Mr. Huang Yue
Ms. Cheng Pik Yuk

REGISTERED OFFICE

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Grand Cayman KY1-1104
Cayman Islands

CORPORATE HEADQUARTER

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China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR

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Level 22, Hopewell Centre
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Hong Kong

HONG KONG LEGAL ADVISER

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The Landmark
15 Queen's Road Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
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88 Queensway
Hong Kong

COMPLIANCE ADVISER

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Hong Kong

STOCK CODE

2269

COMPANY WEBSITE

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Chairman and CEO Statement

Dear Shareholders,

For WuXi Biologics, 2018 was an exciting year. With the mission to accelerate and transform biologics discovery, development and manufacturing to benefit patients worldwide, we not only maintained our high-speed business growth, but also launched vigorous global expansion plans in pursuit of the "Follow-the-Molecule" and "Global Dual Sourcing within WuXi Bio" strategies. Key milestones we have achieved in 2018 include:

- The Group continued to deliver strong growth in both its revenue, with a year-on-year 56.6% increase, in particular a 77.5% increase from the Chinese market, and the number of integrated projects reaching 205 compared to 161 in 2017.

- The Group launched grand capacity expansion plans across the world to build and diversify manufacturing capacity in the U.S., Ireland, China and Singapore. "Globalization" and "Localization" will enable our customers to accelerate the R&D process, improve efficiency and leverage biologics manufacturing worldwide.

- The Group's cGMP Drug Substance (DS) and Drug Product (DP) manufacturing facilities have been approved by the U.S. FDA. Furthermore, in March of 2019, the above-mentioned DS and DP facilities, as well as the Group's cGMP cell banking facilities were also approved by the European Medicines Agency (EMA), which makes the Group the first biologics company in China approved by both the U.S. FDA and EMA.

- The Group significantly advanced the technology of biologics discovery, development and manufacturing through the successful launch of its proprietary WuXiBody™, WuXia and WuXiUP technology platforms, which will introduce more projects into the Group's "Follow-the-Molecule" business model.

- With commencement of construction at our Ireland site, the Group has already opened a new chapter for international operations. With its effective business strategy of "Global Dual Sourcing within WuXi Bio", more exclusive strategic partnerships can be achieved in the future. This enables more global customers to provide needed medicines to the healthcare marketplace.

WuXi Biologics continued to enlarge and diversify its customer base in 2018. In addition to serving mid-sized biotech and global pharmaceutical companies, including 13 out of the 20 largest pharmaceutical companies in the world and 22 of the 50 largest pharmaceutical companies in China, we also devoted considerable efforts to market to, serve and enable start-ups and small firms as well. Our fully integrated biologics technology platform combined with our "Follow-the-Molecule" strategy have been key drivers for our success and will thus continue to provide value to our clients and partners and contribute notable revenue streams in the future.

As a top global manufacturing organization, WuXi Biologics has planned and initiated various capacity expansion plans in 2018 not only at our existing sites in China, but also in the EU, Southeast Asia and the U.S. to satisfy growing biologics demand. Upon completion, we will deliver 220,000L of bioreactor manufacturing capacity. Our expansion plan will lay a solid foundation for our "Global Dual Sourcing within WuXi Bio" strategy, which allows the Group to sustain its favorable position in biologics industry and continue to seize emerging opportunities from the biologics outsourcing market.

Furthermore, as a leading global open-access biologics technology platform, WuXi Biologics never stopped pushing the limit for providing advanced capabilities and capacities, cutting-edge technologies and comprehensive service solutions. Backed by our world-class R&D scientist team, we have innovated and exploited state-of-the-art proprietary technologies, including but not limited to:

- WuXiBody™, a biospecific platform which can considerably expedite bispecific development at a much lower cost;
- WuXia, a cell line development platform that enables our Group to launch more than 60 IND-enabling projects per year, one of the largest capacities in the world; and
- WuXiUP, our cell culture process platform that utilizes 2,000L disposable bioreactors to achieve comparable productivity as a traditional 20,000L stainless steel bioreactor while still providing similar purification yield.

We would like to give our heartfelt thanks to our customers and shareholders. Your trust in our Company keeps us striving for excellence and endeavoring for the vision "every drug can be made and every disease can be treated". We must also thank our dedicated employees, 4,141 in total as of December 31, 2018, who are the basis of everything we achieve.

There were remarkable opportunities for global healthcare industry in 2018. It's a year when U.S. FDA set an all-time record of new drug approvals. It's also a year when China introduced widely acclaimed reforms in the pharmaceutical industry to promote its productivity and innovation. In addition, the Hong Kong Stock Exchange further amended its rules to welcome qualified pre-revenue biotech companies. Such favorable macro environment factors are also drivers to our strong growth in the coming years.

Looking forward to 2019, we will keep adhering to our "Follow-the-Molecule" strategy and pushing the frontiers of what is possible. We are committed to fulfill our business and financial objectives as approved by the Board for 2019 by practicing the core values of "Integrity & Dedication, Working Together & Sharing Success; Do the Right Thing and Do it Right", so as to become the most comprehensive technology platform in the global biologics industry and create greater value for our shareholders and provide better services to our global customers, partners and patients.

Dr. Ge Li
Chairman

March 18, 2019

Dr. Zhisheng Chen
CEO

March 18, 2019

Financial Summary

	For the year ended December 31,				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**
Operating results					
Revenue	331,850	557,042	989,029	1,618,829	**2,534,453**
Gross profit	123,254	180,721	389,110	660,557	**1,017,755**
Profit before tax	49,012	65,402	175,846	303,687	**737,722**
Net profit	41,978	44,509	141,096	252,628	**630,465**
Adjusted net profit [1]	49,744	71,370	220,527	432,872[2]	**751,557**
Profitability					
Gross margin (%)	37.1%	32.4%	39.3%	40.8%	**40.2%**
Net profit margin (%)	12.6%	8.0%	14.3%	15.6%	**24.9%**
Adjusted net profit margin (%)	14.1%	12.8%	22.3%	26.7%	**29.7%**

	As at December 31,				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018 RMB'000**
Financial position					
Total assets	636,670	1,356,716	1,984,996	4,848,962	**9,393,150**
Total equity	371,830	146,001	270,467	4,024,360	**7,994,228**
Total liabilities	264,840	1,210,715	1,714,529	824,602	**1,398,922**
Bank balances and cash	5,948	158,229	169,102	503,881	**4,084,395**

(1) Calculation of adjusted net profit is modified and calculated as net profit for the Reporting Period, excluding share-based compensations, foreign exchange gains or losses and Listing expenses to better reflect the Company's current business and operations.

(2) The adjusted net profit for the year ended December 31, 2017 disclosed herein is recalculated based on the revised calculation stated in (1). The same financial figure disclosed in the 2017 annual report of the Company was RMB408.1 million, calculated by excluding share-based compensation expenses, Listing expenses and a foreign exchange loss due to translation loss from the IPO proceeds.

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with the IFRS, the Company has provided adjusted net profit, adjusted net profit margin, adjusted EBITDA, adjusted EBITDA margin and adjusted basic and diluted earnings per share (excluding the share-based compensation expenses, Listing expenses and foreign exchange gains or losses) as additional financial measures, which are not required by, or presented in accordance with, the IFRS. The Company believes that the adjusted financial measures are useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of these non-IFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under the IFRS.

Business Review

The Group continues to implement its "Follow-the-Molecule" strategy and capture attractive market growth opportunities and gain market share globally. The Group delivered strong growth in the total number of integrated projects during the Reporting Period. As at December 31, 2018, the Group had a total of 205 integrated projects, compared to the total of 161 projects as at December 31, 2017. In particular, 10 projects were transferred to the Group, which showcased the Group's end-to-end solution platform to empower its global partners to discover, develop and manufacture biologics from concept to commercial manufacturing.

- The total number of pre-clinical projects increased from 90 as at same period last year to 97 as at December 31, 2018.

- The total number of early-phase (phase I and II) projects increased by 51.6% from 62 as at same period last year to 94 as at December 31, 2018 (68 in phase I and 26 in phase II, respectively).

- The number of late-phase (phase III) projects increased by 62.5% from 8 as at same period last year to 13 as at December 31, 2018.

- The Group also achieved great success in progressing projects from pre-IND stage to post-IND stage: 33 projects progressed from pre-clinical development stage to early-phase stage during the Reporting Period.

The first commercial manufacturing project commenced production in the Group's Wuxi site, which was the first cGMP biologics facility in China approved by the U.S. FDA. The U.S. FDA's approval fully validated the Group's premier quality system as well as its advanced single-use disposable technology for commercial manufacturing. As more projects were initiated across different stages and its first commercial manufacturing project has been kicked off, the Group has built a stronger platform for integrated services and continued to increase its share in the global market.

The following table sets forth the status of the on-going integrated projects of the Group as at December 31, 2018:

Biologics development process stage	Number of on-going integrated projects[1]	Typical duration	Typical Revenue[2]
Pre-IND			
— Drug discovery	—	2 years	US$1.5–2.5 mm
— Pre-clinical development	97	2 years	US$4–6 mm
Post-IND			
— Early-phase (phases I & II) clinical development:	94	3 years	US$4–6 mm
— Phase I clinical development	(68)		
— Phase II clinical development	(26)		
— Late-phase (phase III) clinical development	13	3–5 years	US$20–50 mm
— Commercial manufacturing	1	Annually	US$50–100 mm[3]
Total	**205**		

Notes:

(1) Integrated projects are projects that required the Group to provide services across different divisions/departments within the Group and across various stages of the biologics development process.

(2) Milestone fee can be paid at different research and development ("**R&D**") stages, while royalty fee will be charged for 5–10 years or until expiration of the patent once the new drug launches in the market.

(3) Estimated value when biologic drug reaches its peak sales. A biologic drug typically reaches its peak sales after a ramp-up period.

The Group's revenue for the year ended December 31, 2018 increased by 56.6% year-on-year to RMB2,534.5 million. The Group delivered strong growth in its total backlog, which comprised both service backlog and upcoming potential milestone fees. The service backlog surged by 243.1% from approximately US$476.0 million as at December 31, 2017 to approximately US$1,633.0 million as at December 31, 2018; the upcoming potential milestone fees doubled from approximately US$1,002.0 million as at December 31, 2017 to approximately US$2,006.0 million as at December 31, 2018. The service backlog represents the amount which the Group has contracted but yet to perform. The total upcoming potential milestone fees represent the total amount for upcoming milestone fees, which the Group has contracted but has not yet performed nor received and will take a longer term to charge at various development stages, depending on the success rate and progress of the projects which may not be within the Group's control.

The Group continued to invest in new technologies and platforms which will not only generate further milestone and royalty payments but also bring more biologics projects into the pipeline under the "Follow-the-Molecule" strategy. The Group launched a new proprietary bispecific antibody platform WuXiBody™, which will expedite bispecific development and reduce manufacturing costs. During the Reporting Period, the Group has successfully entered into multiple global and domestic strategic collaborations and licensed WuXiBody™ platform to its partners, such as a contract worth up to US$450 million with Oxford BioTherapeutics. Another state-of-the-art cell line development platform WuXia will enable the Group to launch more than 60 IND-enabling projects per year, one of the largest capacities in the world. The WuXia platform has been widely accepted by the industry. More than 20 clinical projects enabled by WuXia are under development in the U.S., the EU and China and 60 additional WuXia-enabled projects are to be developed. WuXiUP platform, which couples continuous cell culture operations with continuous column chromatography, is the Group's another technology innovation. This technology platform can use 2,000L disposable bioreactors to achieve comparable productivity of traditional 20,000L stainless steel bioreactors yet still provide similar purification yields. WuXiUP solidified the Group's global leader role in the continuous biomanufacturing field. With the successful launches and powerful support of the proprietary bispecific antibody platform, WuXiBody™, the cell line development platform, WuXia, and the continuous cell culture process platform, WuXiUP, the Group has significantly advanced the technology of biologics development and achieved outstanding progress to enhance the discovery, development and manufacturing of biologics.

During the Reporting Period, the Group invested significantly in capabilities and capacity globally. From April 2018 onwards, the Group started its global strategic layout with a total planned capacity of biopharmaceutical production reaching more than 220,000 liters. Under the principle of "Striving for Excellence and Executing for Results", the Group has achieved important milestones at remarkable speed by successfully commencing construction of several R&D and manufacturing facilities in both Ireland and China (including Wuxi, Shanghai and Shijiazhuang).

The Group introduced a new manufacturing paradigm "Global Dual Sourcing within WuXi Bio" to address its partners' needs in ensuring supply while minimizing technology transfer to two different suppliers. With this strategy, the Group's partners can select two facilities from the Group's global supply network in China, EU and US to ensure their global supply and eliminate the risks of inter-company technology transfer. The Group has successfully signed exclusive commercial manufacturing contracts using this approach.

During the Reporting Period, the Company's extensive experience and one-stop service platform continued to drive industry-leading R&D efficiency to enable the customers and partners. The Company reduced the IND-enabling timeline to between 15 and 18 months for monoclonal antibodies, while one program was shortened to a record of 7 months. The Company established more exclusive or strategic partnerships with global customers from biologics discovery, development, clinical manufacturing to commercial manufacturing for rare disease, first-in-class and other novel biologics. By leveraging cutting-edge technology, best timelines, excellent track record and unparalleled capacity, the Company kept improving the core competencies to become the most comprehensive technology platform in the global biologics industry to benefit patients globally.

With its continuous investment in talent and technology development in biologics discovery, development and manufacturing, the Group has established itself as a reliable global partner to leading global pharmaceutical companies as well as virtual, start-up companies and small-to-medium sized biotechnology companies. For the year ended December 31, 2018, the Group had worked with 13 out of the 20 largest pharmaceutical companies in the world and 22 of the 50 largest pharmaceutical companies in China. The Group provided services to 220 customers in the year of 2018, compared with 202 customers in 2017. The average revenue per customer among the top ten customers grew 35.0% from approximately RMB88.4 million for 2017 to approximately RMB119.3 million for 2018, and the average revenue per project increased 22.8% from approximately RMB10.1 million for 2017 to approximately RMB12.4 million for 2018, which further validated the Group's "Follow-the-Molecule" strategy. The Group believes that continuous cooperation with and commitment to its existing customers will enhance its value chain and capture the opportunities in this growing market in the future.

In January 2018, five internationally recognized scientists, entrepreneurs and visionary thinkers were appointed as members of the Group's newly formed Scientific Advisory Board ("**SAB**"). The SAB supports the Group's mission of becoming a technology leader and a trusted partner for biopharmaceutical companies worldwide to advance the science and technology of biologics development and thereby ultimately benefiting patients worldwide. In September 2018, the Group introduced Harvard Professor David R. Liu to the SAB.

In March 2018, the Group's partner TaiMed Biologics, a public company listed on Taipei Exchange in Taiwan (Stock code: 4147), received the U.S. FDA's approval for Ibalizumab (**Trogarzo**™) and with that the Group became one of the world's top 10 biologics development and manufacturing service providers and the only Chinese biopharmaceutical manufacturing company which has obtained U.S. FDA cGMP manufacturing approval, thus reinforcing the Group's strong commitment to quality. During the Reporting Period, the Group completed several cGMP batches of Trogarzo™ drug substance ("**DS**") and drug product ("**DP**"). It is the Group's first commercial manufacturing project.

In July 2018, the Company entered into a joint venture agreement with Shanghai Hile Bio-pharmaceutical Co., Ltd. (上海海利生物技術股份有限公司), a company incorporated in the PRC with limited liability and listed on the Shanghai Stock Exchange (Stock code: 603718), in relation to the formation of a joint venture ("**WuXi Vaccines**") with total registered capital of RMB500 million. WuXi Vaccines primarily engages in human vaccines (e.g. cancer vaccine) CDMO (Contract Development and Manufacturing Organisation) business and the provision of end-to-end integrated service and solution platform covering the discovery, development and manufacturing of human vaccines from concept to commercial manufacturing. WuXi Vaccines will focus on the emerging fields of cancer vaccines and patient-specific vaccines to seize the growth opportunities of this CDMO business. Under an exclusive strategic partnership agreement the Group entered into in December 2018 with AC Immune SA, a Swiss-based clinical-stage biopharmaceutical company listed on NASDAQ (Stock code: ACIU), WuXi Vaccines will explore the application of AC Immune's vaccine portfolio in China.

Our Facilities

During the Reporting Period, we had three operation sites in Wuxi, Shanghai and Suzhou, respectively, all conveniently located within driving distance from each other.

Wuxi Site

The Wuxi site houses part of the clinical and commercial manufacturing facilities, and also provides services such as assay, formulation and process development, process validation, lot release testing, stability studies, drug product formulation, fill and finish, and regulatory support services for recombinant protein, monoclonal antibodies ("**mAbs**") and antibody drug conjugates ("**ADC**").

The Group's Manufacturing 1 ("**MFG1**"), the first commercial manufacturing facility at the Wuxi site, passed the U.S. FDA pre-license inspection ("**PLI**") for production of Ibalizumab (**Trogarzo**™) in August of 2017 and commenced to manufacture commercial products for customer since the medicine's approval by the U.S. FDA in 2018. MFG1 maintained cGMP run for customer orders and kept high capacity utilization rate during the Reporting Period.

The Group's Manufacturing 2 ("**MFG2**") began its cGMP biologics manufacturing in December 2017 and it is the largest biologics manufacturing facility globally leveraging single-use bioreactor technology as of 2018. MFG2 is a disposable bioreactor-based biologics commercial manufacturing facility with fourteen 2,000L-capacity and two 1,000L-capacity disposable bioreactors. The combination of multiple single-use bioreactors offers a highly flexible manufacturing strategy and competitive cost of goods sold (COGS) compared with traditional stainless steel bioreactor facilities. Currently it is mainly used for late-phase projects manufacturing. In July 2018, the Group conducted a process validation campaign at 6,000L scale to support global product registration and launch for a key partner in the fed-batch facility of MFG2.

In May 2018, the Group commenced the construction of the WuXi Biologics Life Science and Technology Park and held the ground breaking ceremony in Wuxi. By the end of 2018, the park has achieved significant progress in construction as planned and will combine the R&D and manufacturing areas with a training center and a biologics equipment localization center to establish the Group's global headquarter that integrates R&D, manufacturing, training, global collaboration and business support.

The Group has also commenced the construction of a state-of-the-art integrated biologics conjugate solution center facility in the New District of Wuxi city. This 6,000 square meter facility will provide integrated solutions from concept to commercialization for biologics conjugates, including ADCs and other protein conjugates.

The Group's Manufacturing 4 ("**MFG4**"), equipped with two 2,000L-capacity, two 1,000L-capacity and one 4,000L-capacity bioreactors, has made encouraging process in construction during the Reporting Period and expects to commence production in 2019.

Shanghai Site

The Group's Shanghai site houses the drug discovery and pre-clinical development facilities and part of the Group's cGMP clinical manufacturing facilities. Services provided include novel mAb discovery, bispecific antibody engineering, ADC discovery and development, cell line engineering and development, assay, formulation and process development, assay and process validation, product analytical characterization, and cGMP cell banking.

WuXia is the proprietary cell line development platform of the Company. It is one of the world's highly utilized cell line development platforms and has provided more than 220 cell lines for pre-clinical development and beyond. With the proprietary expression vector system, top 3 clones with high titer can be obtained and utilized for process development and cGMP manufacturing. Combined with cGMP cell banking and cell line characterization services, it is ideal for the production of a variety of therapeutic proteins including monoclonal antibodies, bispecific antibodies, fusion proteins, ADCs and recombinant proteins.

WuXiUP, a proprietary biologics cell culture process platform with ultra-high productivity, is the Group's next generation biologic manufacturing solution that the Group developed to accelerate biologics development and manufacturing as well as to improve affordability of biologics by reducing manufacturing costs. The platform enables almost any biologics, including mAbs, fusion proteins and recombinant proteins, to be manufactured at ultra-high productivity. The intensified and continuous cell culture process can be rapidly developed or converted from traditional fed-batch process with excellent scalability. It is also coupled with continuous column chromatography, which enables continuous product capture with a similar purification yield to traditional purification process.

Manufacturing 3 ("**MFG3**"), the new facility for clinical trial production at the Shanghai site with a total bioreactor capacity of 7,000L, successfully completed its first cGMP clinical trial run in July 2018. The facility includes both traditional fed-batch operations and new continuous perfusion suites coupled with continuous purification. It is one of the largest biologics clinical manufacturing facilities globally with six production lines enabling the Group to complete 60 IND-enabling projects per year, which showcases the Group's unparalleled capacities to enable its partners to reach their clinical manufacturing goals within the shortest time possible.

In addition, the Group has commenced construction of a global innovation center in the Fengxian district of Shanghai. The new state-of-the-art biologics center will integrate biologics discovery, development, clinical and commercial manufacturing to meet global cGMP standards while implementing modular and flexible design. With its 1.6 million square feet area, this center will be one of the largest facilities of its kind.

Suzhou Site

The Suzhou site houses the biosafety testing facilities, providing services such as viral clearance and cell line characterization studies. The Company has built state-of-the-art biosafety testing facilities at the Suzhou site that can support all biosafety testing requirements for biologics manufacturing.

During the Reporting Period, the Suzhou site has greatly enhanced its internal operations management and significantly shortened the delivery time of all biosafety testing projects, as well as virus clearance study projects. The site has increased its capabilities and capacity, including the acquirement of its own Transmission Electron Microscopy (TEM) technical expertise that meets current regulatory requirements. The viral clearance validation team undertook and completed several viral clearance validation projects for Biologics License Applications (BLAs). The newly expanded cell-bank-characterization laboratory is fully operational. The quality system and testing capability stepped up further by obtaining certifications from both China Metrology Accreditation ("**CMA**") and China National Accreditation Service for Conformity Assessment ("**CNAS**"). Based on the abovementioned achievements, once again the Group demonstrated a higher level of quality commitment to its global biopharmaceutical customers.

Research and Development ("R&D")

During the Reporting Period, the Group continuously focused on (i) enhancing innovative capabilities and optimizing several existing technological platforms to expedite the discovery of biologics including fully human antibodies, bispecifics, nanobodies and antibody fragments; (ii) supporting the cooperation with the Group's global partners in using the proprietary bispecific antibody platform WuXiBody™, so as to enable them to considerably accelerate the development process of new bispecific biologics; and (iii) refining system and team building for more efficient business operation and optimized cost control to ensure the provision of quality and efficient technical solutions to customers. Through R&D activities, the Group developed various proprietary technologies, which enable it to receive milestone and royalty fees from customers utilizing such technologies.

For the year ended December 31, 2018, the R&D expenditure was RMB169.3 million, which accounted for 6.7% of the revenue. The R&D team of the Company has around 230 scientists and many of whom have multiple years of biologics discovery experiences at multinational pharmaceutical companies.

With its stable and outstanding test database, WuXiBody™, as the Company's proprietary bispecific antibody technology platform, has been widely recognized in the industry. During the Reporting Period, the Company has signed license collaboration agreements with domestic and global companies. Relevant businesses based on WuXiBody™ have delivered strong growth for the results of the Company.

The Group fosters an environment of continuous improvement which in turn helps enhance the internal R&D efficiency and strengthen close cooperation with downstream divisions/departments. Each technology platform keeps upgrading and innovating to optimize the entire spectrum of services offered to our partners, while the R&D team strives to provide the best new biologics R&D solutions, ensuring faster and better customer satisfaction with the ultimate goal of providing high quality biologics for the long-awaited needs of the patients.

Sales and Marketing

The Group takes a multichannel approach in achieving its marketing goals. The objectives of the marketing plan are to build awareness of the Company's brand and its open-access technology platforms and to communicate to the market the key technical, operational and business strategies of the Group. Marketing efforts strive to influence existing and potential clients to develop positive two-way communication with the Group in addition to furthering its overall business growth objectives.

The multichannel marketing approach involves both academic and sales presence at various global industry trade conferences. For the year of 2018, the Group invited C-level and other senior management in the industry to meet in January during the week of the JP Morgan Healthcare Conference in San Francisco and then again six months later at the annual "BIO" conference in Boston. Both of these conferences brought together over 16,000 executives and other key industry leaders from biopharma/pharma companies worldwide and allowed the Group's business development and senior management staff to discuss with key and potential clients how the Group can help them in their critical biologics development efforts. The Group also attended events held in more regional venues like BioEurope, BioKorea and CPhI Japan to further discuss with senior level executives on the advantages and competitiveness of the Group's single-source drug development platform. The Group also attended or presented its various platform technologies at technology-centric conferences dedicated to biologics development and manufacturing, including the Bioprocess International East Conference, Biologics Manufacturing Asia and PEGS (Protein Engineering Summit). In particular, during a presentation made by one of the Group's vice presidents of CMC management at the "Speed to IND" conference, the Group demonstrated to the audience how it was able to achieve an industry record 7-month DNA to IND timeline for Tychan's mAb therapeutic to treat Yellow Fever virus infection.

During the Reporting Period, the Group once again established itself as a premier supplier and partner in the biopharmaceutical industry by utilizing a global multichannel marketing approach to highlight its differentiated competitive strengths.

Quality Assurance ("QA")

The Quality Department, including quality assurance, quality control, regulatory affairs and training center functions, is committed to the highest standard of regulatory compliance while providing high quality services and products that meet customer's needs.

The Quality Department is responsible for implementing our global quality system and supervising the quality operations to ensure GMP compliance within the Group's manufacturing environment. The Company's manufacturing facility at the Wuxi site, which is listed in the Trogarzo™ Biologics License Application, was inspected in 2017 and subsequently approved by the U.S. FDA in March 2018, is the first biologics manufacturing facility in China approved by the U.S. FDA. This fully evidenced that DS and DP operations of the Group are in compliance with the applicable regulations and the Quality Department has established a global quality system in line with the international standard.

In addition, with solid support and comprehensive oversight of the Quality Department, the biosafety testing facility at the Suzhou site has successfully obtained CMA and CNAS accreditation.

In January 2018, Dr. Chiang Syin joined the Group as Chief Quality Officer and is responsible for the global quality management system, quality assurance, quality control and regulatory affairs. Dr. Syin has almost 30 years of experiences in the U.S. FDA regulatory review and cGMP inspection in biological products. In April 2018, another former U.S. FDA officer, Dr. Gang Wang joined the Group as Vice President of Quality reporting to Dr. Syin. Dr. Wang has worked for the U.S. FDA and National Medical Products Administration ("**NMPA**") (formerly known as China Food and Drug Administration ("**CFDA**")) for 13 years and is a peer-review expert on cGMP and manufacturing of biologics, with additional expertise in cellular and gene therapy products.

Capacity Expansion Plan

Due to the Group's increasing number of late-phase projects, long-term globalization strategy and other potential customer demands, the Company realized the need for further expansion. Thus, the Company made significant global investments to expand capacities by building across the world with a total planned capacity of biopharmaceutical production of more than 220,000 liters.

Facility	Designed Capacity	Location	Comments
MFG4	10,000L fed-batch/CFB	Wuxi	Clinical/Commercial
MFG5	60,000L fed-batch	Wuxi	Commercial
MFG6	6,000L perfusion	Ireland	Commercial
MFG7	48,000L fed-batch	Ireland	Commercial
MFG8	48,000L fed-batch	Shijiazhuang	Commercial
MFG9	6,000L fed-batch/CFB	Wuxi	Clinical/Commercial
MFG10	4,500L fed-batch/perfusion	Singapore	Clinical/Commercial
MFG11	4,500L fed-batch/perfusion	Worcester, US	Clinical/Commercial

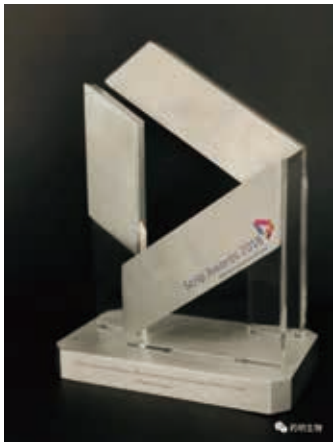
By the end of 2018, the Group had commenced the construction of several R&D and manufacturing facilities in Ireland and China. The Ireland facilities, supported by the Irish Government, is the Company's first overseas site and it is designed to run both traditional fed-batch and perfusion continuous manufacturing processes. The Company's continuous manufacturing process is a next generation manufacturing technology. Once completed, the Ireland site will become one of the world's largest facilities using single-use bioreactors. Meanwhile, the Group's MFG8 at Shijiazhuang site with 48,000L bioreactor capacity has commenced its construction, which is designed to meet cGMP standards of the U.S., the EU and China.

These new sites will enable the Group to continue to implement the "Follow-the-Molecule" and "Globalization" strategies and maintain the fast-track growth compared to its competitive peers. Accordingly, the Group will be able to establish comprehensive capabilities and capacity to realize the full biologics development and manufacturing service chain. The capacity expansion plan will be reviewed regularly to align with future customer needs and market conditions.

Group Awards

In 2018, the Group has received and won many recognitions and awards for its efforts made and outstanding performance achieved in the provision of high-quality and best-in-class service to accelerate and transform biologics development and manufacturing. Among all, the following are some of the achievements:

- Forbes Asia's Best Under A Billion 2018 (《福布斯》雜誌「亞洲最佳中小上市企業」);
- Best Bioprocessing Excellence and Bioprocessing Innovations in Continuous Processing Implementation in China (IMAPAC「中國最佳生物工藝卓越獎」及「中國生物製藥連續生產工藝創新成就獎」) by a leading consulting firm IMAPAC, and the Company has received Best Bioprocessing Excellence in China Award for two years in a row;
- Asia's CMO of 2017 from the Biopharma Industry Awards (年度生物製藥行業頒獎大會「亞洲年度最佳CMO獎」);
- CMO Leadership Award for Reliability from Life Science Leader Magazine (Life Science Leader Magazine「CMO領軍企業獎」);
- Best Company in an Emerging Market from the SCRIP Awards (SCRIP「新興市場最佳公司獎」);
- Golden Hong Kong Stock and Most Valuable Pharmaceutical Stock from 2018 Golden Hong Kong Stock Awards (智通財經和同花順「金港股大獎」及「最具價值醫藥股獎」); the Company is the only pharmaceutical company that won the Golden Hong Kong Stock Award;
- Golden Wing Award — Most Growth Hong Kong Stock Connect Company by China mainstream security media (全國性主流財經媒體《證券時報》「金翼獎 — 最具成長港股通公司」); and
- Golden Lion Award — Best Investor Relationship Management Listed Company from China Listed Company International Development Forum (新浪財經「金獅獎 — 最佳投資者關係管理上市公司」).



Investor Relations

The Company strives to maintain high standards of corporate governance so as to ensure its sustainable long-term development strategy. The Company uses a range of communication tools to ensure its shareholders and investors are kept well informed of key business developments. These include but not limited to, announcements, press releases, general meetings, interim and annual reports and circulars.

To promote effective communication, the Company has also participated in a number of investment forums and roadshows to communicate with its investors and shareholders domestically and globally, including Annual J.P. Morgan Healthcare Conference in San Francisco, J.P. Morgan "Best of Asia" Conference in London, Morgan Stanley Annual China Summit in Beijing, Goldman Sachs Annual Global Healthcare Conference in Los Angeles, Deutsche Bank China Healthcare Industry Forum in Shanghai, Morgan Stanley's Annual Asia Pacific Summit in Singapore, Bank of America Merrill Lynch China Conference in Beijing etc. Moreover, the Company has also arranged factory site visits, teleconferences and one-on-one meetings with institutional investors at both Shanghai and Wuxi sites to deepen domestic and global investors' understanding towards the Company's business and its latest business developments.

Apart from participating in meetings and roadshows, the Company's investors and shareholders are also provided with contact details of the Company which are available on the Company's website, enabling them to make any inquiry so as to further facilitate a high degree of transparency.

During the Reporting Period, the Company has received several awards, which affirmed the Company's professional and efficient investor relations management. Please refer to the section headed "Group Awards".

Apart from being selected into Hang Seng Composite Index, Hang Seng Healthcare Index and Hang Seng Global Composite Index in 2017, the Company was also selected into Hang Seng Stock Connect Hong Kong Index, Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index, Hang Seng SCHK HK Companies Index, Hang Seng SCHK ex-AH Companies Index and Hang Seng HK 35 in 2018.

Future and Outlook

The global biologics market keeps growing at a steady pace. It also promises remunerative growth in next decade due to the presence of numerous biologics in pipeline. The growth is attributed to incessant expansion in product portfolio coupled with an increasing demand for biologics across the globe. According to World Health Organization, by 2020 chronic diseases would account for 75% of deaths globally. Biologics treating cancer, autoimmune diseases, and diabetes contribute more than 60% to the overall biologics market. In 2018, approximately 17 new molecular entities approved by FDA were biologics. The growing success rate of biologics drugs and their demand will drive the biologics market in the future. More pharma and biotech companies are seeking to be developing more innovative biotherapeutics through the development pipeline as efficiently as possible, and outsourcing gives sponsors ready access to increased capacity and specialized expertise as they contend with growing demand and competition in the large molecule space.

The opportunity in biopharmaceuticals is tremendous and still growing at a speed that no one can afford to ignore. It's by far the fastest-growing sector of the pharmaceutical industry. Investing in biotech R&D has yielded better returns than the pharma-industry in average. The success of the clinical pipeline will lead to an unprecedented number of new molecule launches. Furthermore, the emerging long-term picture is even more exciting as ground-breaking innovations such as immunotherapies, antibody drug conjugates, and gene and cell therapies are all making progress toward commercial launches in the future. However, given the inherent structural complexities of biological drugs, combined with the highly regulated nature of large molecule manufacturing processes and stringent quality standards, many pharma and biotech companies are seeking outsourcing solutions to minimize the R&D and manufacturing risks and simplify the supply chain. As biotech companies move from the scientific frontier to the business main-stream, the industry will increasingly be forced to confront the same challenges faced by other businesses: maintaining competitiveness by ensuring affordability, quality, and delivery performance.

Biopharmaceutical outsourcing has increased remarkably in recent years with a greater volume of work previously kept in-house being handed over to third party contractors. Growth of the full-service CDMO market has enabled a paradigm shift from early biotechnology companies that wanted to become "fully integrated pharmaceutical companies" to today's nimble, lean, and sometimes virtual companies. To respond to shifting biotechnology industry paradigms and current biopharmaceutical industry trends, CDMOs now offer a number of specialized, value-added services for customers and become indispensable partners to the biotechnology industry. Such integrated, specialized services enable greater flexibility and manageable cash flow than would be possible if a company utilized substantial internal infrastructure. The drive towards a CDMO business model could lead to innovative solutions that address cost containment while helping to bring better products to market more efficiently. Increased biologics R&D spending, cutting-edge technology, innovative manufacturing process technology and increasing demands by patients make biologics outsourcing market more attractive.

China has become the world's second largest pharmaceutical market, but is a relatively small player in biologics development and manufacturing. The Company believes that it will become to be best-in-class in this sector in a foreseeable future. And moving to that future is an inevitability and a natural progression. China has a nascent but actively transforming biologics landscape. The transformation is co-led by government policy, an emerging China biopharma and the big pharma. There are biologics developers and manufacturers domestically and soon-to-be internationally focused, meaning China anticipates ascending to an outsized and global role over the coming decade.

Meanwhile, the pharmaceutical market of China has been undergoing rapid development. Policies and investments have provided more favorable environment for innovative drugs. The huge market and growth potential have attracted deeper and broader participation of foreign investors in the China healthcare market through different means. To encourage medical innovation, the government has proposed supportive policies, opening a "green channel" for accelerated approval of innovative drugs and streamlined the approval process. Recently, relevant authorities have also introduced policies for accelerating drug innovation and improving quality. The Chinese government intended to create a suitable environment for the development of innovative drugs, nourish the domestic biopharmaceutical industry and promote industry transformation so as to compete in the global market. Benefiting from the favorable policies and support from the Chinese government, returnees of Chinese scientists from overseas and the huge potential patient group, the venture capital and private equity financing in the biopharmaceutical industry of China is surging, with biologic drugs being the most prospective investment opportunity in the medical industry. Moreover, the recent amendments to the Listing Rules has attracted biotechnology companies to list in Hong Kong, providing more diversified financing opportunities for Chinese biotechnology companies.

In 2018, the Chinese pharmaceutical industry has entered into a new era, marking the golden age of the biopharmaceutical industry and the harvest of innovative drugs. The pharmaceutical industry of China has begun to adopt an "Innovation-Driven" strategy. Following the standardization of the domestic pharmaceutical market, clinical value has gradually become the core of drug evaluation. Biologic drugs with definite efficacy will become the market's favorite. Against the backdrop of consumption upgrade and the rising affordability, there is a stronger demand in the biologic drug market. At the same time, the establishment of the National Healthcare Security Administration (中華人民共和國國家醫療保障局) and the healthcare insurance payment system will prompt a change in drug usage in the medical industry of China. Biologic drugs under development need to consider the quality, efficacy and cost of drug in an earlier stage, so as to maintain market differentiation under the new healthcare insurance payment system and capture more opportunities.

In view of the immense market opportunities, the Group has seen a boom in the R&D of biologic drugs in China. Various small and medium-sized biotech companies and big pharma have participated in the R&D of biologic drugs. The number and size of biologics being outsourced in China is expanding. As the shift in regulatory policy allowing contract manufacturing (MAH system reforms), China is demonstrating clear interest in participating investments in the global markets for both innovative biologics and biosimilars produced at GMP quality levels. These factors are creating a strong market environment for biologics outsourcing services and contributing to an increasingly robust China bio-ecosystem.

Due to the accelerated market approval process, small and medium size biotech companies account for a significant percentage of innovation while the total industry is also heating up, thus allowing the Group to continue its strong growth in the coming years. As a solutions provider, the Group can support customers from concept to market. The investment in state-of-the-art laboratories and facilities, innovation technology platforms and world-class talent pool have made the Group a leading global open-access integrated biologics technology platform. The Group now offers end-to-end solutions to empower organizations to discover, develop and manufacture biologics from concept to commercial manufacturing. At the same time, the Group will continue to invest significantly in new technologies and new platforms which will drive further milestone and royalty payments and introduce more biologics projects into the "Follow-the-Molecule" strategy. By expanding its capabilities and capacity continuously, the Group has become an indispensable partner to its customers and led to innovative solutions that address cost containment while introducing better products to the market.

2019 and beyond, the Group is embracing a bright future during which each of its members must be committed to their roles and responsibilities, while continuously raising the quality of operations and the services provided. All personnel will strive to fully prepare for the inspections of all regulatory agencies while better serving global clients and partners with high quality biological products. By practicing the core values of "Integrity & Dedication, Working Together & Sharing Success; Do the Right Thing and Do it Right" to improve the Group's core competencies, the Group is able to build the most comprehensive capability and technology platform in the global biologics industry and enable global clients and partners so as to benefit more patients world-wide.

Financial Review

Revenue

The revenue of the Group increased by 56.6% from approximately RMB1,618.8 million for the year ended December 31, 2017 to approximately RMB2,534.5 million for the year ended December 31, 2018. The growth of sales was mainly attributed to (i) leading technology platform, competitive timeline and strong execution track record contributing to more market share; (ii) strong growth in revenue, as a result of more projects entering into late-phase by the success of the Group's "Follow-the-Molecule" strategy; and (iii) production expansion of new fed-batch facilities of MFG2 (which commenced from the fourth quarter of 2017) and MFG3 (which commenced from the second half year of 2018), enabling higher revenue from more projects in late-phase (phase III).

The revenue of the Group recorded a strong growth during the Reporting Period. The Group derived a vast majority of its revenue from providing services to customers headquartered in the North America and PRC. In particular, the growth in China accelerated significantly in second half of 2018 due to recent regulatory reform performed in China. The table below shows the revenue distribution by countries/regions:

	Year ended December 31			
	2018		2017	
Revenue	**RMB million**	**%**	RMB million	%
— North America	**1,284.0**	**50.6%**	907.4	56.1%
— PRC	**980.0**	**38.7%**	552.0	34.1%
— Europe	**171.7**	**6.8%**	65.3	4.0%
— Rest of the World *(Note)*	**98.8**	**3.9%**	94.1	5.8%
Total	**2,534.5**	**100.0%**	1,618.8	100.0%

Note: Rest of the world primarily includes Israel, Singapore, Japan, South Korea and Australia.

For the year ended December 31, 2018, the pre-IND revenue of the Group increased by 38.3% to approximately RMB1,451.0 million, accounting for 57.2% of the total revenue. At the same time, the post-IND revenue of the Group demonstrated a rapid increase of 90.2% to approximately RMB1,083.5 million, accounting for 42.8% of the total revenue, as a result of more projects progressing from pre-IND to subsequent stages such as early-phase and late-phase stages by implementing the "Follow-the-Molecule" strategy.

The following table sets forth a breakdown of the revenue of the Group by pre-IND services and post-IND services for the periods indicated:

	Year ended December 31			
	2018		2017	
	RMB million	**%**	RMB million	%
Pre-IND services	**1,451.0**	**57.2%**	1,049.2	64.8%
Post-IND services	**1,083.5**	**42.8%**	569.6	35.2%
Total	**2,534.5**	**100.0%**	1,618.8	100.0%

Top 5 customers' revenue increased by 23.2% from approximately RMB646.6 million for the year ended December 31, 2017 to approximately RMB796.6 million for the year ended December 31, 2018, accounting for 31.4% of total revenue for the year ended December 31, 2018, as compared to 39.9% for the year ended December 31, 2017.

Top 10 customers' revenue increased by 34.9% from approximately RMB884.4 million for the year ended December 31, 2017 to approximately RMB1,193.1 million for the year ended December 31, 2018, accounting for 47.1% of total revenue for the year ended December 31, 2018, as compared to 54.6 % for the year ended December 31, 2017.

Cost of Services

The cost of services of the Group increased by 58.3% from approximately RMB958.3 million for the year ended December 31, 2017 to approximately RMB1,516.7 million for the year ended December 31, 2018. The increase of the cost of services was in line with the growth of the business.

The cost of services of the Group consists of direct labor costs, cost of raw materials and overhead. Direct labor costs primarily consist of salaries, bonuses, social security costs and share-based compensation for the employees in the Group's business units. Cost of raw materials primarily consists of costs incurred for the purchase of raw materials used in rendering the Group's services, such as reagents and chromatograph columns. Overhead primarily consists of depreciation charges of the facilities and equipment used in rendering the Group's services, outsourced testing service fees for the biologics testing work, utilities and maintenance.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 54.1% from approximately RMB660.6 million for the year ended December 31, 2017 to approximately RMB1,017.8 million for the year ended December 31, 2018. The increase in the gross profit was mainly attributed to the Group's strong business growth, along with the rapid increase in its number of integrated projects. The Group's gross profit margin showed a slight decrease from 40.8% for the year ended December 31, 2017 to 40.2% for the year ended December 31, 2018, mainly due to (i) an increased weight of share-based compensations in cost of services as compared to 2017; (ii) the foreign exchange rates fluctuation during the Reporting Period when more than 70% of the Group's revenue was traded in U.S. Dollar as the original transaction currency; and (iii) the ramp-up of operations of the 2nd and 3rd GMP manufacturing facilities (MFG2 & MFG3); partially offset by (iv) efficiency enhancement gained from our current manufacturing facility (MFG1) and overall operations.

Other Income

The Group's other income increased by 459.7% from approximately RMB34.7 million for the year ended December 31, 2017 to approximately RMB194.2 million for the year ended December 31, 2018, primarily due to (i) an increased interest income derived from bank deposits as a result of its improved cash flow; and (ii) an increase in government grants and subsidies.

Impairment Losses, Net of Reversal

As a result of the application on IFRS 9 Financial Instruments, impairment losses, net of reversal, has been individually presented in the Group's financial statements, started January 1, 2018.

Impairment losses, net of reversal, represent the loss allowance on the Group's financial assets (including trade and other receivables and contract assets) under Expected Credit Loss ("**ECL**") model. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings, based on the consideration of the credit risk for each grouping. Comparatively the impairment losses for the year ended December 31, 2017 were assessed based on the management's judgment including the assessment of changes in credit quality and the past collection history of each customer (instead of each grouping).

The Group has prospectively recorded the net impairment losses of approximately RMB55.9 million for the year ended December 31, 2018. The unfavorable change of the net impairment losses were mainly due to the change of assessment method following IFRS 9 as mentioned above, coupled with the increased trade receivable balance as a result of the Group's growing business. The management of the Group considers that the impairment loss under ECL model has been in a more conservative view in credit risk control. The management has been continuously managing the credit risk through periodic review and monitoring on the doubtful debts.

Other Gains and Losses

The Group recorded net other gains of approximately RMB21.1 million for the year ended December 31, 2018, compared with net other losses of approximately RMB89.9 million for the year ended December 31, 2017, primarily due to (i) a net foreign exchange gain of approximately RMB7.3 million for the year ended December 31, 2018 as compared to a net loss of approximately RMB99.0 million for year ended December 31, 2017; and (ii) a gain from investments in money market fund for unused proceeds from IPO and placing of new shares during the Reporting Period.

Selling and Marketing Expenses

The selling and marketing expenses of the Group represent a relatively stable percentage of the revenue of the Group (1.7% for both the year ended December 31, 2018 and 2017). Selling and marketing expenses increased by 53.6% from approximately RMB27.6 million for the year ended December 31, 2017 to approximately RMB42.4 million for the year ended December 31, 2018, which demonstrated our continuous efforts in the capability enhancement in business development to capture the blooming demand in biologics industry.

Administrative Expenses

The Group's administrative expenses increased by 69.9% from approximately RMB134.0 million for the year ended December 31, 2017 to approximately RMB227.7 million for the year ended December 31, 2018, primarily due to (i) workforce expansion to facilitate the smooth operation and support the Group's rapid growing business and its long-term development; (ii) an increase in its corporate governance related costs as the Shares were listed on the Stock Exchange in June 2017, such as cost of legal services, compliance advisory and audit services; and (iii) an increase in office administration cost, etc., which are in line with the Group's business growth and headcount growth.

Research and Development Expenses

The Group's research and development expenses increased by 127.2% from approximately RMB74.5 million for the year ended December 31, 2017 to approximately RMB169.3 million for the year ended December 31, 2018, as a result of our enhanced investment in new technologies and platforms, such as our newly launched proprietary bispecific antibody platform WuXiBody™. Consequently the Group has showed its capability in expediting bispecific development and cost reducing by successfully entering into multiple strategic collaborations with our partners.

Other Expenses

No other expenses was recorded for the year ended December 31, 2018, as compared to approximately RMB16.1 million for the year ended December 31, 2017, representing the IPO expenses which were incurred for the Listing on the Stock Exchange on June 13, 2017.

Finance Cost

No finance cost was recorded for the year ended December 31, 2018, as compared to approximately RMB35.7 million for the year ended December 31, 2017, representing the interest expenses on bank borrowings and finance lease.

Income Tax Expense

The Group's income tax expense increased by 110.0% from approximately RMB51.1 million for the year ended December 31, 2017 to approximately RMB107.3 million for the year ended December 31, 2018, as a result of the growth of the Group's business. The effective income tax rate decreased from approximately 16.8% for the year ended December 31, 2017 to approximately 14.5% for the year ended December 31, 2018, primarily due to a decreased weight of non-tax-deductible share-based compensation.

WuXi Biologics Co., Ltd ("**WuXi Co.**"), WuXi Biologics (Shanghai) Co., Ltd. ("**Shanghai Biologics**") and Wuxi Apptec (Suzhou) Testing Technology Co., Ltd. ("**Suzhou Biologics**") have been accredited as "High and New Technology Enterprise" by relevant government authorities. WuXi Co. is entitled to a preferential tax rate of 15% for a three-year period commencing from the year of 2016. Shanghai Biologics is entitled to a one-year's exemption from Enterprise Income Tax ("**EIT**") followed by three years of 50% tax reduction with effect from the beginning of 2016 in accordance with Guo Fa No. 40. Accordingly, the applicable EIT rate of Shanghai Biologics for the year ended December 31, 2018 is 12.5% (for the year ended December 31, 2017: 12.5%). Shanghai Biologics anticipates to continue enjoying the preferential income tax rate in the year of 2019. Suzhou Biologics is entitled to a preferential tax rate of 15% for a three-year period commencing from the year of 2018.

Net Profit and Net Profit Margin

As a result of the foregoings, the net profit of the Group increased by 149.6% from approximately RMB252.6 million for the year ended December 31, 2017 to approximately RMB630.5 million for the year ended December 31, 2018. The net profit margin of the Group for the year ended December 31, 2018 was 24.9%, as compared to 15.6% for the year ended December 31, 2017. The significant increase of net profit margin was primarily due to (i) the robust revenue growth as a result of the Group's leading technology platform and competitive execution track record, coupled with the efficiency in business operation and enhanced capacity utilization; (ii) an increase in government grants and subsidies; (iii) a considerable increase in interest income from bank deposits as a result of its improved cash flow; (iv) foreign exchange gains recorded for the year ended December 31, 2018 as compared to significant foreign exchange losses for the year ended December 31, 2017; partially offset by (v) expansion of administrative expenses and research and development expenses in line with the Group's business growth.

The adjusted net profit[1] of the Group increased by 73.6% from approximately RMB432.9 million[2] for the year ended December 31, 2017 to approximately RMB751.5 million for the year ended December 31, 2018. Adjusted net profit margin increased from 26.7% for the year ended December 31, 2017 to 29.7% for the year ended December 31, 2018. The increase of adjusted net profit margin follows the same set of reasons as in the above discussion.

1 Calculation of adjusted net profit is modified and calculated as net profit for the Reporting Period, excluding share-based compensations, foreign exchange gains or losses and Listing expenses to better reflect the Company's current business and operations.

2 The adjusted net profit for the year ended December 31, 2017 disclosed herein is recalculated based on the revised calculation stated in (1). The same financial figure disclosed in the 2017 annual report of the Company was RMB408.1 million, calculated by excluding share-based compensation expenses, Listing expenses and a foreign exchange loss due to translation loss from the IPO proceeds.

EBITDA

The EBITDA[3] of the Group increased by 112.2% from approximately RMB453.4 million for the year ended December 31, 2017 to approximately RMB962.1 million for the year ended December 31, 2018. The EBITDA margin of the Group for the year ended December 31, 2018 was 38.0%, compared to 28.0% for the year ended December 31, 2017. The higher EBITDA margin of the Group for the year ended December 31, 2018 was primarily due to a higher net profit margin as discussed above.

The adjusted EBITDA[4] of the Group increased by 70.9% from approximately RMB633.6 million[5] for the year ended December 31, 2017 to approximately RMB1,083.1 million for the year ended December 31, 2018. The adjusted EBITDA margin of the Group increased from 39.1% for the year ended December 31, 2017 to 42.7% for the year ended December 31, 2018. The increase of adjusted EBITDA margin follows the same set of reasons as discussed above.

Basic and Diluted Earnings Per Share

The basic earnings per share of the Group increased by 116.7% from RMB0.24 for the year ended December 31, 2017 to RMB0.52 for the year ended December 31, 2018. The diluted earnings per share of the Group increased by 118.2% from RMB0.22 for the year ended December 31, 2017 to RMB0.48 for the year ended December 31, 2018. The increase in the basic and diluted earnings per share was primarily due to the increase in the net profit resulted from the strong business growth of the Group.

The adjusted basic earnings per share for the year ended December 31, 2018 amounted to RMB0.62, representing an increase of 55.0% as compared with that of RMB0.40 for the year ended December 31, 2017. The adjusted diluted earnings per share for the year ended December 31, 2018 amounted to RMB0.57, representing an increase of 54.1% as compared with that of RMB0.37 for the year ended December 31, 2017. The increase in both the adjusted basic and diluted earnings per share was primarily due to the increase in the adjusted net profit resulted from the strong business growth of the Group as discussed in the above section headed "Net Profit and Net Profit Margin".

3 EBITDA represents net profit before (i) interest expenses, income tax expenses; and (ii) amortization and depreciation.

4 Calculation of adjusted EBITDA is modified and calculated as EBITDA for the Reporting Period, excluding (i) interest expenses, income tax expenses; (ii) certain non-cash expenses, consisting of share-based compensations, amortization and depreciation; (iii) Listing expenses; and (iv) foreign exchange gains or losses to better reflect the Company's current business and operations.

5 The adjusted EBITDA for the year ended December 31, 2017 disclosed herein is recalculated based on the revised calculation stated in (1). The same financial figure disclosed in the 2017 annual report of the Company was RMB608.9 million, calculated by excluding share-based compensation expenses, Listing expenses and a foreign exchange loss due to translation loss from the IPO proceeds.

Plant and Equipment

The plant and equipment of the Group increased by 63.1% from approximately RMB1,780.2 million as at December 31, 2017 to approximately RMB2,903.9 million as at December 31, 2018, primarily as a result of the expansion of research, development and manufacturing capacities.

Intangible Assets

Intangible assets represent a license with cash consideration of US$51.0 million (equivalent to approximately RMB341.8 million) to use certain animals for the purpose of researching, developing and making antibodies for the year ended December 31, 2018 (for the year ended December 31, 2017: nil).

Prepaid Lease Payments (Current Portion & Non-current Portion)

Prepaid lease payments represent the land use rights acquired by the Group of approximately RMB173.8 million for the year ended December 31, 2018 (for the year ended December 31, 2017: nil).

Equity Instruments at Fair Value Through Other Comprehensive Income ("FVTOCI")

On June 25, 2018, the Group subscribed 19.9% of the equity interest of Tysana Pte. Ltd. ("**Tysana**"), a private company limited by shares in Singapore, with a consideration of US$9.95 million (equivalent to approximately RMB68.3 million as at December 31, 2018). Tysana focuses on the business of infectious diseases drug research, development and commercialization in respect of the monoclonal antibodies in relation to Viruses of Zika EV71, and Yellow Fever.

On July 16, 2018, the Group subscribed 19.9% of the equity interest of Privus Biologics, LLC ("**Privus**"), a limited liability company organized under the law of the State of Delaware, U.S.A., with a consideration of US$9.95 million (equivalent to approximately RMB68.3 million as at December 31, 2018). Privus focuses on the business of optimizing, manufacturing and developing pharmaceuticals intended for use in the field containing one or more subject antibodies as an active ingredient.

The Group has no controlling power nor significant influence over the management and the operation of Tysana and Privus. At the date of initial recognition, the Group made an irrevocable election to designate these equity instruments as at FVTOCI as the management of the Company believes that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run. Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income ("**OCI**"); and are not subject to impairment assessment.

During the year ended December 31, 2018, the Group managed and evaluated the unlisted investments performance of ordinary shares purchased on a fair value basis in accordance with the Group's investment strategy. As at December 31, 2018, the management of the Company has confirmed with the respective management of Tysana and Privus that there were no significant changes of Tysana and Privus in business and together with the fact that the respective investment dates were close to the year ended December 31, 2018, the directors of the Company are of the opinion that there was no significant fair value change occurred in these FVOCI investment as of December 31, 2018.

Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

During the Reporting Period, the Group entered into an agreement to purchase 429,799 Series Mezzanine 2 Preferred Shares of Inhibrx, Inc. ("**Inhibrx**"), a Delaware corporation, with a consideration of US$3.0 million (equivalent to approximately RMB20.6 million). Inhibrx focuses on the business of delivering optimized, biologic therapeutics to people with life-threatening conditions and building a large and diverse pipeline with the potential to impact cancer, infectious disease and orphan diseases.

On September 10, 2018, the Group entered into an agreement to purchase 481,454 Series C-1 Preferred Shares of Canbridge Pharmaceuticals Inc. ("**Canbridge**"), an exempted company incorporated with limited liability under the laws of Cayman Islands, for a cash consideration of US$5.0 million (equivalent to approximately RMB34.3 million). Canbridge focuses on the business of developing, selling, or marketing the pharmaceuticals for treatment or prevention of oncology or rare disease indications.

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each Reporting Period, with any fair value gains or losses recognized in profit or loss.

During the year ended December 31, 2018, the Group managed and evaluated the unlisted investment performance of preferred share purchased on a fair value basis in accordance with the Group's investment strategy. Gain on fair value change of RMB796,000 was recognized for the equity instrument in Canbridge, which was backsolved from the most recent transaction price.

Inventories

The inventories of the Group increased by 67.7% from approximately RMB135.5 million as at December 31, 2017 to approximately RMB227.2 million as at December 31, 2018, primarily as a result of the growth of the Group's business. Along with the Group's increased number of on-going integrated projects, the Group is required to reserve a higher inventory level for safe service provision.

Service Work in Progress/Contract Costs

As a result of the application on IFRS 15 Revenue from Contracts with Customers, service work in progress was reclassified to contract costs as at January 1, 2018. Contract costs of the Group increased by 45.6% from approximately RMB202.4 million of service work in progress as at December 31, 2017 to approximately RMB294.6 million of contract costs as at December 31, 2018, primarily as a result of the growth of the Group's business. Following its "Follow-the-Molecule" strategy, the Group has achieved more projects progressing from pre-IND stage into next stages such as early-phase (phase I and II) and late-phase (phase III), which have carried higher records of contract costs.

Trade and Other Receivables

As a result of the application on IFRS 15 Revenue from Contracts with Customers, unbilled revenue previously included in trade and other receivables was reclassified to contract assets as at January 1, 2018. Trade and other receivables of the Group increased by 80.9% from approximately RMB589.9 million (excluding unbilled revenue) as at December 31, 2017 to approximately RMB1,067.2 million as at December 31, 2018, primarily due to (i) the growth of the Group's business; (ii) an increase in value added tax recoverable; partially offset by (iii) a decrease in receivables for purchase of raw materials on behalf of customers and custom duty recoverable.

Contract Assets

As a result of the application on IFRS 15 Revenue from Contracts with Customers, unbilled revenue of approximately RMB24.4 million previously included in trade and other receivables was reclassified to contract assets as at January 1, 2018. The Group has recorded 47.5% increase in contract assets to approximately RMB36.0 million as at December 31, 2018, primarily due to the growth of the Group's business.

Derivative Financial Assets and Liabilities

Derivative financial assets and liabilities represent the USD/RMB foreign currency forward contracts which the Group entered into with banks in order to manage the Group's currency risk. Under the foreign currency forward contracts, the Group will pay to the bank notional amount of USD and receive from the bank an amount in RMB equal to the product of the relevant notional amount of USD and the relevant forward rate as specified within the respective contracts.

The Group designates certain derivatives as hedging instruments for cash flow hedges. The effective portion of changes in the fair value of derivatives instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is include in the "other gains and losses" line item.

Trade and Other Payables

As a result of the application on IFRS 15 Revenue from Contracts with Customers, advances from customers previously included in trade and other payables were reclassified to contract liabilities as at January 1, 2018. The trade and other payables of the Group increased by 34.3% from approximately RMB529.9 million (excluding advances from customers) as at December 31, 2017 to approximately RMB711.8 million as at December 31, 2018, primarily due to (i) an increase in trade payables to third parties along with its business growth; and (ii) an increase in salary and bonus payables in line with the expansion of work force.

Contract Liabilities

As a result of the application on IFRS 15 Revenue from Contracts with Customers, advances from customers of approximately RMB254.7 million in respect of contracts with customers previously included in trade and other payables were reclassified to contract liabilities as at January 1, 2018. The Group has recorded 96.2% increase in contract liabilities (advances from customers) along with its business growth and the improved credit control.

Liquidity and Capital Resources

The Group's bank balances and cash amounted to approximately RMB4,084.4 million in total as at December 31, 2018, as compared to approximately RMB2,060.0 million (including time deposits and financial assets designated at FVTPL representing investment in monetary funds and financial products) as at December 31, 2017, as a result of placement proceeds received in March 2018 of RMB3,186.7 million and cash provided by operating activities; partially offset by payments for the purchase of plant and equipment and other non-current assets. The cash and cash equivalents held by the Company are composed of Renminbi and U.S. dollar. Currently, the Company follows a set of funding and treasury policies to manage its capital resources and prevent risks involved.

Significant Investments, Material Acquisitions and Disposals

As at December 31, 2018, there were no significant investment held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Indebtedness

Borrowings

There was no bank borrowing drawn by the Group as at December 31, 2018 and 2017.

Contingent Liabilities and Guarantees

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

Charges of Assets

As at December 31, 2018, the Group pledged bank deposits with an amount of approximately RMB25.2 million, which increased by 18.9% from approximately RMB21.2 million as at December 31, 2017. The balance mainly represented deposits placed in banks as collaterals for the banks to issue letters of credit for the Group's imported raw materials and equipments.

Gearing Ratio

Gearing ratio is calculated using interest-bearing borrowings less cash and cash equivalents, divided by total equity and multiplied by 100%. Both as at December 31, 2018 and 2017, the Group had no borrowing and thus, gearing ratio is not applicable.

Events after the Reporting Period

The Group has the following events taken place subsequent to December 31, 2018:

- In February 2019, the Company announced that European Medicines Agency (EMA) has completed the Pre-Approval Inspection (the "**Inspection**") of the Group's cGMP (Current Good Manufacturing Practice) drug substance (DS) and drug product (DP) facilities for the production of Trogarzo™ with no critical findings. The Group believes that the Inspection is the first of biomanufacturing industry in China by EMA and the Group will have the first cGMP biologics DS facility, the first cGMP biologics DP facility and the first cGMP cell banking facility in China to be approved by EMA for commercial manufacturing once the GMP approval is obtained. The DS and DP facilities were also approved by U.S. FDA in March 2018.

- In February 2019, the Group and Amicus Therapeutics ("**Amicus**"), a global, patient-dedicated biotechnology company listed on NASDAQ (Stock code: FOLD), entered into an exclusive commercial manufacturing partnership for Amicus' Pompe biologic ATB200. The Group will be the exclusive commercial drug substance (DS) manufacturing partner and key commercial drug product (DP) supplier of ATB200. The ATB200 program was initiated at the Group in 2012 with just an initial concept and now progresses through a pivotal study enabled by the global leading technology platform and unparalleled manufacturing capacity at the Group, which fully showcases the Group's "Follow-the-Molecule" as well as the "Global Dual Sourcing within WuXi Bio" strategies. Furthermore, in the same month, Amicus has received U.S. FDA Breakthrough Therapy Designation for AT-GAA (comprising ATB200) in late onset Pompe disease. This is the second product successfully receiving Breakthrough Therapy Designation that the Group has enabled its partner to develop subsequent to Trogarzo™.

- In March 2019, the Company has received EMA GMP certificates for the production of Trogarzo™ at its cGMP DS and DP manufacturing facilities and its cGMP cell banking facilities. With the recognition from both the U.S. FDA and EMA, the Company will continue to enable our global partners to accelerate and transform biologics development from concept to commercialization.

DIRECTORS

Executive Directors

Dr. Zhisheng Chen (陳智勝), aged 46, was appointed as an executive Director and chief executive officer in February 2014 and January 2016, respectively. He is also the chairman of the Strategy Committee of the Company. Dr. Chen is primarily responsible for the overall management of the business of the Group. He joined the Group in June 2011 and also serves as a director of most subsidiaries of the Company. From June 2011 to January 2016, Dr. Chen served as a senior vice president of WuXi AppTec (Shanghai) Co., Ltd. (上海藥明康德新藥開發有限公司), and was responsible for the management of biologics development and manufacturing. From August 2008 to June 2011, Dr. Chen served as the chief operating officer of Shanghai Celgen Bio-Pharmaceutical Co., Ltd. (上海賽金生物醫藥有限公司), and was responsible for the development, manufacturing and quality control of biologics. From November 2005 to August 2008, Dr. Chen served as a director and senior engineering consultant of Eli Lilly and Company, a global pharmaceutical company listed on NYSE (stock code: LLY), and was responsible for running a clinical manufacturing facility and providing technical guidance to biologics development and manufacturing. From June 2000 to November 2005, Dr. Chen served as a process engineer and manager of Merck & Co. Inc., a pharmaceutical company listed on NYSE (stock code: MRK) ("**Merck**"), and was responsible for providing technical support and trouble-shooting manufacturing issues of biologics and recombinant vaccines. Dr. Chen obtained a bachelor's degree in chemical engineering from Tsinghua University in June 1994 and a Ph.D. degree in chemical engineering from University of Delaware in June 2000.

In November 2018, Dr. Zhisheng Chen was appointed by International Society for Pharmaceutical Engineering (ISPE), the world's largest not-for-profit association serving its members by leading scientific, technical and regulatory advancement throughout the entire pharmaceutical lifecycle, to serve on the International Board of Directors for a two-year term. Dr. Zhisheng Chen is the first ISPE Board member from Asia.

Dr. Weichang Zhou (周偉昌), aged 55, was appointed as an executive Director, chief technology officer and senior vice president in May 2016, November 2016 and April 2015, respectively. He is primarily responsible for overseeing the development and manufacturing of biologics. He joined the Group in December 2012 as the vice president, responsible for the management of biologics development and manufacturing. Prior to joining the Group, Dr. Zhou served as a senior director of Genzyme Corporation from March 2008 to December 2012, and was responsible for commercial cell culture process development. From October 2002 to February 2008, Dr. Zhou served as a senior director of PDL BioPharma Inc., a biopharmaceutical company listed on NASDAQ (stock code: PDLI), and was responsible for process sciences and engineering functions. From May 1994 to October 2002, Dr. Zhou served as up to an associate director of Merck, and was responsible for fermentation and cell culture process development. Dr. Zhou obtained a bachelor's degree in chemical engineering from Jiangxi University of Technology (江西工學院) in the PRC in July 1982. He also obtained a Ph.D. degree in chemical engineering and biotechnology from University of Hannover in Germany in June 1989.

Non-executive Directors

Dr. Ge Li (李革), aged 52, was appointed as the chairman and non-executive Director in February 2014. He is also the chairman of the Nomination Committee and a member of the Strategy Committee of the Company. Dr. Li is primarily responsible for providing overall guidance on the business, strategy and corporate development of the Group. He founded the Group in May 2010 and also serves as a director of most subsidiaries of the Company. Dr. Li has been serving as the chairman and the chief executive officer since December 2000 of WuXi AppTec, a company dual-listed on Shanghai Stock Exchange (上海證券交易所) (stock code: 603259) on May 8, 2018 and the Main Board of the Stock Exchange (stock code: 2359) on December 13, 2018, and has been responsible for the overall management of its business, strategy and corporate development. From December 2011 to August 2015, he served as an independent non-executive director of Shanghai Hile Bio-pharmaceutical Co., Ltd. (上海海利生物技術股份有限公司), a company listed on Shanghai Stock Exchange (上海証券交易所) (stock code: 603718), and was responsible for providing independent advice to its board of directors. From August 2007 to December 2015, Dr. Li served as the chairman and the chief executive officer of WuXi PharmaTech, a company previously listed on New York Stock Exchange (Stock code: WX) which was delisted on December 10, 2015, and was responsible for its overall management. From May 1993 to December 2000, Dr. Li was one of the founding scientists and latest served as a research manager of Pharmacopeia Inc., a biopharmaceutical company listed on NASDAQ (stock code: PCOP), and was responsible for managing external research collaboration. Dr. Li obtained a Ph.D. degree in organic chemistry from Columbia University in the United States in February 1994. He was appointed as a director of the Scripps Research Institute (TSRI), a private non-profit research organization, in February 2017.

Dr. Li is a director of Biologics Holdings, a controlling shareholder of the Company, and the chairman and the chief executive officer of WuXi AppTec, director of New WuXi Life Science Investment Limited, and various subsidiaries of WuXi AppTec and WuXi NextCode Holdings Limited, close associates of the controlling shareholders of the Company.

Mr. Edward Hu (胡正國), aged 56, was appointed as a non-executive Director in February 2014. He is a member of the Audit Committee and Remuneration Committee of the Company. Mr. Hu is primarily responsible for providing guidance on the business strategy, financial management and new business development of the Group. He joined the Group in May 2010 and also serves as a director of most subsidiaries of the Company. Since March 2016, Mr. Hu has been serving as a director of WuXi AppTec, and is responsible for the overall management. Mr. Hu has also been serving as co-chief executive officer and chief investment officer of WuXi AppTec since August 2018 and has been responsible for the investment and overall management of the business. From April 2014 to January 2019, Mr. Hu served as the chief financial officer and chief investment officer of WuXi AppTec and was responsible for its finance and investment management. From March 2009 to April 2014, Mr. Hu served as the chief financial officer and chief operating officer of WuXi AppTec and was responsible for its finance and operations. From August 2007 to February 2009, Mr. Hu served as an executive vice president and chief operating officer of WuXi AppTec and was responsible for its business operations. From October 2000 to July 2007, Mr. Hu served on various roles to become a senior vice president and chief operating officer of Tanox Inc., and was responsible for company operations, quality control, finance and information technology. From April 1998 to October 2000, Mr. Hu served as a business planning manager of Biogen Inc., a global biotechnology company listed on NASDAQ (stock code: BIIB), and was responsible for business planning and budget management of its research and development division. From May 1996 to December 1998, Mr. Hu served as a senior financial analyst of Merck, and was responsible for financial planning and analysis. Mr. Hu obtained a bachelor's degree in physics from Hangzhou University, now known as Zhejiang University (浙江大學), in the PRC in July 1983. He also obtained a master's degree in chemistry and a master's degree in business administration from Carnegie Mellon University in the United States in May 1993 and May 1996, respectively.

Mr. Hu is a director of Biologics Holdings, a controlling shareholder of the Company, an executive director, co-chief executive officer and chief investment officer of WuXi AppTec, director of New WuXi Life Science Investment Limited, and various subsidiaries of WuXi AppTec and WuXi NextCode Holdings Limited, close associates of the controlling shareholders of the Company.

Mr. Yibing Wu (吳亦兵), aged 51, was appointed as a non-executive Director in May 2016. He is also a member of the Strategy Committee of the Company. Mr. Wu is primarily responsible for providing guidance on corporate strategy and governance for the Group. He joined the Group in May 2016. Prior to joining the Group, Mr. Wu. has been serving as a director of WuXi AppTec since March 2016. Since November 2015, Mr. Wu has been serving as a director of Summer Bloom Investments Pte. Ltd. Since October 2013, Mr. Wu has been working with Temasek International Pte. Ltd. and is currently the joint head of Enterprise Development Group and the head of China. From April 2011 to April 2014, Mr. Wu served as a director of Neptune Orient Lines Limited, a company listed on the Singapore Exchange Limited (stock code: RE2). From December 2009 to September 2013, Mr. Wu served as the president of CITIC Private Equity Funds Management Co., Ltd. From January 2012 to September 2013, Mr. Wu served as the chairman and chief executive officer of CITIC Goldstone Investment Co. Ltd. From May 2009 to July 2013, Mr. Wu served as a non-executive director of Lenovo Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 0992). From September 2008 to November 2009, Mr. Wu served as the executive vice president of Legend Holdings Co., Ltd. From August 2004 to August 2008, Mr. Wu was seconded from McKinsey & Company as the chief strategy officer, chief integration officer, chief transformation officer and chief information officer of Lenovo Group Ltd. From September 1996 to August 2008, he worked with McKinsey & Company, where he was a senior partner, the head of Asia Pacific M&A practice and general manager of Beijing office. Mr. Wu obtained a bachelor's degree in molecular biology from University of Science and Technology of China (中國科學技術大學) in the PRC in July 1989 and a Ph.D. degree in biochemistry and molecular biology from Harvard University in the United States in June 1996.

Mr. Wu is a director of Biologics Holdings, Life Science Holdings, Life Science Limited and WuXi PharmaTech, controlling shareholders of the Company, a non-executive director of WuXi AppTec, and also a director of WuXi NextCode Holdings Limited and New WuXi Life Science Investment Limited, close associates of the controlling shareholders of the Company.

Mr. Yanling Cao (曹彥凌), aged 35, was appointed a non-executive Director in May 2016. He is primarily responsible for providing guidance on corporate strategy and governance to the Group. He joined the Group in May 2016. Prior to joining the Group, Mr. Cao has been serving as the managing director of Boyu Capital Advisory Company Limited (博裕投資顧問有限公司) and has been responsible for sourcing, evaluating and managing private equity transactions, with a particular focus in the healthcare industry. From December 2007 to January 2011, Mr. Cao served as an investment professional of General Atlantic LLC, and was responsible for private equity and venture capital investment. From July 2006 to November 2007, Mr. Cao served as an investment banker of Goldman Sachs Asia LLC, and was responsible for providing investment banking advisory services to clients in Asia. Mr. Cao obtained a bachelor's degree in economics and mathematics from Middlebury College in the United States in June 2006. In addition, Mr. Cao was a director of CStone Pharmaceuticals for the period from April 1, 2016 to March 27, 2017.

Mr. Cao is a director of Biologics Holdings, Life Science Holdings, Life Science Limited and WuXi PharmaTech, controlling shareholders of the Company, and a director of WuXi NextCode Holdings Limited and New WuXi Life Science Investment Limited, close associates of the controlling shareholders of the Company.

Independent Non-Executive Directors

Mr. William Robert Keller, aged 71, was appointed as an independent non-executive Director on May 17, 2017. He is the chairman of the Remuneration Committee, a member of the Audit Committee and Nomination Committee of the Company. Mr. Keller is primarily responsible for supervising and providing independent opinion to the Board. He joined the Group in May 2017. Prior to joining the Group, he has been serving as the chairman of Coland Pharmaceutical Co., Ltd. (康聯藥業有限公司), a company listed on Taiwan Stock Exchange (stock code: 4144) since December 2010, and has been responsible for providing business advice to the company. From September 2014 to December 2015, Mr. Keller served as an independent director of WuXi PharmaTech and was responsible for providing independent advice to the board of the company. From December 2009 to May 2015, Mr. Keller served as a director of Alexion Pharmaceuticals, Inc., a company listed on NASDAQ (stock code: ALXN), and was responsible for providing independent advice to the board of the company. From February 2003 to June 2014, Mr. Keller served as the founder and principal of Keller Pharma Consultancy (Shanghai) Co. Ltd. (凱樂醫藥諮詢(上海)有限公司) and was responsible for market entry and strategy consulting. From March 2003 to June 2014, Mr. Keller served as the deputy general manager of Shanghai Zhangjiang Biotech and Pharmaceutical Base Development Co., Ltd. (上海張江生物醫藥基地開發有限公司) and was responsible for consulting of pharmaceutical and biotechnological startups' industry development in the park. From May 2007 to April 2010, Mr. Keller served as the chairman of HBM Biomed China Partners Ltd. and was responsible for investment in biotechnology companies. From December 2007 to December 2014, Mr. Keller served as a director and later a supervisor of TaiGen Biopharmaceuticals Holding Limited (太景醫藥研發控股股份有限公司), a company listed on Taiwan Stock Exchange (stock code: 4157), and was responsible for overseeing financial matters. From June 1997 to December 2013, Mr. Keller served as the deputy chairman of the Shanghai Association of Enterprises with Foreign Investment (上海市外商投資企業協會), and was responsible for supporting foreign invested companies as a business advisor. From March 2003 to December 2013, Mr. Keller served as a senior consultant of the Shanghai Foreign Investment Development Board (上海市外國投資促進中心) and was responsible for providing advice regarding foreign investment development. Since September 14, 2018, Mr. Keller has been serving as an independent non-executive director of Hua Medicine (華領醫藥), a company listed on the Main Board of the Stock Exchange (stock code: 2552) ("**Hua Medicine**"). Mr. Keller obtained a bachelor of science's degrees from the School of Economics and Business Administration in Zurich, Switzerland in July 1972.

Mr. Teh-Ming Walter Kwauk (郭德明), aged 66, was appointed as an independent non-executive Director on May 17, 2017. He is the chairman of the Audit Committee and a member of the Nomination Committee of the Company. Mr. Kwauk is primarily responsible for supervising and providing independent opinion to the Board. Mr. Kwauk joined the Group in May 2017. Prior to joining the Group, he has been serving as an independent director and chairman of the audit committee of Alibaba Group Holding Limited (阿里巴巴集團控股有限公司), a company listed on NYSE (stock code: BABA), since September 2014. Mr. Kwauk also served as an independent non-executive director and the chairman of the audit committee of China Fordoo Holding Limited (中國虎都控股有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 2399), from June 2014 to August 2016. From August 2014 to December 2015, Mr. Kwauk served as an independent director of WuXi PharmaTech, and was responsible for providing independent judgement to the board of the company. Since October 2012, he has been serving as an independent non-executive director and the chairman of the audit committee of Sinosoft Technology Group Limited (中國擎天軟件科技集團有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 1297). Since January 2003, Mr. Kwauk has been serving as a senior consultant and a vice president of Motorola Solutions (China) Co., Ltd. (摩托羅拉系統(中國)有限公司), and has been responsible for providing advice on corporate strategic, finance and tax. Mr. Kwauk was a partner of KPMG, an accounting firm primarily engaged in providing audit, advisory and tax services from 1977 to 2002, and was responsible for audit. Since September 14, 2018, Mr. Kwauk has been serving as an independent non-executive director of Hua Medicine. Mr. Kwauk obtained a bachelor's degree in science in April 1975 and a licentiate's degree in accounting in April 1977 from the University of British Columbia in Canada. He has been an associate member of Hong Kong Institute of Certified Public Accountants since March 1983.

Mr. Wo Felix Fong (方和), *BBS, JP*, aged 68, was appointed as an independent non-executive Director on May 17, 2017. He is member of the Remuneration Committee of the Company. Mr. Fong is primarily responsible for supervising and providing independent opinion to the Board. Mr. Fong joined the Group in May 2017. Since August 1988, he has been working in King & Wood Mallesons (formerly known as Robert Lee & Fong, Felix Fong & Hon, Fong & Ng, Arculli Fong & Ng and King & Wood) and has been responsible for legal matters in corporate and financial areas of practice. From May 2010 to May 2016, Mr. Fong served as an independent non-executive director of China Oilfield Services Limited (中海油田服務股份有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 2883) and on Shanghai Stock Exchange (stock code: 601808). From April 2011 to July 2018, Mr. Fong also served as an independent non-executive director of China Investment Development Limited (中國投資開發有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 204). Mr. Fong has also been serving as an independent non-executive director of various companies listed on the Main Board of the Stock Exchange, namely Xinming China Holdings Limited (新明中國控股有限公司) (stock code: 2699) since June 2015, Sheen Tai Holdings Group Company Limited (順泰控股集團有限公司) (stock code: 1335) since June 2012, Evergreen International Holdings Limited (長興國際(集團)控股有限公司) (stock code: 238) since October 2010, Guangdong Land Holdings Limited (粵海置地控股有限公司) (stock code: 124) since January 2007 and Greenland Hong Kong Holdings Limited (綠地香港控股有限公司) (stock code: 337) since September 2006. Mr. Fong obtained a bachelor's degree in engineering from McMaster University in Canada in June 1974 and a Juris Doctor degree from Osgoode Hall Law School of York University in Canada in June 1978. Mr. Fong was admitted as a solicitor in England and Wales in September 1986 and in Hong Kong in February 1987. Mr. Fong is appointed by the Ministry of Justice of China (中華人民共和國司法部) as one of the China-appointed Attesting Officers in Hong Kong in June 1993.

SENIOR MANAGEMENT

For the biographies of Dr. Zhisheng Chen (陳智勝) and Dr. Weichang Zhou (周偉昌), please refer to "Directors — Executive Directors".

Ms. Christine Shaohua Lu-Wong (盧韶華), aged 50, is the chief financial officer of the Company. Ms. Lu-Wong is primarily responsible for the overall financial management, capital market management, and merger and acquisition activities of the Group. She joined our Group and was appointed current position in January 2016. Prior to joining our Group, Ms. Lu-Wong served as the chief financial officer of Xueda Education Group (學大教育集團), a company previously listed on the New York Stock Exchange (stock code: XUE) from 2012 to 2015, and was responsible for the overall financial management and led the privatization of the company. From 2010 to 2012, she served as the chief financial officer of HiSoft Technology International Limited (海輝軟件(國際)集團) (currently known as Pactera Technology International Ltd.), a company previously listed on NASDAQ (stock code: HSFT) and primarily engaged in consulting and technology services, and was responsible for the IPO, mergers and acquisitions and overall financial management of the company. From 2007 to 2009, she served as the vice president of finance of WuXi PharmaTech and was responsible for the overall financial operation of the company. Prior to WuXi PharmaTech, Ms. Lu-Wong brought in over 13 years of U.S. experience in financial analysis and management from Fortune 500 enterprises such as Google, Oracle, HP, and PricewaterhouseCoopers. Ms. Lu-Wong obtained her bachelor's degree in foreign trade and economics from Guangdong University of Foreign Studies (廣東外語外貿大學) in the PRC in July 1990, and an MBA degree in accounting from Golden Gate University in the United States in 1994. Ms. Lu-Wong obtained the qualification as a certified public accountant (CPA) in the State of California, United States, in 1998.

Dr. Chiang Syin (辛強), aged 64, is the chief quality officer of the Company, who is responsible for global quality management for the Company, including, quality assurance, quality control and regulatory affairs. Dr. Syin has over 28 years of experience in FDA regulatory review and Good Manufacturing Practice (GMP) compliance of biological and biotech products. Prior to joining the Company, he was a Gates Project International Expert for the Center of Food & Drug Inspection (CFDI) of CFDA. Before his retirement from the U.S. FDA in February 2017, he served as the FDA Associate Country Director managing the office's drug and device inspection program. Prior to joining the China office, he served as a branch chief in the office of compliance and biologics quality of the Center for Biologics Evaluation and Research (CBER). In this position, he provided leadership and program guidance to the staff engaged in Chemistry, Manufacturing and Control (CMC) reviews and GMP inspections for pre-marketing license applications and post-marketing changes of the biological products. He joined CBER in 1988 after his postdoctoral training in National Institute of Allergy and Infectious Diseases (NIAID), National Institutes of Health (NIH) and performed regulatory reviews of IND and Biologics License Applications (BLA) in addition to malaria research. From 1998 to 2012, he worked in the Offices of Vaccines, Blood and Compliance in CBER. In 2003, he moved briefly to Center for Drug Evaluation and Research (CDER) with the transfer of therapeutic biotech products and established the biotech inspection group in CDER before returning to CBER. Dr. Syin has been actively involved in FDA drug/biologics regulatory policy and guidance development that includes drafting Vaccines CMC and Phase I GMP guidance documents as well as the 2011 Process Validation guidance revision. Dr. Syin received his Ph.D. degree in chemistry from the Catholic University of America, Washington, D.C. and a bachelor's degree of science in biology from the Tunghai University (東海大學) in Taiwan.

Dr. Jing Li (李競), aged 47, is the senior vice president of the Company. Dr. Li is primarily responsible for overseeing the biologics discovery department of the Group. Dr. Li joined the Group in December 2013 as a vice president of WuXi Biopharma and was appointed current position in October 2016. Prior to joining the Group, from October 2005 to November 2013, Dr. Li served as a senior manager of the alliance management and portfolio management, laboratory head and program team head of Novartis International AG, a global biopharmaceutical company listed on NYSE (stock code: NVS) and primarily engaged in the research and development of medicine and vaccines, and was responsible for leading biologics drug discovery programs, managing company-wide biologics portfolio and managing company strategic alliance with external partners on biologics drug discovery technologies and programs. From November 2001 to October 2005, he served as the project team leader of Pfizer Inc., a global pharmaceutical corporation listed on NYSE (stock code: PFE) primarily engaged in the research and development of chemicals, biological agents and vaccines, and was responsible for leading biologics drug discovery programs. Dr. Li obtained a bachelor's degree in basic medicine and a doctor's degree in oncology from Beijing Medical University (北京醫科大學) (currently known as Peking University Health Science Center (北京大學醫學部)) in the PRC in July 1993 and June 1998, respectively and obtained an MBA degree from Yale University in the United States in May 2010. He also conducted postdoctoral research in immunology in Tufts University in the United States from September 1998 to October 2001.

Mr. Jian Dong (董健), aged 55, is a senior vice president of the Company. Mr. Dong is primarily responsible for managing clinical medicine production and commercial production of bio-pharmaceuticals. Mr. Dong joined the Group in April 2014 as an executive director of WuXi Biopharma and was appointed vice president in October 2015 and senior vice president in June 2018. Prior to joining the Group, from May 2013 to May 2014, he served as the deputy general manager of Shanghai United Cell Biotechnology Co., Ltd. (上海聯合賽爾生物工程有限公司), a company primarily engaged in manufacturing, sales and development of recombinant biologic products, and was responsible for managing the production and quality management system, research and development system, and engineering system. From May 2013 to May 2014, he also served as the deputy general manager of Unilab Biosciences Private Limited, and was responsible for new product introduction. From May 2009 to April 2013, he served as a vice president of Shanghai Celgen Bio-Pharmaceutical Co., Inc. (上海賽金生物醫藥有限公司), and was responsible for manufacturing and quality management. From April 2005 to May 2009, he served as a senior process engineer of EL&Co, and was responsible for cell culture process development for antibodies. From April 2005 to December 2006, he served as a biologist of Applied Molecular Evolution, Inc., and was responsible for GMP cell culture production. From March 2000 to April 2005, he served as a research scientist of BioAge Pharmaceuticals, Inc., and was responsible for pharmaceuticals research and development. From August 1988 to March 2000, he served as the manager of genetic engineering department, assistant general manager and vice chief engineer in Shenzhen Kangtai Biological Products Co., Ltd. (深圳康泰生物製品有限公司), and was responsible for technology transfer and manufacturing management. Mr. Dong obtained a bachelor's degree in biology in July 1985 and a master's degree in biology in September 1988 from University of Wuhan (武漢大學) in the PRC. He obtained the qualification as a certified senior pharmaceutical engineer (製藥高級工程師) granted by Personnel Department of Guangdong Province (廣東省人事廳) in December 1996.

Mr. Angus Scott Marshall Turner, aged 51, is a vice president of the Company. Mr. Turner is primarily responsible for the overall business development, strategic alliances and partnerships of the Group. Mr. Turner joined the Group in September 2016. Prior to joining the Group, from November 2010 to June 2016, he served as the director of Sales Europe and Asia, and latterly head of Sales Europe, for Lonza AG, a Swiss-based supplier of product and services to the global pharmaceutical, healthcare and life science industries, and was responsible for recruiting, training and development of the sales team and successful implementation of sales strategies across all technologies in the contract manufacturing business unit. From March 2004 to November 2008, he served as the director of business development, Europe and Asia, for AppTec Laboratory Services, Inc., a company primarily engaged in biopharmaceutical and medical device testing and biologics-based manufacturing and related services. Upon the acquisition of AppTec Laboratory Services, Inc. by WuXi PharmaTech in 2008 and until November 2010, he served as a director of international biopharmaceutical business development of WuXi PharmaTech, and was responsible for business development across Europe and Asia. From October 2002 to March 2004, he served as a business development manager, Europe, for Excell Biotech, a company engaged in contract development and manufacturing of biologic drugs, and was responsible for developing client pipeline and customer base across Europe. Mr. Turner obtained at bachelor's degree in biology from Stirling University in the United Kingdom in June 1990 and a Master's degree in biotechnology from Strathclyde University in the United Kingdom in November 1991. He also obtained an MBA degree from Warwick Business School in the United Kingdom in July 2001.

Directors' Report

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2018.

Principal Activities

The Group is principally engaged in the provision of end-to-end solutions and services for biologics discovery, development and manufacturing to customers involving in biologics industry in both the PRC and other overseas countries.

A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/paid up capital, is set out in note 38 to the consolidated financial statements in this annual report.

Business Review

A review of the business of the Group during the year, a discussion and analysis on the Group's future business development and the financial and operational key performance indicators employed by the Directors in measuring the performance of the Group's business are set out in the sections headed "Chairman and CEO Statement" on pages 4 to 5 of this annual report, "Financial Summary" on page 6 of this annual report, and "Management Discussion and Analysis" on pages 8 to 34 of this annual report. The financial risk management objectives and policies of the Group are set out in note 31 to the consolidated financial statements in this annual report. Significant events that have an effect on the Group subsequent to the financial year ended December 31, 2018 are set out in note 42 to the consolidated financial statements in this annual report. Besides, principal risks and uncertainties faced by the Group, key relationship between the Group and its employees, customers and suppliers, environmental policies of the Group and compliance with the relevant laws and regulations which have significant impact are set out below. These sections constitute part of this Directors' Report.

In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company are provided in the section headed "Environmental, Social and Governance Report" on pages 80 to 137 of this annual report.

Directors

The Directors during the Reporting Period and up to the date of this Directors' Report were:

Executive Directors

Dr. Zhisheng Chen *(Chief Executive Officer)*
Dr. Weichang Zhou *(Chief Technology Officer)*

Non-executive Directors

Dr. Ge Li *(Chairman)*
Mr. Edward Hu
Mr. Yibing Wu
Mr. Yanling Cao

Independent non-executive Directors

Mr. William Robert Keller
Mr. Teh-Ming Walter Kwauk
Mr. Wo Felix Fong

Biographies of the Directors and Senior Management

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 35 to 43 of this annual report.

Service Contracts of the Directors

Each of the executive Directors has entered into a three-year service contract with the Company, subject to termination before expiry by either party giving not less than three months' notice in writing to the other. Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years and shall be terminable by either party giving not less than three months' notice in writing to the other.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Employees and Remuneration Policies

As at December 31, 2018, the Group had a total of 4,141 employees, of whom 1,905 were located in Shanghai, 2,028 were located in Wuxi, Jiangsu Province, 175 were located in Suzhou, Jiangsu Province, and 33 were located overseas. The staff costs, including Directors' emoluments but excluding any contributions to retirement benefit scheme contributions and share-based payment expenses, were approximately RMB690.3 million for the year ended December 31, 2018, as compared to approximately RMB394.8 million for the year ended December 31, 2017. The remuneration package of employees generally includes salary and bonus elements. In general, the Group determines the remuneration package based on the qualifications, position and performance of its employees. The Group also makes contributions to social insurance fund, including basic pension insurance, medical insurance, unemployment insurance, childbirth insurance, work-related injury insurance funds, and housing reserve fund as applicable to the countries where the Group operates.

The Group has adopted the Pre-IPO Share Option Scheme and the Restricted Share Award Scheme to provide incentive or reward to eligible participants for their contribution or potential contribution to the Group. Details of the Pre-IPO Share Option Scheme and the Restricted Share Award Scheme are set out on pages 57 to 59 and note 37 to the consolidated financial statements in this annual report.

In addition, the Group has an effective training system for its employees, including orientation and continuous on-the-job training, to accelerate the learning progress and improve the knowledge and skill levels of its workforce. Its orientation process covers subjects, such as corporate culture and policies, work ethics, introduction to the biologics development process, quality management, and occupational safety, and its periodic on-the-job training covers streamlined technical know-hows of its integrated services, environmental, health and safety management systems and mandatory training required by applicable laws and regulations.

The remuneration of the Directors and senior management is reviewed by the Remuneration Committee and approved by the Board. The relevant experience, duties and responsibilities, time commitment, working performance and the prevailing market conditions are taken into consideration in determining the emoluments of the Directors and senior management.

Remuneration of Directors and Five Individual with Highest Emoluments

Details of the emoluments of the Directors and five highest paid individuals are set out in note 11 to the consolidated financial statements in this annual report.

No Director has waived or has agreed to waive any emoluments during the year ended December 31, 2018.

Changes to Information in respect of Directors

Pursuant to Rule 13.51B of the Listing Rules, the changes in Directors' information during the year ended December 31, 2018 are set out below.

- Mr. William Robert Keller and Mr. Teh-Ming Walter Kwauk, being the independent non-executive Directors, have been appointed as independent non-executive directors of Hua Medicine (華領醫藥), a company listed on the Main Board of the Stock Exchange (stock code: 2552), with effect from September 14, 2018.

- As disclosed in the Prospectus, Dr. Ge Li, Mr. Edward Hu and Mr. Yibing Wu, being the non-executive Directors, are serving as the directors of WuXi AppTec at the same time. On December 13, 2018, the shares of WuXi AppTec are listed on the Main Board of the Stock Exchange (stock code: 2359).

Save as disclosed above, there were no changes to information which are required to be disclosed and had been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

Non-Competition Undertakings

As disclosed in the Prospectus, each of the Controlling Shareholders has undertaken to the Company in a deed of non-competition that, subject to and except as mentioned in the Prospectus, it would not, and would procure their close associates (except any member of the Group) not to, directly or indirectly (whether in the capacity of principal or agent, whether for its own benefit or jointly with or on behalf of any person, firm or company, whether within or outside China), commence, engage in, participate in or acquire any business which competes or may compete directly or indirectly with the Group's core business of providing services for the discovery, development and manufacturing of biologics or own any rights or interests in such business. Each of the Controlling Shareholders has confirmed in writing to the Company of its compliance with the deed of non-competition for disclosure in this annual report during the year ended December 31, 2018. No new business opportunity was informed by them as at December 31, 2018.

The independent non-executive Directors have reviewed the implementation of the deed of non-competition and are of the view that the non-competition undertakings have been complied with by the Controlling Shareholders for the year ended December 31, 2018.

Directors' Interests in Competing Businesses

Saved as disclosed in this annual report, as at December 31, 2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

Directors' Interests in Transaction, Arrangement or Contract of Significance

Save as disclosed in this annual report, there was no transaction, arrangement or contract of significance subsisted in which a Director or an entity connected with a Director was materially interested, whether directly or indirectly, during or at the end of the Reporting Period.

Connected Transactions

Details on related party transactions for the year ended December 31, 2018 are set out in note 36 to the consolidated financial statements. Among the related party transactions, research and development service transactions with JW Therapeutics (Shanghai) Co., Ltd. and testing service transactions with WuXi NextCode Genomics (Shanghai) Co., Ltd. are fully exempted connected transactions under Chapter 14A of the Listing Rules; and leasing service transactions with WXAT Shanghai is regarded as fully exempted continuing connected transactions under Chapter 14A of the Listing Rules. Details of related party transactions which also constitute connected transactions or continuing connected transactions not fully exempted under Rule 14A.73 of the Listing Rules are disclosed below.

Non-exempt Continuing Connected Transaction

On May 17, 2017, the Company entered into a number of non-exempt continuing connected transactions. These connected transactions of the Company are also related party transactions, which are disclosed in note 36 to the consolidated financial statements in this annual report.

The table below set out the annual caps and the actual transaction amount of such continuing connected transactions for the year ended December 31, 2018:

	Connected Transactions	Connected Person	Description	Pricing Policy	Annual cap for the year ended December 31, 2018 (RMB million)	Actual transaction amount for the year ended December 31, 2018 (RMB million)
1.	Testing Service Framework Agreement (Renewed and amended on November 23, 2018)	WuXi AppTec	Provision of certain testing services to the Group	Standard pricing used by WuXi AppTec for all its customers	9.00	9.00
2.	General Service Framework Agreement (Terminated on August 23, 2018)	WXAT Shanghai	Provision of utility billing services to the Group	Actual utility cost with no additional margin charged	4.30	—
3.	Research and Development Service Framework Agreement	WX MedImmune	The Group to provide certain research and development services to WX MedImmune	Service fee determined through arm's length negotiation	20.00	19.76

For detailed terms of the non-exempt continuing connected transactions mentioned above, please refer to the Prospectus.

The independent non-executive Directors have reviewed each of the above-mentioned continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The non-exempt continuing connected transactions in relation to the General Service Framework Agreement (as defined in the Prospectus) dated May 17, 2017 entered into between the Company and WXAT Shanghai was terminated on August 23, 2018. The non-exempt continuing connected transactions in relation to the Testing Service Framework Agreement (as defined in the Prospectus) dated May 17, 2017 entered into between the Company and WuXi AppTec was renewed for a new term of three years from January 1, 2018 to December 31, 2020 with its annual cap amended on November 23, 2018. For details of the termination and the amendment, please refer to the Company's announcement made on August 23, 2018 and November 23, 2018, respectively, on the respective websites of HKEX and the Company.

The auditor of the Company was engaged to report on the Group's above-mentioned continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the conclusions in respect of the above-mentioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

In respect of the above-mentioned non-exempt connected transactions, the Directors also confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, there was no connected transaction of the Group which has to be disclosed in accordance with the Listing Rules, save for the foregoing.

Risk Management

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure arising internally and externally from the Group's business, including operational risks, financial risks, regulatory risks, etc. and proactively setting up appropriate risk management and internal control mechanism which is embedded in daily operation management.

Regulatory Risk

The biologics industry, being a division of the pharmaceutical and healthcare industry has experienced drastic changes in recent years, including the reform in the PRC medical administrative departmental structure, where the National Medical Products Administration (NMPA) is formally set up which is under the supervision of State Administration for Market Regulation. In June 2018, NMPA became a member of the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH), which helps the administrative departments, the industry and research organizations to further implement ICH guidelines so as to participate actively in the internationalization process. On the international platform, the U.S. FDA published guidelines, Q&A, Manual of Policies and Procedures (MAPPs) for topics on data integrity, biosimilar development, rare diseases drug development, and regulatory meetings were organized between the agency and applicant to give better instructions on regulatory activities and to facilitate better interaction. All those domestic or international regulatory changes have or will have a far-reaching impact on the players of the industry. In China while government policies toward the pharmaceutical industry are expected to remain stable and the government is expected to remain committed to increasing innovation as well as overall healthcare spending which is in line with the "Healthy China 2030" goals set by the State Council, it is also observed that the companies of this industry are to comply with more stringent regulations which is close to international standards, the punishment becomes much stricter and more specific and supervision and inspection from government will become more frequent. In response to this, the Group sticks to the strategies of "Innovation" and "Globalization" to handle the constantly changing regulations. The Group has formed a dedicated Regulatory Affairs team which comprises professionals with years of experiences and diversified backgrounds in both domestic and overseas markets. The team members are responsible for actively following new laws, regulations and guidances published by regulatory agencies and promoting improvements in compliance with such laws, regulations and guidelines.

Global Politics and Economy Uncertainty Risk

Despite the continuous global economic growth, there are still a number of uncertainties and risks affecting the global economy, such as increasing trade tensions between the U.S. and certain major nations, the Brexit, the fluctuation of the U.S. dollar against major currencies around the world and the continuing geopolitical tensions creating uncertainties in the world economy and global financial market. A slowdown in global economic growth may lead to economic contractions in certain markets, commercial and consumer delinquencies, weakened consumer confidence and increased market volatility. The Group has taken actions to realize its globalization strategy, by making investments in different countries around the world to set up development and manufacturing facilities in Ireland, Singapore and the U.S. in a hope to complement each other's advantage with China's production sites. Any adverse economic conditions in these countries may potentially impact on the Group's financial position or potential income, asset value and liabilities. On the other hand, it is the first time for the Group to operate in oversea countries. The local laws and regulations, talents hiring and retention, competition, finance and tax policies and supervisory requirements are different from those in China, which may also increase the uncertainty of the Group's future operation. The Group's management are actively seeking experienced team in foreign operations and studying these differences to cope with the relevant risk.

Credit Risk

During the Reporting Period, the Group's maximum exposure to credit risk which will cause financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position. In order to minimize the credit risk, the management has designated a team responsible for reviewing and monitoring the credit exposure of customers by evaluating customers' credit application, monitoring repayment history, sending confirmations and initiating collection procedures to promptly recover overdue debts. The management also monitored the fluctuation of day sales outstanding (DSO) of trade receivables closely. In addition, the Directors reviewed the recoverability of each significant trade debt (both trade receivables and contract assets) at the end of each Reporting Period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Board is of the view that the credit risk on time deposits, bank balances and pledged deposits is limited because the majority of the counterparties are state-owned banks with good reputation or banks and financial institutions with good credit rating. In addition, to regulate the management of surplus fund, the Group has set up relevant policies and procedures, which clearly state that no speculative transaction is allowed. Also the criteria for evaluating the available products in the market are set in the following sequence of priority: safety, liquidity and then returns. Other requirements like the approved list of financial institutions, the maximum placement per transaction and the aggregate amount in the individual financial institution are also clearly defined. With all the above, the Directors consider the credit risk in relation to time deposits and bank balances has been significantly reduced.

Liquidity Risk

The Group's primary uses of cash are to fund working capital and capital expenditures. During the Reporting Period, the Group funded its cash requirements principally from cash generated from operations and funds raised from initial global offering and placement. The Group also maintains a level of unused banking facilities. By continuously monitoring the operating cash flow and capital expenditure needs, the Group manages the liquidity risk.

Currency Risk

The Group principally operates in the PRC with a major portion of the procurements being settled in Renminbi, which is the functional currency of the Group's most entities. The Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognized revenue and expenses, assets and liabilities and net investments in foreign operations. The Group's entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the U.S. dollars.

During the Reporting Period, a majority of the Group's revenue was generated from sales denominated in U.S. dollar, while most of the cost of services and operation costs and expenses of the Group were settled in Renminbi. As a result, the Group's margins are pressured when the Renminbi appreciates against the U.S. dollar. The monetary assets and liabilities denominated in U.S. dollar are exposed to foreign exchange risk through revaluation at the end of each Reporting Period, when the value of Renminbi fluctuates against the U.S. dollar.

The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. Since January 2018, the Group has engaged into a series of forward contracts to manage the Group's currency risk. The hedge accounting is also adopted by the Group for derivatives to mitigate the impact on revenue due to the fluctuation in foreign currency.

Risks related to international trade agreements, tariffs and import/export regulations

Since 2018, more material uncertainties arose in international trade agreements, tariffs and import/export regulations, especially the bilateral trade between the U.S. and the PRC. The U.S. and the PRC government have carried out numerous rounds of negotiations. If any new legislation and/or regulations are implemented, or if existing trade agreements are renegotiated, or if the U.S. or the PRC imposes additional burdens on international trade that negatively affect the ability of both countries to import and export goods, it may lead to a decline in material supply and demand of the Group's services. We are closely monitoring the relevant impact.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations

As at December 31, 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

I. Interests in Shares or underlying Shares of the Company

Name of Director	Capacity/ Nature of interest	Number of Shares/ underlying Shares[1]	Aggregate Interests	Approximate percentage of shareholding interest
Dr. Ge Li	Interests of controlled corporations[2] Interests of parties acting in concert[3]	724,935,597 (L)	724,935,597 (L)	59.13%
Mr. Edward Hu	Beneficial owner	1,441,500 (L)	1,441,500 (L)	0.12%
Dr. Zhisheng Chen	Beneficial owner Beneficial owner[4]	711,418 (L) 40,844,000 share options (L)	41,555,418 (L)	3.39%
Dr. Weichang Zhou	Beneficial owner[4]	5,931,000 share options (L)	5,931,000 (L)	0.48%

Notes:

(1) The letter "L" denotes the person's long position in the Shares or underlying Shares.

(2) Dr. Ge Li controlled, directly and indirectly, the exercise of 59.37% and 100% of the voting power at general meetings of Biologics Holdings and G&C VII Limited, respectively. Hence, Dr. Ge Li is deemed to be interested in 676,380,917 Shares and 44,602,361 Shares held by Biologics Holdings and G&C VII Limited, respectively.

(3) Dr. Ge Li entered into an acting-in-concert agreement dated June 30, 2016 with Dr. Ning Zhao, Mr. Zhaohui Zhang and Mr. Xiaozhong Liu to acknowledge and confirm their acting-in-concert relationship in relation to the Company. Hence, Dr. Ge Li is deemed to be interested in 1,778,544 Shares and 2,173,775 Shares interested by Mr. Zhaohui Zhang and Mr. Xiaozhong Liu, respectively.

(4) Interests in share options granted pursuant to the Pre-IPO Share Option Scheme.

II. Interests in shares or underlying shares of the associated corporations of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number and class of shares in the associated corporation[1]	Approximate percentage of interest in the associated corporation
Dr. Ge Li	Biologics Holdings	Interests of controlled corporations	192,001 Class A ordinary shares (L)[2]	59.37%
	Life Science Holdings	Interests of controlled corporations	65,393,491 ordinary shares (L)[3]	18.44%

Notes:

(1) The letter "L" denotes the person's long position in the shares.

(2) Dr. Ge Li controlled, directly and indirectly, the exercise of 59.37% of the voting power at the general meetings of Biologics Holdings.

(3) Dr. Ge Li controlled, directly and indirectly, the exercise of 10.06% and 8.38% of the voting power at the general meetings of Life Science Holdings through G&C IV Limited and Shanghai Xiaozhong Investment Center (Limited Partnership), respectively.

Save as disclosed above, as at December 31, 2018, so far as it was known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations as recorded in the register required to be kept, pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares of the Company

As at December 31, 2018, so far as it was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Interests in Shares or underlying Shares of the Company

Name of Shareholder	Capacity/Nature of interest	Number of Shares/ underlying Shares[1]	Approximate percentage of shareholding interest
Dr. Ge Li	Interests of controlled corporations[2] Interests of parties acting in concert[4]	724,935,597 (L)	59.13%
Dr. Ning Zhao	Interests of spouse[3] Interests of parties acting in concert[4]	724,935,597 (L)	59.13%
Mr. Zhaohui Zhang	Interests of controlled corporations[5] Interests of parties acting in concert[4]	724,935,597 (L)	59.13%
Mr. Xiaozhong Liu	Interests of controlled corporations[6] Interests of parties acting in concert[4]	724,935,597 (L)	59.13%
Life Science Holdings	Interests of controlled corporations[7]	676,380,917 (L)	55.17%
Life Science Limited	Interests of controlled corporations[7]	676,380,917 (L)	55.17%
WuXi PharmaTech	Interests of controlled corporations[7]	676,380,917 (L)	55.17%
Biologics Holdings	Beneficial owner[7]	676,380,917 (L)	55.17%
JPMorgan Chase & Co.	Interests of controlled corporations[8]	61,683,390 (L) 4,091,618 (S) 35,811,448 (LP)	5.03% 0.33% 2.92%

Notes:

(1) The letter "L" denotes the person's long position in the Shares; the letter "S" denotes the person's short position in the Shares; and the letter "LP" denotes the person's lending pool in Shares.

(2) Dr. Ge Li controlled, directly and indirectly, the exercise of 59.37% and 100% of the voting power at the general meetings of Biologics Holdings and G&C VII Limited, respectively. Hence, Dr. Ge Li is deemed to be interested in 676,380,917 Shares and 44,602,361 Shares held by Biologics Holdings and G&C VII Limited, respectively.

(3) Dr. Ning Zhao is the spouse of Dr. Ge Li and is deemed to be interested in the Shares interested by Dr. Ge Li.

(4) Dr. Ge Li, Dr. Ning Zhao, Mr. Zhaohui Zhang and Mr. Xiaozhong Liu entered into an acting-in-concert agreement on June 30, 2016 to acknowledge and confirm their acting-in-concert relationship in relation to the Company. Hence, Dr. Ge Li, Dr. Ning Zhao, Mr. Zhaohui Zhang and Mr. Xiaozhong Liu are deemed to be interested in the Shares held by each other.

(5) Mr. Zhaohui Zhang wholly owned i-growth Ltd, which held 1,778,544 Shares. Thus, Mr. Zhaohui Zhang is deemed to be interested in the Shares held by i-growth Ltd.

(6) Mr. Xiaozhong Liu wholly owned I-Invest World Ltd, which held 2,173,775 Shares. Thus, Mr. Xiaozhong Liu is deemed to be interested in the Shares held by I-Invest World Ltd.

(7) Life Science Holdings wholly owned Life Science Limited, which wholly owned WuXi PharmaTech, which in turn controlled 40.63% of the voting power at general meetings of Biologics Holdings. Biologics Holdings directly owned 676,380,917 Shares. Life Science Holdings, Life Science Limited and WuXi PharmaTech are deemed to be interested in the Shares held by Biologics Holdings.

(8) The Shares held by JPMorgan Chase & Co. were held via different entities in the following capacities:

No. of Shares[1]	Capacity
7,417,942 (L)	Interests of controlled corporations
4,091,618 (S)	
17,645,000 (L)	Investment manager
806,500 (L)	Person having a security interest in shares
2,500 (L)	Trustee
35,811,448 (L)	Approved lending agent

Controlling Shareholders' Interests in Contract of Significance

Save as disclosed in this annual report, no Controlling Shareholders or their subsidiaries had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of its Shareholders passed on January 5, 2016, which was subsequently amended on August 10, 2016 pursuant to the resolutions of the Board.

The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate employees, Directors and such other participants of the Group, to provide a means of compensating them through the grant of options under the Pre-IPO Share Option Scheme for their contribution to the growth and profits of the Group, and to allow them to participate in the growth and profitability of the Group. Participants of the Pre-IPO Share Option Scheme include (a) any employee (whether full-time or part-time) of the Company or its subsidiaries, including any executive Director, (b) any non-executive Director or independent non-executive Director of the Company appointed or proposed to be appointed prior to the Listing Date, or any director of any of the subsidiaries, and (c) any other person who in the sole opinion of the Board, will contribute or have contributed to the Group. No further option would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

The table below shows details of the share options granted under the Pre-IPO Share Option Scheme during the Reporting Period:

		Number of Share Options					
Category of Participants	Date of Grant	Outstanding as at January 1, 2018	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at December 31, 2018
Directors							
Dr. Zhisheng Chen	January 7, 2016	35,000,000	—	—	—	—	35,000,000
	March 15, 2017	5,844,000	—	—	—	—	5,844,000
		40,844,000	**—**	**—**	**—**	**—**	**40,844,000**
Dr. Weichang Zhou	January 7, 2016	5,750,000	—	650,000	—	—	5,100,000
	March 15, 2017	831,000	—	—	—	—	831,000
		6,581,000	**—**	**650,000**	**—**	**—**	**5,931,000**
Sub-total		**47,425,000**	**—**	**650,000**	**—**	**—**	**46,775,000**
Employees in aggregate							
230 employees	January 7, 2016	40,531,882	—	4,345,983	—	173,640	36,012,259
24 employees	March 28, 2016	1,414,750	—	102,475	—	36,000	1,276,275
102 employees	August 10, 2016	5,570,313	—	470,275	—	93,600	5,006,438
92 employees	November 11, 2016	5,575,000	—	307,600	—	235,400	5,032,000
321 employees	March 15, 2017	13,373,000	—	—	—	200,500	13,172,500
74 employees	May 12, 2017	3,758,000	—	—	—	40,000	3,718,000
Sub-total		**70,222,945**	**—**	**5,226,333**	**—**	**779,140**	**64,217,472**
Total		**117,647,945**	**—**	**5,876,333**	**—**	**779,140**	**110,992,472**

In respect of the share options exercised during the Reporting Period, the weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK$ 64.48.

In accordance with Pre-IPO Share Option Scheme, the total number of Shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. The exercise price was determined by the Board, as it thought fit taking into account a participant's contribution to the development and growth of the Group.

The options granted under the Pre-IPO Share Option Scheme shall be exercisable during a period from the vesting date of the option until the expiry of ten years from the date of the grant of the option. Details of the terms and movement of the options granted during the Reporting Period and the impact of options granted under the Pre-IPO Share Option Scheme on the financial statements are set out in the Prospectus and under note 37 to the consolidated financial statements in this annual report.

Restricted Share Award Scheme

The Company has also adopted the Restricted Share Award Scheme on January 15, 2018 to (i) recognize the contributions by Selected Participants; (ii) encourage, motivate and retain the Selected Participants, whose contributions are beneficial to the continual operation, development and long-term growth of the Group; and (iii) provide additional incentive for the Selected Participants to achieve performance goals, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the Selected Participants to the shareholders of the Company through ownership of Shares. The Restricted Share Award Scheme became effective on January 15, 2018. Subject to earlier termination by the Board, the Restricted Share Award Scheme shall be valid and effective for a period of 10 years from the adoption date. The maximum number of shares which can be awarded under the Restricted Share Award Scheme and to a Selected Participant are limited to 3% (i.e. 34,953,032 Shares) of the issued share capital of the Company as at the adoption date.

The Company shall comply with the relevant Listing Rules when granting the Restricted Shares. If awards are made to the directors or substantial shareholders of the Group, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules.

The table below shows details of the Restricted Shares granted under the Restricted Share Award Scheme during the Reporting Period:

		Number of Restricted Shares					
Category of Participants	Date of Grant	Outstanding as at January 1, 2018	Granted during the Reporting Period	Vested during the Reporting Period	Forfeited during the Reporting Period	Outstanding as at December 31, 2018	Vesting Period
Employees in aggregate							
259 employees	January 15, 2018	—	3,122,240	—	343,580	2,778,660	5 years
540 employees	March 20, 2018	—	1,846,677	—	95,794	1,750,883	5 years
170 employees	June 13, 2018	—	784,946	—	43,244	741,702	5 years
202 employees	August 21, 2018	—	1,339,787	—	13,727	1,326,060	5 years
124 employees	November 20, 2018	—	1,026,230	—	4,859	1,021,371	5 years
Total			**8,119,880**		**501,204**	**7,618,676**	

Details of the purpose and terms of the Restricted Shares granted during the Reporting Period are set out in the Company's announcements dated January 15, 2018 and January 18, 2018 and under note 37 to the consolidated financial statements in this annual report.

Major Customers and Suppliers

Major Customers

For the year ended December 31, 2018, the Group's sales to its five largest customers accounted for 31.4%, as compared to 39.9% of the Group's total revenue for the year ended December 31, 2017, and the Group's sales to the largest customer accounted for 11.1%, as compared to 11.9% of the Group's total revenue for the year ended December 31, 2017.

Major Suppliers

For the year ended December 31, 2018, the Group's five largest suppliers accounted for 64.9%, as compared to 70.2% of the Group's total purchases for the year ended December 31, 2017, and the Group's single largest supplier accounted for 21.2%, as compared to 27.0% of the Group's total purchases for the year ended December 31, 2017.

During the year ended December 31, 2018, none of the Directors or any of their close associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

Management Contracts

During the Reporting Period, the Company has not entered into any contract with any individuals, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group.

Directors' Permitted Indemnity Provision

Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto in accordance with the Articles of Association.

Results and Dividends

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income on pages 143 to 144 of this annual report. The Board does not recommended any payment of final dividend for the year ended December 31, 2018.

Share Capital

Details of movements in share capital of the Company during the Reporting Period are set out in note 29 to the consolidated financial statements in this annual report.

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 40 to the consolidated financial statements in this annual report.

Details of the Company's reserves available for distribution to the Shareholders as at December 31, 2018 are set out in note 40 to the consolidated financial statements in this annual report.

Donations

During the Reporting Period, charitable and other donations made by the Group amounted to RMB198,000 (2017: RMB50,000).

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the consolidated financial statements in this annual report.

Use of Proceeds from Listing

The total proceeds from the issue of new Shares by the Company in its Listing (after deducting the underwriting fees and related expenses) amounted to approximately RMB3,437.8 million[1], and the balance of unutilized net proceeds of approximately RMB741.9 million was kept at the bank accounts of the Group as at December 31, 2018.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2018:

Use of proceeds	Planned applications *(RMB million)*	Percentage of total net proceeds	Actual usage up to December 31, 2018 *(RMB million)*	Unutilized net proceeds as at December 31, 2018 *(RMB million)*
To repay all of the Group's outstanding bank facilities	1,238.6	37%	1,238.6	—
To construct new facilities and existing facility improvement and maintenance	1,739.7	52%	1,178.7	561.0
For the Group's working capital and other general corporate purposes	275.9	8%	95.0	180.9
To improve and maintain the Group's existing facilities	113.7	3%	113.7	—
Total	3,367.9[1]	100%	2,626.0	741.9

Note:

(1) It included approximately RMB69.9 million which forms part of the Listing expenses payable settled after the receipt of IPO proceeds. By excluding this portion, the net proceeds planned for applications amount to approximately RMB3,367.9 million.

Use of Proceeds from Placing

On March 21, 2018, the Company entered into a placing agreement with Morgan Stanley & Co. International plc (the "**Placing Agent**"), pursuant to which the Placing Agent agreed to place 57,000,000 shares (or, failing which, to purchase itself as principal) on a fully underwritten basis to not less than six independent investors (the "**Placing**"). The Placing price was HK$70.00 per share.

The net proceeds from the Placing were approximately RMB3,186.7 million, which have been and will be used for the future expansion of the Group, including the capital requirements to increase its laboratory and manufacturing capacity, as disclosed in the announcement of the Company dated March 22, 2018. During the Reporting Period, the proceeds used to construct new facilities was approximately RMB409.8 million. The balance of the unutilized net proceeds as at December 31, 2018 was approximately RMB2,776.9 million.

Purchase, Sale or Redemption of Listed Securities of the Company

During the year ended December 31, 2018, neither the Company nor any other subsidiary had purchased, sold or redeemed any of the Company's listed securities.

Equity-Linked Agreements

Save for the Pre-IPO Share Option Scheme as disclosed on pages 57 to 58 of this annual report, no equity-linked agreements were entered into by the Company, or existed during the Reporting Period.

AGM and Closure of Register of Members

The AGM of the Company will be held on Wednesday, June 5, 2019. A notice convening the AGM will be published and despatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the qualification as shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Friday, May 31, 2019 to Wednesday, June 5, 2019, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, May 30, 2019.

Directors' Report

Corporate Governance

A report on the principle corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 63 to 79 of this annual report.

Sufficiency of Public Float

Based on information that is publicly available and within the knowledge of the Directors, the Company maintained the prescribed public float as required under the Listing Rules from the Listing Date to the date of this annual report.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's listed securities.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Auditor

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended December 31, 2018. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Dr. Ge Li
Chairman
Hong Kong, March 18, 2019

The Board is pleased to present the Corporate Governance Report for the year ended December 31, 2018.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the CG Code contained in Appendix 14 to the Listing Rules as the basis of the Company's corporate governance practices.

The Board is of the view that the Company has complied with all applicable code provisions as set out in the CG Code throughout the Reporting Period. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Written Guidelines on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code and the Written Guidelines throughout the Reporting Period. On February 22, 2019, the Company received a letter from Mr. William Robert Keller ("**Mr. Keller**"), an independent non-executive Director that on February 1, 2019, Mr. Keller purchased 5,500 Shares at the price of HK$69.45 per Share, although Mr. Keller, as the Director, was prohibited from dealing with the securities of the Company during the black-out period (being the period from January 17, 2019 up to the publication date of the annual results announcement for the year ended December 31, 2018). Mr. Keller explained to the Company that such mistake was made out of an inadvertent oversight. Upon realizing the mistake himself, Mr. Keller immediately sold 5,500 Shares at the price of HK$73.80 per Share on March 1, 2019. Mr. Keller has donated the gain of approximately HK$23,925 made as a result of the transactions to Hong Kong Red Cross on the same date. It is confirmed that there was no inside information provided to Mr. Keller and he did not possess any inside information at the time of both purchase and selling down. Mr. Keller voluntarily reported to the Company for his breach of Rules A.3 and B.8 of the Model Code in relation to this incident. In view of this incident and in order to ensure strict compliance of the Listing Rules and enhance corporate governance measures, the Company will remind all Directors as to their respective obligations under the Listing Rules in all aspects, including but not limited to the restrictions in dealing with Company's securities. In addition, refresher course as to the Listing Rules and corporate governance will be provided to Mr. Keller as appropriate.

The Company has also established the Guidelines for Securities Transactions by Employees (the "**Employees' Written Guidelines**") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees' Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required of a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time in performing them.

The Board of the Company currently comprises the following Directors:

Executive Directors

Dr. Zhisheng Chen *(Chief Executive Officer)*
Dr. Weichang Zhou *(Chief Technology Officer)*

Non-executive Directors

Dr. Ge Li *(Chairman)*
Mr. Edward Hu
Mr. Yibing Wu
Mr. Yanling Cao

Independent Non-executive Directors

Mr. William Robert Keller
Mr. Teh-Ming Walter Kwauk
Mr. Wo Felix Fong

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 35 to 40 of this annual report.

The Directors do not have financial, business, family or other material/relevant relationships with one another.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Apart from regular Board meetings, the Chairman also held four meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the Reporting Period. Code provision A.2.7 of the CG Code has been revised to require that the Chairman of the Board should at least annually hold meetings with independent non-executive Directors without the presence of other directors. Arrangements have been made for compliance with the revised code provision which took effect from January 1, 2019.

During the Reporting Period, the Board held seven meetings and the Directors' attendance records are as follows:

Name of Directors	Attendance
Dr. Ge Li	7/7
Dr. Zhisheng Chen	7/7
Dr. Weichang Zhou	7/7
Mr. Edward Hu	7/7
Mr. Yibing Wu	6/7
Mr. Yanling Cao	6/7
Mr. William Robert Keller	7/7
Mr. Teh-Ming Walter Kwauk	7/7
Mr. Wo Felix Fong	6/7

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Dr. Ge Li and Dr. Zhisheng Chen respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board as well as provides overall guidance on the business, strategy and corporate development of the Group. The Chief Executive Officer focuses on the overall management of the business, strategy and corporate development of the Group.

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Each of the Directors is engaged on a service contract (in the case of the executive Directors) or a letter of appointment (in the case of the non-executive Directors and independent non-executive Directors) for a specific term of three years, which is renewable by mutual consent and subject to the Articles of Association of the Company.

Every Director (including those appointed for a specific term) shall be subject to retirement and re-election by rotation at least once every three years at the annual general meetings of the Company under the Articles of Association of the Company.

The Company's Articles of Association also provides that all Directors appointed to fill a casual vacancy or as an addition to the Board shall be subject to election by shareholders at the next following general meeting of the Company.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgment on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that they remain informed and relevant for their contribution to the Board.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Besides, meetings with senior management of the Company will also be arranged.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, the Company organized training sessions conducted by the legal advisers and compliance consultants for all Directors. The training sessions covered a wide range of relevant topics including Directors' duties and responsibilities and CG Code, notifiable transactions, disclosure of inside information, and introduction to Cash Company and PFIC/Investment Company Issues etc. In addition, relevant reading materials including legal and regulatory updates have been provided to the directors for their reference and studying.

The training records of the Directors for the Reporting Period are summarized as follows:

Directors	**Type of Training** *Note*
Executive Directors	
Dr. Zhisheng Chen	A & B
Dr. Weichang Zhou	A & B
Non-executive Directors	
Dr. Ge Li	A & B
Mr. Edward Hu	A & B
Mr. Yibing Wu	A & B
Mr. Yanling Cao	A & B
Independent Non-executive Directors	
Mr. William Robert Keller	A & B
Mr. Teh-Ming Walter Kwauk	A & B
Mr. Wo Felix Fong	A & B

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and/or workshops

B: Reading relevant news alerts, newspapers, journals, magazines and/or relevant publications

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the websites of the Company and HKEX and are available to shareholders upon request.

Audit Committee

The Audit Committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. Teh-Ming Walter Kwauk, Mr. William Robert Keller and Mr. Edward Hu, with Mr. Teh-Ming Walter Kwauk as its chairman.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the Company's financial information, overseeing the Company's financial reporting system, risk management and internal control systems, reviewing and monitoring the effectiveness of the internal audit function, scope of audit and appointment of external auditors, reviewing the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee is also responsible for performing the functions set out in code provision D.3.1 of the CG Code. These include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of directors and senior management of the Company; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and reviewing the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual report.

During the Reporting Period, the Audit Committee held four meetings to review and consider annual financial results and report, Corporate Governance Report and Environmental, Social and Governance Report in respect of the year ended December 31, 2017, the interim financial results and report in respect of the six months ended June 30, 2018, and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works, connected transactions, review and consider the reported case and investigation progress in accordance with the Whistleblowing & Investigation Policy, and evaluate and assess the adequacy of the terms of reference of the Audit Committee.

The Audit Committee also met the external auditors once during the Reporting Period without the presence of the executive Directors and the management.

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance
Mr. Teh-Ming Walter Kwauk	4/4
Mr. William Robert Keller	4/4
Mr. Edward Hu	4/4

Remuneration Committee

The Remuneration Committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. William Robert Keller, Mr. Wo Felix Fong and Mr. Edward Hu, with Mr. William Robert Keller as its chairman.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration packages of individual executive directors and senior management, the remuneration policy and structure for all directors and senior management, establishing a formal and transparent procedure for developing remuneration policy and ensuring that no Director or any of his associates is involved in deciding his own remuneration.

During the Reporting Period, the Remuneration Committee held four meetings to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the executive Directors and senior management and the hiring and departure of the Company's senior/key staff, evaluate and assess the adequacy of the terms of reference of the Remuneration Committee and other related matters as well as consider and make recommendation to the Board on key terms of the new service contracts entered with the Chief Executive Officer and other senior management and the grant of restricted shares under the restricted share award scheme.

Pursuant to code provision B.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended December 31, 2018 is as follows:

	Number of employee(s)
RMB5,000,001 to RMB5,500,000	1
RMB3,500,001 to RMB4,000,000	1
RMB3,000,001 to RMB3,500,000	1
RMB2,500,001 to RMB3,000,000	1
RMB2,000,001 to RMB2,500,000	1

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
Mr. William Robert Keller	4/4
Mr. Wo Felix Fong	4/4
Mr. Edward Hu	4/4

Nomination Committee

The Nomination Committee consists of one non-executive Director and two independent non-executive Directors, namely Dr. Ge Li, Mr. William Robert Keller and Mr. Teh-Ming Walter Kwauk, with Dr. Ge Li as its chairman.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, identifying individuals suitably qualified to become Board members and selecting or making recommendation to the Board on the selection of individuals nominated for directorship, making recommendations to the Board on the appointment or reappointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee met once to review the structure, size and composition of the Board, to consider the qualifications of the retiring directors standing for election at the 2018 annual general meeting and evaluate and assess the adequacy of the terms of reference of the Nomination Committee.

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Dr. Ge Li	1/1
Mr. William Robert Keller	1/1
Mr. Teh-Ming Walter Kwauk	1/1

Board Diversity Policy

The Board has adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board and is available on the website of the Company. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

In accordance with the Board Diversity Policy, a truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of directors. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments will be based on merit while taking into account diversity (including gender diversity).

The Company aims to build and maintain a Board with a diversity of Directors, in terms of skills, professional experience, educational background, knowledge, expertise, culture, independence, age and gender.

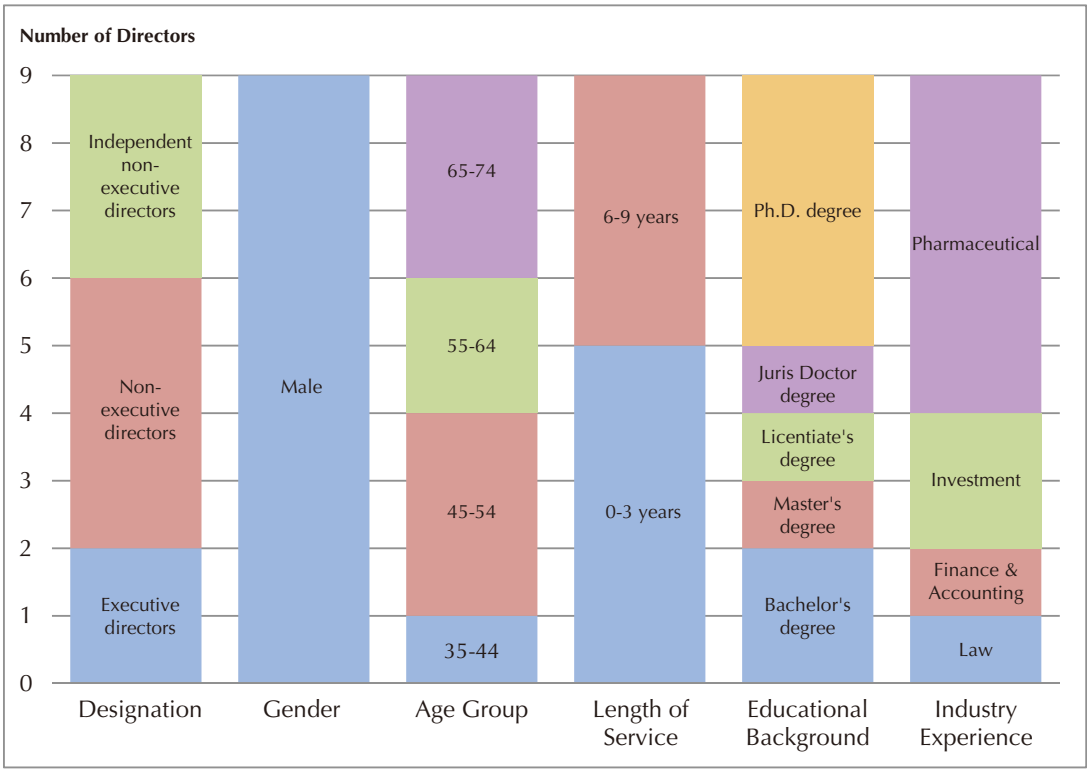
The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will report annually, in the corporate governance report contained in the Company's annual report, on the Board's composition under diversified perspectives, and monitor the implementation of the Board Diversity Policy.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The following chart shows the diversity profile of the Board as at December 31, 2018:



Director Nomination Policy

The Board has adopted a Director Nomination Policy which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors and ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company's business.

The Director Nomination Policy sets out the criteria for the selection of a proposed candidate, including but not limited to the following:

- Diversity required for the operation of the Company;
- Commitment for responsibilities of the Board in respect of available time and relevant interest;
- Skills, qualification and experiences;
- Independence from the Company and its subsidiaries;
- Reputation for integrity;

- Potential contributions that the individual(s) can bring to the Board; and
- Plan(s) in place for the orderly succession of the Board.

The Director Nomination Policy also sets out the criteria for evaluation and recommendation to the Board on the re-appointment of retiring Director(s) and the position(s) of the independent non-executive Directors, and the process and procedures for the nomination of Directors.

During the Reporting Period, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Strategy Committee

The Strategy Committee consists of one executive Director and two non-executive Directors, namely Dr. Zhisheng Chen, Dr. Ge Li and Mr. Yibing Wu, with Dr. Zhisheng Chen as its chairman.

The principal duties of the Strategy Committee include conducting research and making recommendations to the Board on the Group's mid-term and long-term strategies and their feasibility, conducting research and making recommendations to the Board on the Group's investment plans, major business decisions and investment earnings forecast and evaluating and monitoring the implementation of the strategy, plans and measures adopted by the Strategy Committee.

During the Reporting Period, the Strategy Committee met once to review and consider the implementation of the "Follow-the-Molecule" strategy, global footprint and mergers and acquisitions strategy of the Company.

The attendance records of the members of the Strategy Committee are as follows:

Name of Members of the Strategy Committee	Attendance
Dr. Zhisheng Chen	1/1
Dr. Ge Li	1/1
Mr. Yibing Wu	1/1

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of the risk management and internal control systems.

The Company has developed its risk management policy to:

- Support effective decision-making that is guided by the Group's mission and vision;
- Ensure a consistent and effective approach to risk management;
- Formalize its commitment to the principles of risk management and incorporate them into all areas of the Group;
- Foster and encourage a risk-aware culture where risk management is seen as a positive attribute of decision-making rather than a corrective measure;
- Align the Group's planning, compliance and risk management systems, and their integration into all areas of the Group's operations; and
- Ensure robust operational and corporate governance practices to effectively manage risk while allowing innovation and sustainable growth.

The Company is committed to excellence and continual improvement, and will continue to encourage innovation while maintaining a low-risk profile. Employees are encouraged to adopt a positive approach to risk management, which further strengthens the risk-aware culture (as opposed to risk-adverse culture) of the Group.

Risk management is incorporated into the strategic and operational processes at all levels within the Group in order to minimize the impact of risk.

Opportunities and risks are identified and are proactively assessed and monitored by employees on an on-going basis.

The Group's approach to risk management, is aligned with COSO Enterprise Risk Management Framework-Aligning Risk with Strategy and Performance.

In order to formalize risk management across the Group and in order to set a common level of transparency and risk management performance, a number of requirements have been defined for the business units. Divisions, business units and group functions of the Group are obliged to address the following requirements with regard to risk management:

- Develop and review, at least annually, a statement on the risk tolerance of the Group;
- Conduct a formalized risk assessment at least annually either in the form of risk assessment questionnaire or risk assessment workshop, which is to include the identification, prioritization, measurement and categorization of all key risks that could potentially affect the Company's objectives;
- Report annually on the key risks as identified in the Group's risk reporting formats;
- Continuously monitor key risks and controls and implement appropriate risk responses where necessary;
- Formalize responsibilities for managing risk and for sustaining the Group's risk management framework;
- Monitor and review the application of the risk management framework.

The internal control system of the Group is built up on a clear organization structure and management duties, a set of standardized policies and procedures, a sound accounting system, continuing training to employees, and independent review and oversight of operation and financial results by internal audit department of the Company (the "**Internal Audit Department**"). The Company has formulated code of conduct for all employees which ensures their ethical value and competency. The Company attaches great importance to the prevention of fraud and has formulated its internal reporting system, which encourages anonymous reporting of situations where internal employees or external customers and suppliers have breached the rules. The Company has set up the policy regulating the handling and dissemination of inside information, which has clearly defined the scope of inside information, the roles and responsibilities, the reporting and disclosure requirements, the registration of insiders and confidentiality management. It has also clearly regulated the punishment if the policy is violated. The Company has adopted Written Guidelines and Employees' Written Guidelines for security transactions.

The Internal Audit Department plays a vital role in supporting the Board and the management with the risk management and internal control systems. The functions of the Internal Audit Department are independent of the Company's business operations, and play an important role in the monitoring of the Group's internal management. The Internal Audit Department is responsible for internal controls assessment of the Group at least annually, and provides an objective assurance to the Audit Committee and the Board that the risk management and internal control systems are maintained and operated by the management in compliance with agreed processes and standards on a risk-based approach.

The Internal Audit Department regularly reports the internal audit results to the Audit Committee on a quarterly basis per year, which are then reported to the Board through the Audit Committee.

The Internal Audit Department is also responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Board has reviewed the effectiveness of the internal audit function and the review result is satisfactory.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period. The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems of the Group, including the financial, operational and compliance controls, for the Reporting Period, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experience and relevant resources.

Arrangements are in place to facilitate employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Group.

The Company has developed its disclosure policy which provides a general guide to the Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 141 to 142 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2018 is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	4,591
Non-audit Services	
— ESG Report Consulting Service	240
— Others	—
TOTAL	4,831

JOINT COMPANY SECRETARIES

Mr. Huang Yue and Ms. Cheng Pik Yuk are the joint company secretaries of the Company.

During the Reporting Period, Mr. Yong Tong resigned as a joint company secretary on November 20, 2018 due to internal re-designation of job functions and Mr. Huang Yue was appointed as a joint company secretary on November 20, 2018.

Ms. Cheng Pik Yuk is a director of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. The primary contact person at the Company is Ms. Christine Shaohua Lu-Wong, the chief financial officer and Mr. Huang Yue, joint company secretary of the Company and the Senior Director of the Secretary Office to the Board.

The joint company secretaries attended sufficient professional training as required under the Listing Rules for the year ended December 31, 2018 to update their skills and knowledge.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and HKEX after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to article 12.3 of the Articles of Association of the Company, extraordinary general meetings shall also be convened on the written requisition of any two or more members, or by any one member which is a recognized clearing house (or its nominee), deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Company's Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a director of the Company, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director" of the Company which is posted on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 46#, 299 Fute Zhong Road, Waigaoqiao
China (Shanghai) Pilot Free Trade Zone
Shanghai 200131, China
(For the attention of the Investor Relations Senior Director)
Fax: 86 (21) 50461000
Email: ir@wuxibiologics.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The attendance records of Directors at the annual general meeting held during the Reporting Period are as follows:

Name of Directors	Attendance
Dr. Ge Li	1/1
Dr. Zhisheng Chen	1/1
Dr. Weichang Zhou	1/1
Mr. Edward Hu	1/1
Mr. Yibing Wu	0/1
Mr. Yanling Cao	0/1
Mr. William Robert Keller	1/1
Mr. Teh-Ming Walter Kwauk	1/1
Mr. Wo Felix Fong	1/1

The Company maintains a website at www.wuxibiologics.com.cn as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access.

Constitutional Documents

During the Reporting Period, the Company has not made any changes to its Memorandum and Articles of Association. An up–to-date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and HKEX.

Policies relating to Shareholders

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a policy on payment of dividends which aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration and payment of dividends pursuant to code provision E.1.5 of the CG Code that has become effective from January 1, 2019.

On March 18, 2019, the Board has adopted a dividend policy, retroactive to January 1, 2019, in which the Company may declare dividends in any currency in general meeting but no dividends shall exceed the amount recommended by the Board, subject to the Companies Law of the Cayman Islands and the Memorandum and Articles of Association of the Company. Based on the draft financial results for the Reporting Period and the current cash flow and working capital projections, the Board believes that it will not be advisable to make a distribution for the Reporting Period and the following two years, given considerable requirements of capital expenditure for business expansion. The Board will continue to review its financial position from time to time, and decide whether it would be in the interest of the Company and its shareholders to make any distribution.

Environmental, Social and Governance Report

Contents

About the report

- **Reporting period**

  This Environmental, Social and Governance Report (the "**Report**") covers the period from January 1, 2018 to December 31, 2018.

- **In-scope entities**

  Entities covered in the Report are the Shanghai site, Wuxi site, and Suzhou site of WuXi Biologics (Cayman) Inc. The Shanghai site houses the drug discovery and pre-clinical development facilities as well as part of cGMP clinical manufacturing facilities. It provides services such as novel monoclonal antibodies (mAb) discovery, bispecific antibody engineering, antibody drug conjugate (ADC) discovery, cell line engineering and development, assay, formulation, and process development, assay and process validation, product analytical characterization, and cGMP cell banking. The Wuxi site houses part of the WuXi Biologics' clinical and commercial manufacturing facilities, providing services such as assay, formulation, and process development, assay and process validation, manufacture of protein, mAbs, and cGMP drug substance production, lot release testing, stability studies, drug product formulation, fill and finish, as well as regulatory support services. The Suzhou site is set up with our biosafety testing facilities, providing services such as virus clearance research and cell line characterization.

- **Reporting standards**

  The Report is compiled based on Appendix 27 *Environmental, Social and Governance Reporting Guide ("**ESG Guide**")* of the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**")* and its major revision summaries.

- **Indicators selection**

  The indicators in the Report were selected and elaborated following the principles of "quantification, materiality, balance, and consistency" to disclose the performances in the material issues. We will make continuous adjustments and optimization to the disclosure indicators in the subsequent reports.

- **Sources of information**

  All qualitative and quantitative information contained in the Report comes from the public information, internal documents, and relevant statistics of WuXi Biologics (Cayman) Inc.

- **Company name in short**

  WuXi Biologics (Cayman) Inc. is also referred to "WuXi Biologics", "the Company" or "we" for convenience.

- **Form of release**

  The online version of the Report will be published on the official sites of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and WuXi Biologics (www.wuxibiologics.com.cn) for reading and downloading.

Company Background

Business and culture

- ***Business introduction***

  WuXi Biologics is a world-leading open-access biologics technology platform offering end-to-end solutions to biologics discovery, development, and manufacturing.

  The biologics development process typically covers five stages: (1) drug discovery, (2) pre-clinical development, (3) early-phase (Phase I & II) clinical development, (4) late-phase (Phase III) clinical development, and (5) commercial manufacturing. Services called for during the biologics development process fall into two categories: (1) pre-IND (Investigational New Drug) services, including services provided during the first two stages of biologics development, and (2) post-IND services, including services provided during the remaining three stages.

  The business model of WuXi Biologics is based on a "Follow-the-Molecule" strategy. Our customers' demand for our services increases as their biologics advance through development and ultimately to commercialization, which allows our revenue from each project to grow geometrically as the project advances through the biologics development cycle.

  In 2018 WuXi Biologics continued enforcing the "Follow-the-Molecule" strategy, and, adhering to the principles of "Customer first" and "IP protection to the highest standard", and kept making efforts for improving work efficiency of the business units. As of December 31, 2018, there were 205 integrated projects in total. The Company earned revenue from the projects by providing services in each stage of the development process. The number of the integrated projects increased by 27.3% compared with 161 as of December 31, 2017.

- ***Core values***

We adhere to the core values of "Integrity & Dedication", "Working Together & Sharing Success" and "Do the Right Thing and Do it Right", which are mainly embodied in the following aspects:

- ***Mission***

To accelerate and transform pharmaceutical discovery, development and manufacturing in the fast growing field of biologics to benefit patients worldwide.

- ***Vision***

To become the most comprehensive capability and technology platform in the global biologics industry, to fulfill the dream that "every drug can be made and every disease can be treated".

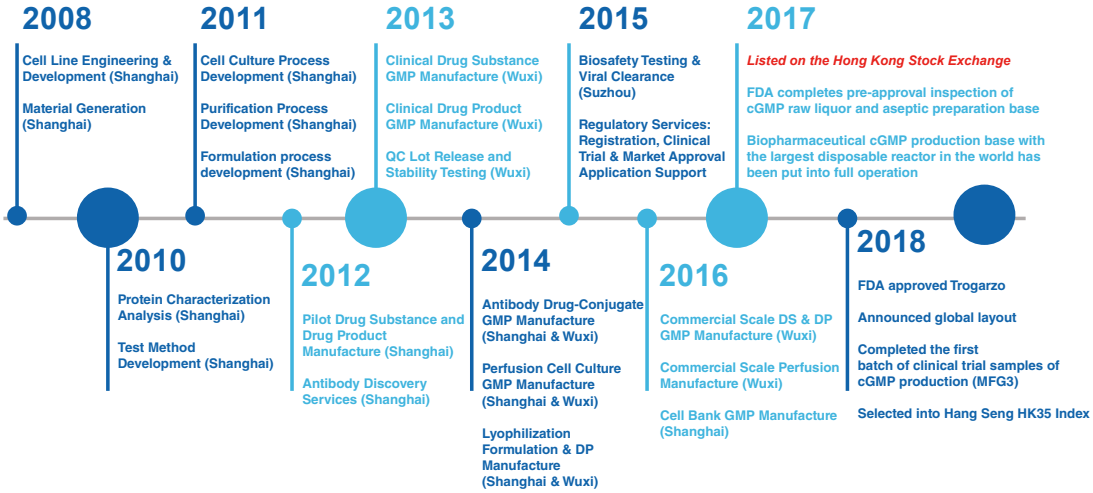
Environmental, Social and Governance Report

WuXi Biologics operates three sites in Shanghai, Wuxi, and Suzhou respectively under a unified governance structure. In 2018, we have launched projects to build new sites in Ireland, Singapore, and the U.S. respectively, accelerating our steps to build a global strategic layout.

In the Reporting Period, WuXi Biologics has achieved respectable business results with an annual revenue of RMB2,534.5 million and net profit of RMB630.5 million.

Company history

WuXi Biologics (Cayman) Inc. was established in 2008, which provided cell line development and analytical protein characterization services. Over an nine-year period of proactive, steady business expansion, WuXi Biologics was listed on HKEX in June 2017, and progressively grew into the world's first biotechnology company that truly provides one-stop services from concepts to commercialization as well as an open-access biologics technology platform. The figure shows below are the key milestones of our development.

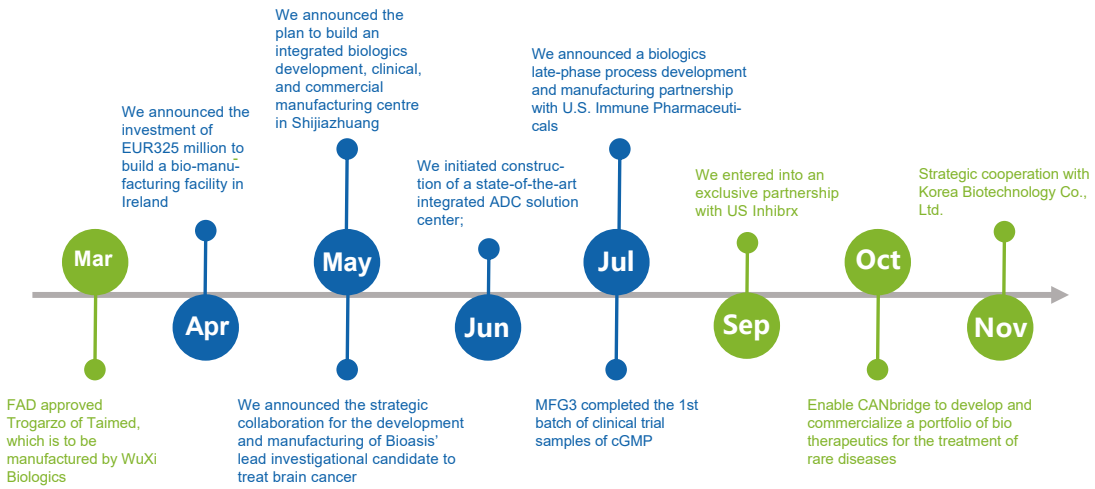


Historical Development Timeline of WuXi Biologics

Awards and Achievements of 2018

Period	Award/Achievement	Granted by
FEBRUARY	Best Bioprocessing Excellence in China	IMAPAC
	Bioprocessing Innovations in Continuous Processing Implementation in China	IMAPAC
MARCH	CMO leadership Award for Reliability	Life Science Leader & ISR
	Best Asian CMO award	BioPharma
	Hong Kong Equity Issue	International Financing Review Asia (IFR Asia)
	Best Block Trade	The Asset
AUGUST	The only biopharmaceutical constituent of the Hang Seng HK 35 Index	HANG SENG INDEXES
SEPTEMBER	Dr. Chiang Syin, Chief Quality Officer of WuXi Biologics, was honored with the "Foreign Post Service Award"	Food and Drug Administration, USA
OCTOBER	"Industry Benchmarking Enterprise Award" of "2018 Sunshine Award of China's Healthy Industry"	21ST CENTURY BUSINESS HERALD
	2018 "Golden Wing Award"	Securities Times
	Dr. Chen Zhisheng, CEO of WuXi Biologics, won the Hong Kong Stock Leader Award of the "Golden Wing Award"	Securities Times
NOVEMBER	Best Under A Billion	Forbes
	SCRIP "Best Company in Emerging Markets"	Pharma Intelligence
	Dr. Chen Zhisheng, CEO of WuXi Biologics, was appointed as an International Director of ISPE	International Society For Pharmaceutical Engineering
DECEMBER	"Golden Lion Award — Best Investor Relations Management Listed Company 2018"	Sina Finance
	"the most innovative enterprise in China's pharmaceutical industry"	Sina Medicine

2018 Memorabilia



Data Disclosure

Financial

Revenue

RMB**2,534.5** million

R&D expense

RMB**169.3** million

Projects

Integrated projects

205

Projects in different stages

pre-clinical research	97	late-phase (Phase III)	13
early-phase (Phase I & II)	94	commercial manufacturing	1

Employees

No. of employees

4,141

HR training hours

57,091 hours

With bachelor or higher degree

87 %

Environmental

Emission of CO_2

4,182 ton

Total NOx

2.35 ton

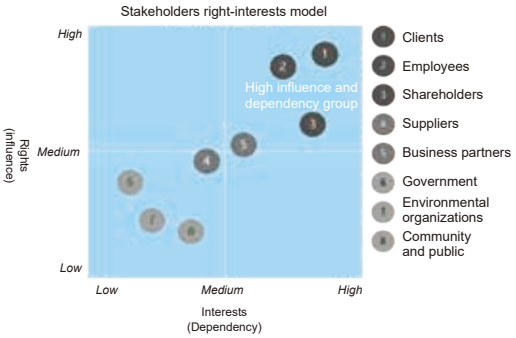
Analysis of material issues

Identification and analysis of material issues

The Report focuses on the discussion of the material issues of the stakeholders' concerns. To better understand their demands and focuses, WuXi Biologics identified the key stakeholders through studies, analyzed and selected the material issues of their concerns to ultimately decide on the 21 most important ones.

- ***Stakeholder identification and analysis***

  WuXi Biologics utilized the stakeholders' right-interest model to evaluate the influence and dependency of different stakeholders. As shown in the figure at the right, clients, employees, and shareholders are the key stakeholders of WuXi Biologics, ranking highly in terms of influence and dependency. Consequently, the Report not only discloses key indicators as required by ESG Guide but also highlights the material issues of their concerns.



- ***Selection of material issues***

  WuXi Biologics established different communication mechanisms for different stakeholders mentioned above to keep close communication, which helped us to identify their respective material issues of concern when preparing the Report. See the table below for details.

Stakeholder	Material issue of concern	Communication mechanism	Corresponding chapter in the Report
Client	• Product quality control • Production safety management • Customer first • IP protection • Delivery efficiency • Increase investment in research and development • Cyber risk prevention	• Strict control of raw materials and equipment • Establish safety system supervision • Improve the customer service system and implement the legal regulations and management methods for intellectual property protection • Improve delivery efficiency • Increase R&D investment for the benefit of the public • Enhance network security	• Product quality assurance • Executing Customer First Principle • Reinforcing operation management • Product quality assurance • Increase investment in research and development • Corporate governance mechanism
Employee	• Compensation and benefits • Employee capability development	• Improve employee compensation and benefits • Implement learning and development plans	• Caring for employees • Building a professional team
Shareholder	• Transparent information disclosure • Corporate governance • Promote good health and well-being	• Strengthen communication with shareholders • Adhere to the governance policy of sustainable development • Accelerate R&D process and reduce costs	• Transparent disclosure of information • Corporate governance mechanism • Promote good health and well-being
Supplier	• Procurement management	• Strictly regulate the procurement process	• Reinforcing operation management
Business partner	• Global strategic layout	• Accelerate global strategic layout • Global strategic investment • Global strategic partnership	• Global strategic layout
Government	• Tax compliance • Compliance and business ethics	• Pay taxes in time • Focus on operation compliance	• Reinforcing operation management
Environmental organization	• Emissions management • Energy conservation and emission reduction	• Establish environmental health and safety department • Green office and operation	• Green operation
Community	• Promoting local employment • Contributing to community development • Engaging in public services and charity activities	• Increase employment • Public welfare • Participate in charity activities	• Commitment to community services

- ***Evaluation of material issues***

  Based on the influence-dependency matrix used for evaluating materiality of material issues, WuXi Biologics communicated with the 8 stakeholder groups continuously, including clients, employees, shareholders, suppliers, partners, governments, environmental organizations and communities through visits, conferences, opinion surveys and scored the 21 material issues. The Company summarized the results with the matrix, and determined key disclosure contents in the Report by analyzing material issues. In the matrix, Intellectual Property (IP) Protection, Product Quality Control, and Customer First are of the most important ones. See the figure below for details.

Deciding on issues of high materiality in 2018 — Issues

Issues of high materiality

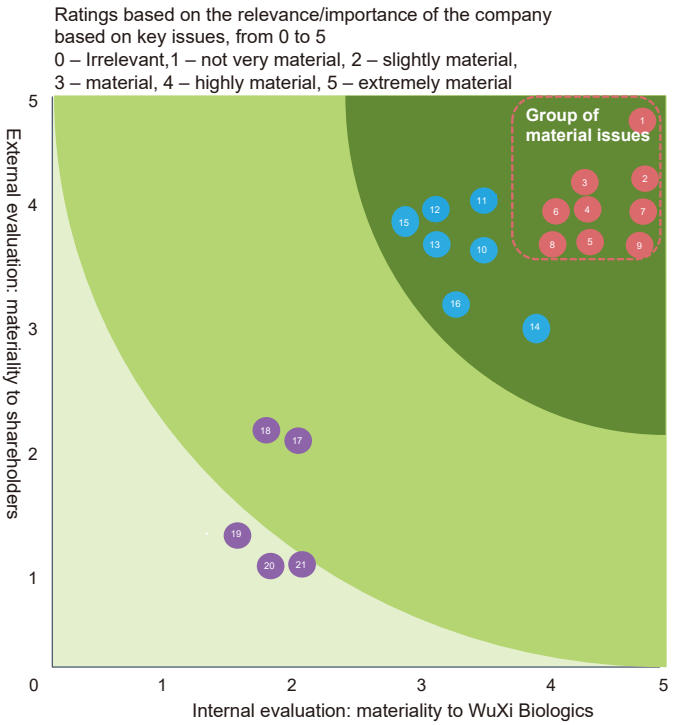
1. IP protection
2. Product quality control
3. Customer first
4. Production safety mgmt.
5. Delivery efficiency
6. Employee capability development
7. Compliance and business ethics
8. Transparent info. disclosure
9. Global strategic layout

Issues of medium materiality

10. Compensation and benefits
11. Emissions management
12. Increase investment in R&D
13. Promote good health and well-being
14. Procurement management
15. Corporate governance
16. Cyber risk prevention

Issues of low materiality

17. Tax compliance
18. Energy conservation & emission reduction
19. Promoting local employment
20. Contributing to community development
21. Engaging in public services and charity activities



Achieving compliance jointly

We adhere to the concept of sustainable development, comply with the laws and regulations of listed companies, establish a scientific and rational modern governance structure, and set up environmental, social and governance work groups while pursuing efficient operations, continue to pay attention to risk management, and adhere to transparent disclosure of information to maintain sustainable growth. We focus on daily compliance management, including tax regulations, business ethics, and strict controls over materials and suppliers.

In the following paragraphs, you will read about our efforts and achievements in corporate governance mechanism, transparency of information disclosure and strengthening operation management.

Corporate governance mechanism

- ***Sustainable governance***

  As of 31 December 2018, there were 9 directors in total, among whom 3 are independent non-executive directors. There are four committees namely Audit Committee, Remuneration Committee, Nomination Committee, and Strategy Committee abide by corresponding detailed regulations set for them to comply with the *Code of Corporate Governance* and meet other requirements to facilitate the Company's development.

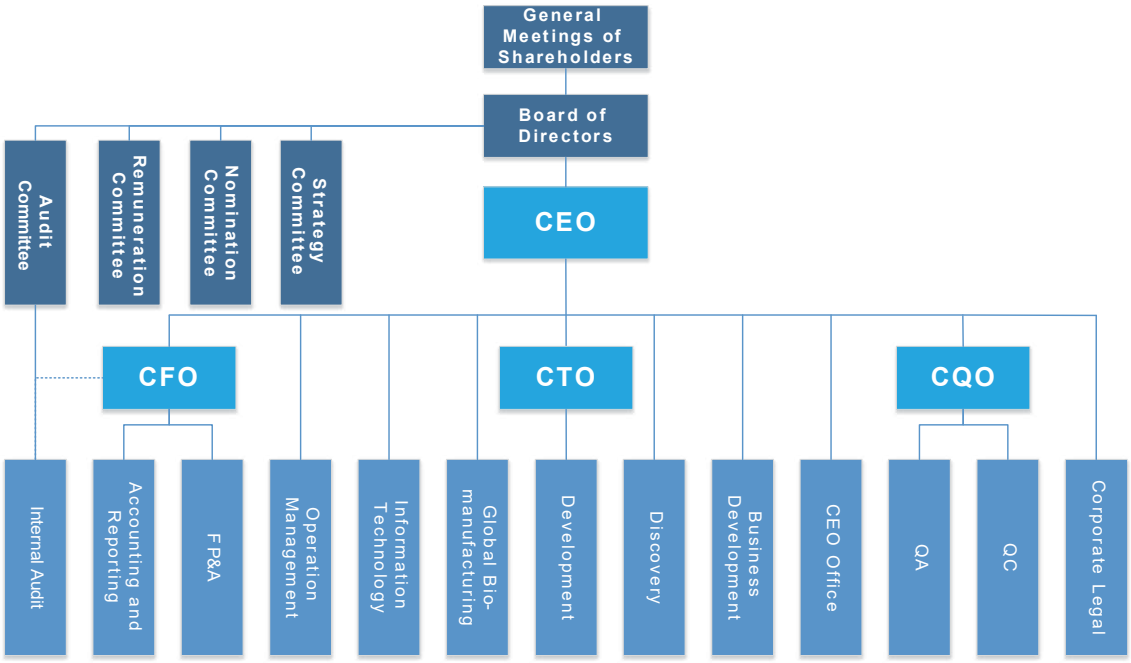
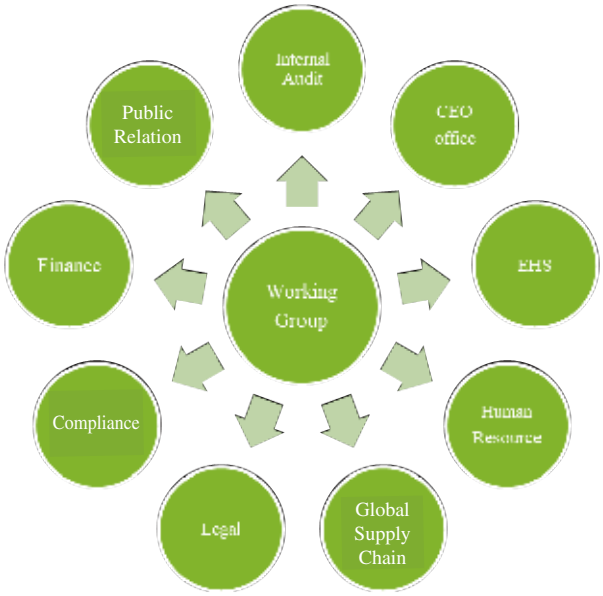


Figure: Organizational structure of WuXi Biologics

WuXi Biologics, adhering to the *Companies Ordinance, Securities Law, Listing Rules published by HKEX* and other applicable laws and regulations, maintained a modern organizational and corporate governance structure and adopted the principles and code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules as the basis of its corporate governance practices. Considering the global governance environment and the expectations of the international community for the green development of the industry, we established the governance requirements for sustainable development within the corporate, and regarded the sustainable development strategy as one of our core competitive advantages. Therefore, we are committed to improving utilization of resources, accelerating the construction of green production system, and adhering to the development model of green management to fulfil our responsibilities to the shareholders and the society.

- ***The set-up of ESG working group***

WuXi Biologics sets up an ESG working group to support the management of corporate sustainable development. The working group, which comprises of key functional departments like Internal Audit, CEO office, EHS, Human Resources, Global Supply Chain, Legal, Compliance, Finance and Public Relation, takes the lead in designing the sustainable development strategies, initiatives, and action plans, guiding the implementation and improving performance indicators for continuous development. The working group has regular meetings to report the working results to the management and the Board of Directors in order to improve the fulfilment of social responsibility.



- ***Engaging stakeholders***

WuXi Biologics communicates sincerely with key stakeholders to identify the most concerned opinions regarding ESG issues. As a corporate citizen facing different interest groups, our stakeholders include customers, employees, shareholders, suppliers, partners, governments, environment organizations, local communities, and etc. We communicate with them on a regular basis in forms of visiting, meeting, opinion surveys to get to know their concerns over the ESG issues.

Case: WuXi Biologics won the "Industry Benchmarking Enterprise Award" of "2018 Sunshine Award of China's Healthcare Industry"

Figure: Industry Benchmarking Enterprise Award

In October 2018, WuXi Biologics won the "Industry Benchmarking Enterprise Award" at the "2018 China Healthcare Industry Summit" as well as "2018 Sunshine Award of China's Healthcare Industry" hosted in Beijing by 21st Century Business Herald. This award is designed to encourage companies that actively fulfil their social responsibilities to continue to adhere to their attitude of "sustainable development" and achieve the unanimous development of individual company and the industry.

The judge panel was consisted of the organizer, Institute for Hospital Management of Tsinghua University, Asclepius Healthcare, China Association of Enterprises with Foreign Investment, as well as other specialized organizations, scholars, and experts. They analysed about 300 A-share and HK-listed healthcare companies in terms of economic efficiency, environmental protection, product quality and safety, fair practice, employee compensation, public service, and social responsibility report; and granted the award to selected enterprises as well as individuals in recognition of their active fulfilment of social responsibilities and contribution to the development of China's healthcare industry.

- ***Risk management and control***

  In the pursuit of efficient operation, WuXi Biologics pays special attention to enterprise risk management constantly: assess and establish sustainable development strategy, and ensure the effectiveness of established risk management and internal control system. We established "WuXi Biologics Risk Management Provisions" to define the risk governance standards, assessed both internal and external business risks faced when implementing our strategies regularly, paid continuous attention to and traced the major risks, and delegated relevant departments to conduct internal discussions in order to identify and assess the importance of relevant matters to our stakeholders.

  Employees are encouraged to adopt a positive approach to risk management, which further strengthens the risk-aware culture. In order to formalize risk management across the Group and in order to set a common level of transparency and risk management performance, a number of requirements have been defined for the business units. The Board of Directors will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

Case: WuXi Biologics won the "Golden HK Stock Award 2018" and "Most Valuable Listed Pharmaceutical Company Award"

Figure: The two awards
"Golden HK Stock Award 2018",
"Most Valuable Listed Pharmaceutical Company Award"

The "Golden HK Stock Award Ceremony", jointly hosted by zhitongcaijing and Hithink Flush Information Network Co., Ltd., was a large-scale and professional industry-wide appraising event. The registering, appraising, and reviewing processes spanned for 2 months. Internet voting results and comments from an organizational judging panel as well as a media judging panel were considered comprehensively. The appraisal, made on several criteria including the candidate companies' business performances, stock price performance and activeness, disclosure compliance, etc. over the year, reflected an overall examination of the candidates and full recognition of the winners. WuXi Biologics was the only pharmaceutical enterprise among all the award-winners.

In the meantime, the Most Valuable Listed Pharmaceutical Company Award proved the society's trust in WuXi Biologics for its robust growth and innovative entrepreneurship. WuXi Biologics will persist in its original tenet and give back to the investors, clients, partners, as well as the mass patients.

Transparent disclosure of information

WuXi Biologics is committed to improving the transparency of information disclosure, strictly abiding the principle requirements of information disclosure in Rule 13.09(1) of the Listing Rules of Hong Kong Stock Exchange, and actively protecting the rights and interests of investors.

Figure: WuXi Biologics host an investor meeting

The Company has formulated the "WuXi Biologics detailed rules for the management of inside information", which clarifies information such as the definition and scope of inside information, the rules for disclosures, filing and confidentiality management. In addition, the Company also sets up the "WuXi Biologics Information Disclosure Policy", which clarifies the requirements, methods and procedures for information disclosure. All the above help to effectively improve the reliability, completeness, transparency and timeliness of information disclosure.

Figure: Investors of WuXi Biologics visit the site

The Company believes that effective communication with Shareholders will help investors to understand the Company's business performance and financial status more comprehensively and directly so that the relative strategies can be established, effectively strengthening the investors' relationship with us. The Company also endeavors to maintain communication with Shareholders by regularly organizing meetings such as the Annual General Meeting. The Company's Directors participate in the related meetings to meet with the Shareholders and carry out consultation with them.

In 2018, WuXi Biologics has held more than 200 activities with the investors and other parties, including their onsite visits to our laboratories and manufacturing facilities, conference calls and participation in brokerage strategy seminars and investment bank summits. Apart from that, in order to allow investors to track the Company's performance, we continue to improve the breadth and depth of our report. In the Reporting Period, WuXi Biologics has released more than 40 documents including various types of announcements and notices, profit alerts, inside information, and voluntary announcements. WuXi Biologics will continue to enhance our transparency by preparing the Company's sustainability performance with reference from the companies with the world's best practice. Meanwhile, the Company is also looking forward to collecting the various types of information that investors and other stakeholders are interested in, so the Company will continue to communicate with different parties and make improvements accordingly in the future.

Case: WuXi Biologics won the "Golden Lion Award" by Sina Finance

Figure: Winning the Golden Lion Award

On December 21, 2018, WuXi Biologics won the "Golden Lion Award — Best Investor Relations Management Listed Company 2018" presented by Sina Finance for its excellence in investor relations maintenance. In the "International Development Forum of Listed Companies in China and Golden Lion Award Ceremony", all the overseas listed Chinese companies which enjoy significant market growth, were evaluated based on their capital market performances of the year. The event aimed to honour the listed companies with outstanding business performances, and promote the benign development of overseas investment and financing market. This award highly valued the Company's efforts in investor relations management, and affirmed its accomplishments in improving transparency as well as strengthening connections with capital markets.

Reinforcing operation management

- ***Compliance in tax laws and regulations***

  WuXi Biologics has complied with tax law of the PRC and other related laws and regulations. During the Reporting Period, we have duly undertaken all responsibilities and timely filed taxes to the local authorities. In 2018, WuXi Biologics has achieved an annual revenue of RMB2,534.5 million, with RMB52.1 million income tax paid, a respectable contribution to local taxation and social development.

- ***Compliance and business ethics***

  WuXi Biologics is committed to the highest standards of business ethics, openness, probity and accountability as well as being abiding with domestic and international laws and regulations if applicable. The Company has taken actions to combat bribery and corruption, protect business secrets, strengthen compliance with R&D ethics requirement as well as other compliance management aspects. It has developed Code of Business Conduct and Ethics, Compliance Management Regulations, and Annual Compliance Inspection Regulations to guide its daily operation.

  With "zero-tolerance" towards corruption and bribery, WuXi Biologics enforces the Whistleblowing & Investigation Policy, which are monitored and reviewed by the Audit Committee of the Board. The system and policy are applicable to all employees, directors, shareholders, suppliers, consultants, contractors, as well as any parties that have business relationship with WuXi Biologics. The Company encourages the employees to proactively report any violations, by promising to protect the whistle blowers' identity so as to prevent unreasonable dismissal and ensure their safety with the support of a set of strict and confidential investigation procedures.

  From January 1,2018 to December 31, 2018, there was no substantiated case of corruption, bribery, or situations against business conducts in WuXi Biologics.

  In 2018, the Company has actively engaged in compliance training, with a total of 59 sessions provided on anti-corruption and anti-bribery, participated by 11,385 person-times with a total of 10,589 hours.

2018 Compliance Training

 **59** times  **11,385** person-times

  In addition, the Company's R&D is carried out with meticulous self-discipline and complete obedience to the effective monitoring as well as supervision of relevant authorities and industry organizations. In its ceaseless explorations aiming at technological improvements, the Company holds rationality and respect toward science and development, and will never overstep the ethical boundaries.

- ***IP protection***

With cumulative investments and innovations in the pharmaceutical industry in recent years, the biological industry in China has reached a turning point and a tremendous rise is expected. IP protection in form of patent-grants and trade mark certifications has become particularly important as it provides assurance that intellectual creations are converted into practical values in a better and more efficient way.

2018 Intellectual property application

- International patents (PCT) **30** pieces
- CN patents **12** pieces
- TW patents **6** pieces
- Registered trademark (WuXiBody™) **1** piece
- Basic intellectual property rights **7** pieces

In such a context, WuXi Biologics actively protects IP rights. To regulate IP rights related activities and ensure compliance, we have established the "SOP related to Intellectual Property Laws, Regulations and Other Requirements", "SOP of External Documents and Record Control", and "Policy of the Use of Intellectual Property Information Resources", as well as other relevant manuals and procedures.

Throughout the year of 2018, the legal department of WuXi Biologics applied for 30 international patents (PCT), 12 CN patents, 6 TW patents, 7 basic intellectual property rights, and obtained 1 registered trademark (WuXiBody™).

WuXi Biologics has received certification audit on its IP management system by an IP certification agency. The audit covered business secrets, patents, trademarks, software copyrights, theses, domain names, etc. and was found no non-conformity. IP management audit covers Company's processes in application, maintenance, transfer, alteration, abandonment, IP search, etc. WuXi Biologics has been granted IP management system certificates, numbered 165IP17038IR0L, 165IP17038IR0L-1, and 165IP17038IR0L-2 (as shown in figure below), for the compliance with the requirements of GB/T29490–2013.

Figure: Intellectual Property Management System Certification

- ***Prevents cyber risk proactively***

  The rapid development of the internet inevitably poses challenges to the cyber security of enterprises today. As a fast growing enterprise, WuXi Biologics constantly highlights the importance of cyber security, while making continuous efforts to improve technologies, capacity as well as expansion. With risk management as the prior strategy, it continuously strengthens the management and technical capability of cyber security. It has built a data security protection system covering the full life cycle of data assets, assuring information security and business continuity.

  In 2018, WuXi Biologics implemented a computer network security program to protect company information against threats from Trojans and worms. Based on the knowledge about information security and related products, the Company deployed security tools including firewalls and antivirus software on servers, and gave trainings to employees on the use of firewalls in order to improve the internal network security. These products powerfully protect us from network virus attacks and provide safeguard in our daily work. In 2018, there was no major network virus attack in WuXi Biologics.

Figure: WuXi Biologics' firewall training certificates

- ***Procurement management***

  WuXi Biologics has established the Procurement Policy, Suppliers Management Policy and other related policies, which strictly regulate the procurement activities, to ensure compliance with laws and regulations. WuXi Biologics also applies procurement quality audit and controls the procurement process, to ensure the procured products meet both relevant quality standards and the Company's requirements for product quality and safety.

- *Strict control over raw materials*

  WuXi Biologics has always been cautious and strict in raw material procurement with the intention of maintaining fairness, justice, and openness for each procurement. Suppliers need to provide quality reports involving quantitative analyses of different factors. WuXi Biologics also inspects each batch of raw materials supplied as per the quality requirements of relevant specifications, and allows them to be used in production only upon receipt of satisfactory internal inspection results. Procurement information is archived for internal recording and client review. As for animal cell sources, WuXi Biologics strictly observes ICH Q5A (R1) (effective as of 23 September 1999), USP (1050), *Points to Consider in the Manufacture and Testing of Monoclonal Antibody Products for Human Use* (effective as of 28 February 1997) issued by FDA, and *Requirements for Preparation and Control of Animal Cell Substrates Used for Production of Biologics* (effective as of 1 December 2015) in *Chinese Pharmacopoeia 2015 edition* (Volume III).

- *Reinforcing supplier management*

  The supplier management of WuXi Biologics consists of five aspects, namely supplier classification and responsibility, supplier screening and introduction, supplier performance management, supplier audit, and supplier social responsibility management. The supplier introduction stage is subject to the most stringent management as detailed below:

  Supplier selection

  WuXi Biologics communicated with the suppliers via telephone, correspondence, etc. to understand their willingness to cooperate, production capacity, company size, and other related information. Suppliers which meet the following criteria will be put into our supplier database:

  1) Legitimate enterprises registered at competent national authorities with the relevant official documents for production or business operation approval

  2) Product quality is up to the relevant national, industry, and corporate standards

  3) Sufficient production capacity and sound quality assurance system; materials supplied are up to applicable quality standards and requirements

  4) Good reputation, and pricing within the range of the Company's cost control management

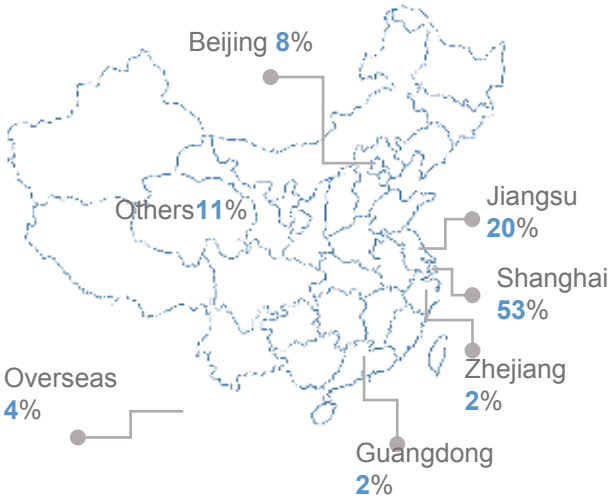
  Supplier audit

  WuXi Biologics asks the suppliers to fill out the "*Supplier's Basic Information Form*" and submit certain certificates including copies of Business License, Authorized Economic Operator (AEO) certificate, etc. for quality review. Our procurement staff further audits the suppliers by checking their customs registration, credit rating, administrative punishment history, as well as other information on the "Credit Publicity Platform of Import and Export Business of Customs of the People's Republic of China" and "National Enterprise Credit Information Publicity System" against their forms. After that, the supplier information is submitted via the "Supplier Maintenance System" to the procurement director for further review.

Supplier introduction

Suppliers passing all the audit procedures will be put into the JDE system as the Company's approved suppliers.

WuXi Biologics actively cooperate with local suppliers to promote their development. In 2018, we had 750 suppliers in total, 17% more than that of 2017.These suppliers are distributed in Shanghai, Jiangsu, Zhejiang, Guangdong, Beijing, etc. as well as overseas countries, as shown in the figure. By partnering with local suppliers, WuXi Biologics also contributed to the development of Chinese supply chain.



Number and regional distribution of 2018 WuXi Biologics' suppliers

Creating values jointly

In 2018, we invested in the construction of facilities in Ireland, Singapore and the United States, and strengthened global strategic cooperation to further expand the global customer base and provide better services to customers. We focused on protection of customer/project information. At the same time, we also increase investment in research and development, and firmly believe in building up a high-quality team for continuous growth.

In the following paragraphs, you will read about our efforts and achievements in expanding our global strategic layout, exercising "Customer First" principle, increasing investment in research and development, building professional teams and ensuring product quality.

Global strategic layout

- ***Global strategic investment***

The improved operating efficiency and effective cost control of WuXi Biologics in 2018 led to outstanding performances and fruitful achievements. In 2018, the Company's revenue amounted to RMB2,534.5 million with a substantial increase of 56.6%, and the net profit went up by 149.6% to RMB630.5 million. The overseas business also contributed greatly to the Company's development in 2018, with the revenue from the North America reaching RMB1,283.9 million, and that from Europe reaching RMB171.7 million respectively, mainly attributing to the Company's active promotion of its globalization strategy in 2018.

WuXi Biologics introduced a new manufacturing paradigm "Global Dual Sourcing within WuXi Bio" to address its partners' needs in ensuring supply while minimizing the risk of technology transfer to two different suppliers. Therefore, WuXi Biologics has planned and initiated various capacity expansion in the U.S., Ireland, China and Singapore, to ensure the global supply. Upon completion we will deliver 220,000L of bioreactor manufacturing capacity, which allows the Group to sustain its favorable position in biologics industry and continue to seize emerging opportunities from the biologics outsourcing market.

Case: WuXi Biologics to invest EUR325 million to build biomanufacturing facility in Ireland

On April 30, 2018, WuXi Biologics announced that it would invest 325 million Euros in total over five years in establishing a new biologics manufacturing facility in Dundalk, Ireland.

Figure: Ireland Prime Minister Leo Varadkar at the press conference

As the Company's first site outside China, as well as the first sizable overseas plant invested by the pharmaceutical industry of China, the project is a milestone for WuXi Biologics' global layout.

This state-of-the-art "facility of the future" would be built upon the novel approach WuXi Biologics has pioneered by deploying multiple single-use bioreactors for commercial bio-manufacturing, and is also designed to be able to run continuous bio-processing, a next generation manufacturing technology to be first implemented globally in this campus. The project is fully supported by the Irish Government and Industrial Development Authority (IDA).

Quotation

"We are all excited to initiate our first global site to enable local companies and expedite biologics development in Europe. In addition, this is the start and a critical part of our global bio manufacturing network to ensure that biologics are manufactured at the highest quality and with a robust supply chain to benefit patients worldwide. We are committed to Ireland and will work with all local partners to build this state-of-art next generation bio manufacturing facility as a showcase to the global biotech community."

Dr. Zhisheng Chen, CEO of WuXi Biologics

Case: WuXi Biologics to invest SGD80 million to establish a biologics manufacturing facility in Singapore

On May 22, 2018, WuXi Biologics announced that it would invest SGD80 million and hire about 150 employees to establish a state-of-the-art biologics manufacturing facility in Singapore. It would be WuXi Biologics' first overseas site in Asia, as well as its second site outside China subsequent to the one in Ireland. A total of 4,500L capacity would be installed with two 2,000L traditional fed-batch bioreactors and one 500L perfusion based continuous processing bioreactor. A bioprocess development lab would be included, and the facility would be able to handle both clinical sample production and small volume commercial production. The project is fully supported by the Singapore Economic Development Board (SEDB).

Quotation

"We are delighted that WuXi Biologics has chosen Singapore Asia. This will introduce the Company's next-generation bioprocessing technology platform to this region. WuXi Biologics' decision is a testament to Singapore's strong talent pool for the biomedical sciences sector and our capabilities in advanced manufacturing. Its presence here will also strengthen our ecosystem for supporting biotech companies from Singapore and beyond."

Dr. Beh Swan Gin, Chairman of SEDB.

Case: WuXi Biologics to invest USD60 million to establish a biologics production facility in the United States

On June 11, 2018, WuXi Biologics announced that it would invest USD60 million to establish a state-of-the-art biologics clinical and commercial manufacturing facility in Worcester (within the Boston Metropolitan area), Massachusetts in the United States. The facility would be WuXi Biologics' 11th global manufacturing facility (MFG11) in its global layout, and its first site in the United States, as well as the third outside China subsequent to the new sites in Ireland and Singapore.

Figure: WuxI Biologics establish US site

A bioprocess development lab would be included, and the facility would be able to handle both clinical sample production and volume commercial production. The project is fully supported by the Government of Massachusetts, the Worcester Business Development Corporation (WBDC) and the Massachusetts Life Sciences Center (MLSC).

Quotation

"Metropolitan Boston is acknowledged as a leader in the biopharmaceutical industry. The new site plays a key role in WuXi Biologics' global bio-manufacturing network to ensure that biologics are manufactured at the highest quality and within a robust supply chain to benefit patients worldwide. We are grateful for all the support local agencies and the talented people here have provided for us. We believe we can quickly push forward this exciting project."

Dr. Ge Li, Chairman of WuXi Biologics

- ***Global strategic cooperation***

  Apart from building new sites abroad, WuXi Biologics also strengthens global client development. During the Reporting Period, the Company, with improving technological capability and throughput, established partnership with clients from all over the world and served as the platform for their biologics. In 2018, 9 early-phase clinical projects and 1 late-phase clinical project from the U.S. and European industrial players were transferred to WuXi Biologics. It also entered into strategic partnerships with the U.S. Company Inhibrx, ABL Bio Corporation of Korea, Brii Biosciences, CANbridge, and etc.

Case: WuXi Biologics and Inhibrx entered an exclusive strategic manufacturing partnership

On September 11, 2018, WuXi Biologics and Inhibrx, Inc. (Inhibrx), a U.S. biopharmaceutical company which specializes in developing a diverse pipeline of novel protein-based therapeutics, announced that the two companies have entered into an exclusive partnership for the GMP manufacturing of certain Inhibrx's protein-based therapeutics. Under the terms of the agreement, Inhibrx would exclusively cooperate with WuXi Biologics for the GMP manufacturing of all its new biologics projects which Inhibrx plans to initiate clinical trials outside of China within the next 3 years, vigorously supporting the efforts to push its entire R&D pipeline onto the market. The agreement showcased the expansive biologics pipeline of Inhibrx as well as the world leading technical expertise and capabilities of WuXi Biologics.

Case: WuXi Biologics and ABL Bio Enter an exclusive development and clinical manufacturing partnership for multiple bispecific antibodies

On November 28, 2018, WuXi Biologics and ABL Bio Corporation (ABL Bio), a privately-held South Korean biotechnology company which specializes in developing antibody therapeutics for immuno-oncology and neurodegenerative diseases, announced that the two companies have entered into an exclusive development and clinical manufacturing partnership for up to 8 antibody therapeutics.

This partnership proves that WuXi Biologics has been well recognized as a global leader in the development and manufacturing of difficult biologics such as bispecific antibodies. With globally recognized technical capabilities and unparalleled capacities, we are transforming how biologics are developed in the global setting.

Executing Customer First Principle

- ***Client satisfaction survey***

  As a leading global open-access integrated biologics technology platform, WuXi Biologics offers end-to-end solutions for biologics discovery, development, and manufacturing to biologics and biotech companies around the world. The Customer Service Department organizes client satisfaction survey once or twice a year. The survey targets the Company's Top 20 clients in terms of annual sales income, as well as part of the small-and medium-sized clients with an annual sales income from RMB500,000 to RMB1,000,000. Owing to the efforts it made in 2018, the client satisfaction was up to 90%. The customer satisfaction survey covers different areas including quotation feedback timeliness, client communication, products and services, project life cycle, logistics, improvement recommendations, etc. By conducting the survey, the Company hopes to understand what its clients' comments towards its services and products, as well as any problems encountered such as ineffective communication during project implementation, so that it can optimize the products and working process, and develop improvement plans accordingly. In this way, it seeks greater business perfection, higher customer satisfaction and loyalty, as well as sustainable business growth.

- ***Client/Project Information Protection***

  Attaching significance to the protection of client/project information, WuXi Biologics treats all project information as its own business secrets, and strictly manages access permissions to client projects in accordance with corresponding requirements. WuXi Biologics has established a comprehensive intellectual property management system and developed a series of related policies and procedures, such as the "Business Secret Management Policy" and "Administrative Document Filing Management Policy" which clarify the classification of business secrets into different categories and levels; the compliance requirements for processing all levels of business secrets information throughout the circulation and etc. Meanwhile, the Company has established the Compliance Department, the Information Technology Department, the Human Resources Department, the Document Management Department, the Quality Assurance Department and the Legal Department to jointly manage the mechanism, providing technical support for business secret compliance, and assist in the closed loop management of investigation, auditing and punishment.

At the end of 2018, the WuXi Biologics' Compliance Department launched information security and compliance training and examinations related to business secrets. A total of 4,129 employees were trained with the overall pass rate of 99.8%. The Compliance Department also regularly conducts compliance audits, focusing on business secrets leakage and collects feedback from various departments to improve the measures and promotes the awareness and adherence of all employees.

In addition, WuXi Biologics has actively adopted advanced technical means to strengthen the control of document recording and storage on data security and authority granting. Applications that have commissioned include but are not limited to Electronic Laboratory Notes (ELN), Laboratory Information Management System (LIMS) and Enterprise Content Management (ECM). The application of the abovementioned tools effectively enhances the security and availability of data while ensuring that only the authorized personnel can access the relevant information, improving the customers' confidence and trust in the Company's firm implementation of intellectual property protection.

Increasing investment in research and development

Our R&D expenditure keeps increasing every year. In 2018, the R&D investment hits RMB169.3 million, which taking up 6.7% of the total revenue.WuXi Biologics has been persistently focusing on developing next generation technologies to continue enhancing our technical and service capabilities.

WuXi Biologics launched a new bispecific antibody platform, WuXiBody™, with its own intellectual property rights. This platform can reduce the corresponding production cost while accelerating the development of bispecific antibodies. WuXia, another state-of-the-art cell line development platform, will be able to launch more than 60 IND-enabling projects per year, one of the largest capacities in the world. In addition, through the integration of continuous cell culture operations and continuous column chromatography, WuXiUP is another innovative technology platform of the Group, this platform can use 2,000L disposable bioreactors to achieve comparable productivity of traditional 20,000L stainless steel bioreactors yet still provide similar purification yield. WuXiUP solidified the Group's global leader role in the continuous biomanufacturing field. With the successful launches and powerful support of the proprietary bispecific antibody platform, WuXiBody™, the cell line development platform, WuXia, and the continuous cell culture process platform, WuXiUP, the Group has significantly advanced the technology of biologics development and achieved outstanding progress to enhance the discovery, development and manufacturing of biologics.

Case: WuXi Biologics' project ground-breaking ceremony at Mashan National Life Science Park

On May 18, 2018, the ground-breaking ceremony of WuXi Biologics' Phase I project at Mashan National Life Science Park was held in Wuxi. Participants included Ms. Zhou Ying, Standing Committee member and Organization Department Director of CPC Wuxi and other governmental officials, client representatives, Dr. Zhisheng Chen and other WuXi Biologics' executives, as well as journalists from the mainstream media. The project covers an area of about 266,660 sq. metre, consisting of the R&D and manufacturing zone, training centre and the biomedical localization equipment centre. It aims to become the Company's global headquarters to provide full-scale functions including R&D, manufacturing, training, international cooperation, as well as business support facilities center. By utilizing a brand-new mode, it is committed to lowering the innovation and start-up threshold in the biomedical and massive health fields by providing all-in-one services to innovative companies and start-ups, contributing to the development and growth of pharmaceutical and healthcare industry of China.

Case: WuXi Biologics commenced construction of 150,000 sq. metre Biologics Innovation Center in Shanghai

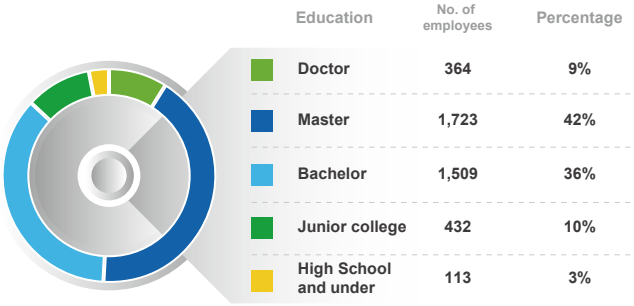
WuXi Biologics announced that the construction of a global innovation center has commenced in the district of Fengxian in Shanghai on November 22, 2018. The new state-of-the-art biologics center will integrate biologics discovery, development, clinical and commercial manufacturing which will be built to meet global cGMP standards while implementing modular and flexible design. This will be one of the largest facilities of its kind with 150,000 sq. metre and will accommodate more than 3,000 scientists.

Figure: Design effect of Fengxian site

Building a professional team

- ***Employee capability development***

Talents is the core competence of a company for sustainable development. WuXi Biologics pursues high quality talents to promote development in the long run due to the high threshold for professionalism in the biomanufacturing industry. In 2018, there were more than half of its employees holding master degrees or above, amongst which more than 9% had doctoral degrees and 42% had master degrees. Another 36% of the staff held bachelor degrees.

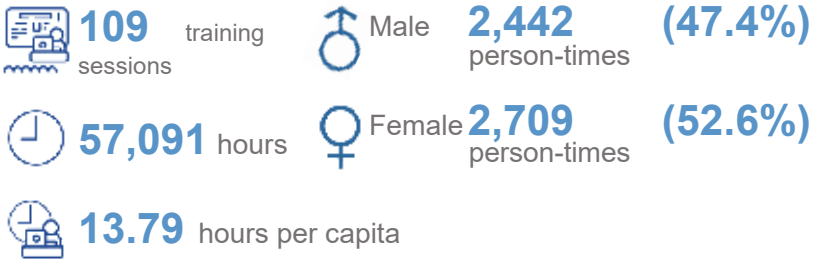


Education	No. of employees	Percentage
Doctor	364	9%
Master	1,723	42%
Bachelor	1,509	36%
Junior college	432	10%
High School and under	113	3%

Education Background of employees of WuXi Biologics in 2018

WuXi Biologics has spared no effort in talent training. For example, our senior managers always facilitate training on industry experience and know-how to employees in person. The Company's training courses are arranged from the below three standpoints, namely "to improve skills and capabilities", "to emphasize on job specifications", and "to transmit expertise and know-how". It enables employees to make progresses and improvements continuously in their work, so that they can meet the top requirements in job specifications for expertise and technical capability, and get prepared for future positions. The HR Department developed the WuXi Biologics Learning and Development Plan at the beginning of the year to guide a series of talent development and specialized skill training sessions, including the "Leadership Program" for seniors and "Sailing Program" for fresh graduates.

Training information of WuXi Biologics in 2018



Case: New Employee "Sailing Program" (Seed Program)

WuXi Biologics, in rapid development, receives a large number of new employees every year. The HR Department designed and implemented a year-long "Sailing Program" for the new joiners covering orientation, corporate culture, professional qualities, etc. to help them adapt to the Company and their jobs at different stages. As of 2018, there have been 50 training sessions held as part of the Sailing Program with more than a thousand participants, effectively supporting the growth of the Company.

Case: "Leadership Program" for seniors

In 2018, WuXi Biologics developed a "senior leadership course" for cross-departmental cooperation. The course aimed to articulate the corporate strategy and key positions, identify and review the talents needed, analyze the talent's current situation, strengthen their development and management, as well as cross-departmental cooperation. The content of each course is in line with the status quo of the Company and the requirements of the talents.

Product quality assurance

- **Product quality control**
- ***Strict quality control***

With product quality being regarded as the top priority, WuXi Biologics is committed to keep services above industry standards and strictly abide the Measures for the Supervision and Administration of Pharmaceutical Production. In terms of internal quality management, the Quality Assurance Department seeks to recruit high quality talents, formulates policies regarding material and equipment quality, and supervises the implementation. As of December 31, 2018, the Quality Assurance Department has 102 staffs with master's degrees or above. In terms of external quality audit, the quality system has been audited cumulatively 343 times by clients from all over the world, as well as Chinese and U.S. government departments, and all of them speaking highly of it.

Quality audit by	Region	Times of audit
Governmental drug control	PRC	85
	U.S./EU	1
Client	U.S.	125
	Asia	81
	EU	51

Table: Quality audit of WuXi Biologics

Case: WuXi Biologics won "CMO Leadership Award"

CMO (Contract Manufacturing Organization) refers to a company that serves other companies in the pharmaceutical industry on a contract basis to provide comprehensive services like process development, formula development, clinical trial drugs, chemical or biosynthetic raw material production, intermediate manufacturing, formulation production (such as powder, injection) and packaging.

Figure: WuXi Biologics was granted "CMO Leadership Award"

The CMO Leadership Awards is recognized by world's top outsourcing partners for R&D and manufacturing, determined by questionnaire survey feedback and evaluation results from senior executives of the U.S. and European Pharma and Biopharma companies of all sizes, and are presented in New York by the prestigious journal Life Science Leader and market research firm Industry Standard Research (ISR). WuXi Biologics won CMO Leadership Award for Reliability at the 2018 CMO Leadership Awards Ceremony for its reputation among global partners.

Note: Life Science Leader is a business journal for executives in emerging biotech through big pharma. More than 110 contract manufactures were assessed by 23 performance metrics in ISR's annual Contract Manufacturing Quality Benchmarking survey. This level of qualification ensures that survey responses are based on actual involvement with contract manufacturers and clear experiential data. This enables users of ISR's market research to make confident business decisions based on the experiences of their industry peers.

- ***Strict screening of equipment***

  WuXi Biologics purchases equipment and spare parts from the selected renowned suppliers only. The Purchasing Department arranges inspection and testing on equipment purchased prior to the confirmation of delivery to ensure the equipment is in a good quality for operation. We contact with suppliers' technicians regularly as well as customer service personnel for maintenance and upgrade after acceptance.

- ***Continuous improvement of complaint handling system***

  The Quality Assurance Department keeps records of all complaints received, and the complaint coordinator judges whether each complaint is caused by product quality or not. If affirmative, the Quality Assurance Department will initiate complaint investigation, including but not limited to documentation review, inspection of the complained sample, inspection on retained samples, etc. The head of Quality Assurance Department needs to record inspection or analysis results in the complaint handling form, analyse the cause of defect, determine whether it is necessary to establish corrective and preventive measures, and decide the level of impacts on other batches released. The handling results will also be timely sent to the client. In 2018, there was no customer complaint about product quality, nor any incidence of product recall happened during the year.

- **High-efficiency delivery**

  Along with the further expansion of our production capacity and scale as well as the investment and output of our R&D activities in 2018, the Company continued to deliver services to clients with industry-leading efficiency. This was attributable from not only its extensive, in-depth industry experience and one-stop service platform, but also the strict delivery management process it employs. According to the analysis of the public data by WuXi Biologics, the pre-IND R&D timeline in the biologics industry averages between 18 to 24 months, while for WuXi Biologics that is mostly between 15 to 18 months, or even shorter, which effectively shortens the timeline and reduces the R&D expenditures of new drugs, and benefits patients in the long run.

Case: WuXi Biologics help partners complete fast application of Yellow Fever (YF) monoclonal antibody

On November 26, 2018, Tychan announced its dosing of first individual in phase I trial of TY014, a first-in-class monoclonal antibody candidate treatment for Yellow Fever (YF), immediately following the IND approval from Health Sciences Authority (HSA) of Singapore to evaluate safety and tolerability. TY014 progressed from initiation to regulatory submission in less than seven months due to substantial advances in Tychan's proprietary rapid development platform and the company's partnership with WuXi Biologics. There is currently no approved treatment for Yellow Fever (YF).

WuXi Biologics completed all IND-enabling CMC studies in 7 months breaking a record of 9 months it achieved for Zika mAb vs traditional 15–24 months, which also manifests the combined efforts between Tychan and WuXi Biologics for timely intervention against future outbreaks of infectious diseases.

Creating a better life jointly

We continue to care for and equally treat all employees, as well as provide competitive compensation and welfare to them. We regard safety as the first priority and have formulated a strict quality and safety management mechanism to ensure the safety of medical products in the process of R&D, production, sales and recall. We are enthusiastic with public welfare and charity activities, and actively fulfill our social responsibilities. We embrace the concept of green operation, establish Environmental, Health and Safety department, carry out effective emission management, recycle resources and reduce energy consumption and waste generation.

In the following sections, you will read about our efforts and achievements in promoting good health and well-being, caring for employees, serving the community, and green operation.

Promoting good health and well-being

According to data of WHO, by 2020 chronic diseases would account for 75% of deaths globally with the advent of aging time. More pharma and biotech companies are seeking to be developing more innovative biotherapeutics through the development pipeline as efficiently as possible, and outsourcing gives sponsors ready access to increased capacity and specialized expertise as they contend with growing demand and competition in the large molecule space. WuXi Biologics is a world-leading open-access biologics technology platform offering end-to-end solutions for biologics discovery, development, and manufacture, and expediting biologics R&D around the world, reducing R&D costs, and benefiting the patients.

Case: Disposable bioreactor

Different from the previous large-scale stainless-steel production equipment, single-use technologies (SUTs) is being favored by the industry for reducing the risk of cross-contamination, saving fixed investment and energy consumption, flexibility, and platformization. The disposable bioreactor is made of certified plastic materials (polyethylene, ethylene vinyl acetate, polycarbonate, polystyrene, etc.) and is a non-reusable incubator that can be readily used when it is installed. It does not only save the procedures for Sterilization-in-Place (SIP) and Clean-in-Place (CIP) and reduce production cycle as it is sterilized beforehand and can be put into use shortly but it also saves the high cleaning verification costs in the perspective of Good Manufacturing Practice (GMP). Meanwhile, traditional stainless-steel reactors require huge consumption of water and energy as they require both SIP and CIP which has a certain impact on the environment. Relatively speaking, the waste generated by disposable bioreactors has a much smaller impact on the environment. Furthermore, new plants based on single-use production technology can be completed within two years or even a shorter period while it usually takes four to five years for that of the traditional plants. As a leader in single-use production technology, WuXi Biologics is proactively adopting this leading technology for commercial production and is the first in the industry to replace the "amplified" single stainless-steel bioreactor capacity model with "combined" multiple disposable bioreactors. The 10-thousand-liter scale of stainless-steel bioreactor commercial production which might require billions dollar of production cost can thereby be achieved in a shorter plant construction time and a lower fixed assets investment.

Caring for employees

As of December 31, 2018, there were 4,141 employees at WuXi Biologics in total, of which 45% were male and 55% were female, achieving an overall gender balance with equal pay for equal work.

WuXi Biologics advocates talent diversification and opposes discrimination by gender, age, level, nationality, race, religious belief, marital status, or against disability. We assess candidates only by their qualification for the positions, and everyone who joins us will be treated equally. Young people are the main force at WuXi Biologics, 61.4% of employees are under 30 while aged 30 to 50 are about 36.4%, and 2.2% are above 50. The high proportion of young workforce is in line with the talent development strategy of WuXi Biologics. We actively cultivate young people's professional capabilities and explore their potentials as well.

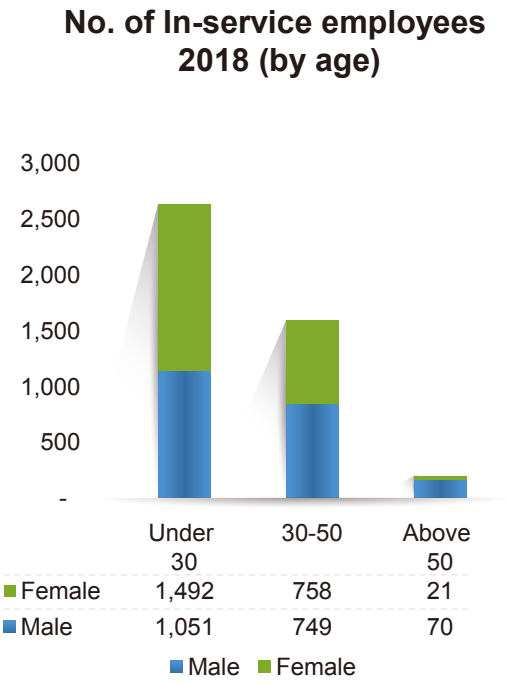


Figure: Number of in-service employees by age

WuXi Biologics strictly complies with the China laws and regulations, and opposes to any act of using child labor and forced labor. In article 5.8 of WuXi Biologics Employee Recruitment Management Policies, it clearly states that all employees who are formally employed must be 18 years old and strictly forbids illegally employing or exploiting children (i.e. children under the age of 16). During the year of 2018, WuXi Biologics did not have any case of child labor or forced labor.

- ***Compensation and benefits***

  Based on related legal provisions such as the Labour Law of the People's Republic of China ("**Labour Law**"), WuXi Biologics has developed policies and procedures including Employee Recruitment Management Policy, Compensation and Benefits Policy as well as Employee Handbook, etc. to ensure all employees receive the compensation and benefits they deserve.

- *Employee benefits*

In 2018, the employee turnover rate was 8.65%, which was below the industry average. This is ascribed to our focus on employee benefits and commitment to stimulating their enthusiasm and creativity, which enhanced the corporate cohesion and attractiveness and formed an excellent corporate culture, eventually promoting the Company's healthy development. To keep attracting and retaining high quality talents to support our rapid growth, WuXi Biologics actively pushes forward the following four procedures:

Figure: Free-of-charge dormitory for new employees in 2018

- Provide more opportunities for employees to work with world-class scientists in the field of biologics and reach out to cutting-edge technologies;
- Provide systematic training and development programs to improve their knowledge and capabilities as well as to accelerate their career development;
- Provide a competitive compensation package that reflects their performance; and
- Implement Share Option and Restricted Share Award Schemes to combine their long-term interests with the interests of the Company and shareholders.

The Company provides short-term free dormitory accommodation for new employees who leave hometown to join the Company in order to help them get through. We regularly initiate questionnaire surveys among employees to understand their feedbacks about this benefit, and communicate with employees through telephone, face-to-face talks, and follow-up surveys on improvements made. The employees felt that the dormitory, which is fully furnished and cosy, is like home to them. This benefit not only makes them feel the warmth from the Company as a big family, but also demonstrates, among other details, that WuXi Biologics is a workplace with humanistic concerns about the staff, trustworthy and ideal for them to grow and realize their career plans.

As of December 31, 2018, WuXi Biologics has awarded restricted shares or share options to 892 employees, accounting for 22% of total employees, as incentives. The Company plans to continuously grant restricted shares to newcomers and best-performance employees.

- *Employee activities*

In order to advocate work-life balance, WuXi Biologics launched a series of employee care activities to unite them and cultivate their recognition and sense of belonging to the Company. It carried out various activities to enrich employees' spare time and encouraged them to join various internal clubs, including the badminton club, dancing club, canoeing club, choir, bicycle club and etc. The Company provides funds for club activities, and reports their recent activities via internal publications.

My music dream — "The Voice" singing contest

In 2018, the Company organized the first singing contest called "The Voice" of WuXi Biologics to enrich staff's spare time.

Figure: Contestants of "The Voice"

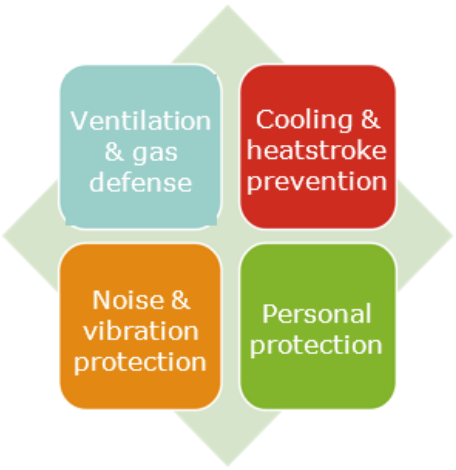
Figure: Dance show Demure Orchid in 2018 WuXi Biologics Annual Party

Dancing Club

The dancing club is tutored by professional dancing instructors. Members of dancing club have occasionally performed in both internal and external events, showcasing the elegance and demeanour of our employees.

- ***Employee safety and health***

WuXi Biologics assumes the attitude of "Being vigilant in peace time and prepared at all times" in work, and always takes production safety as the first priority. The Company has established a strict quality and safety management mechanism for R&D, clinical trials, technology transfer, manufacturing, and other processes, ensuring the safety of its medical products throughout R&D, production, sales, and recall. The mechanism covers occupational disease prevention, safety inspection, fire awareness education, etc.



Occupational disease prevention

In the absence of proper prevention, occupational diseases may occur and cause damages to employees' health and safety. WuXi Biologics classified occupational hazards into chemical hazards (sodium phosphate, sodium chloride, hydrochloric acid, sodium hydroxide, and isopropanol) and physical ones (noise and high temperature). Adhering to the principle of "Prevention first and comprehensive treatment", WuXi Biologics has established the Industrial Hygiene (Occupational Health) Management Policy. It also regularly organizes the inspection of professional institutions and takes all kinds of measures to eliminate or reduce factors endangering employees' health.


职业病危害因素检测评价报告

六、检测结论

七、建议

Figure: WuXi Biologics occupational hazard inspection report of 2018

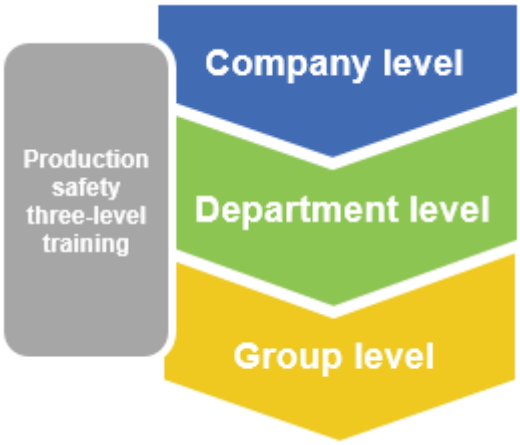
The Company has passed the annual field inspection for occupational hazards, with all items examined to be in compliance with relevant national regulations.

- *Treatment of workplace injuries*

  To reduce the harm of workplace injuries to employees, WuXi Biologics equipped first-aid kit for every 100 employees on each floor to ensure employees can receive timely first aid treatment if injures happen. The Company follows the occupational health accident procedures provided in Industrial Hygiene (Occupational Health) Management Policy to deal with work injuries. The EHS Department will arrange investigation and relevant personnel (e.g. the direct superior, or person from the EHS Department or HR Department) will offer counselling to the injured. In 2018, no fatality occurred at WuXi Biologics, though 17 days were lost due to workplace injuries.

- *Safety inspection*

  WuXi Biologics implements a strict safety inspection system, which required monthly safety inspection on every lab. Any safety violation observed will be recorded and the responsible lab will be penalized, with follow-up monitoring until the issue is completely resolved. The Company also offers three-level standard operating procedures (SOP) training, namely, at the company-level, department-level, and group-level. Before commencement of work, new joiners must attend such safety trainings.



- *Safety awareness promotion*

In 2018, WuXi Biologics carried out internal EHS training. The total number of training sessions was 155, and the total number of person-time was 15,902 with a total training duration of 56,993 hours. The training aims to improve the safety awareness of employees, pay attention to safety management in daily work, and practice the "safety first" production essentials in details.

The Safe Production Month was launched by the Wuxi Environmental Health and Safety Department (EHS) from 21 to 30 June 2018. The theme for this year's promotion is "Life First, Safety Prioritized". The Company has organized a series of activities to raise employees' safety awareness. The activities were diversified, including "Posters and educational videos for safety", "Find the hidden risks", "I am a first-aider", "Emergency evacuation drill", "Chemical leakage response drill", "Safety knowledge competition", etc. Everyone enjoyed the activities very much and active and enthusiastic responses were received. Meanwhile, such activities also enhanced the safety awareness and safety protection ability of all the employees.

- *Fire drill*

WuXi Biologics devotes much attention to deepening employees' safety awareness. It has two fire drills among employees every year, further raising the fire safety awareness in practices and reinforcing the policy "Prevention first, and combining prevention with fire-fighting" across the Company.

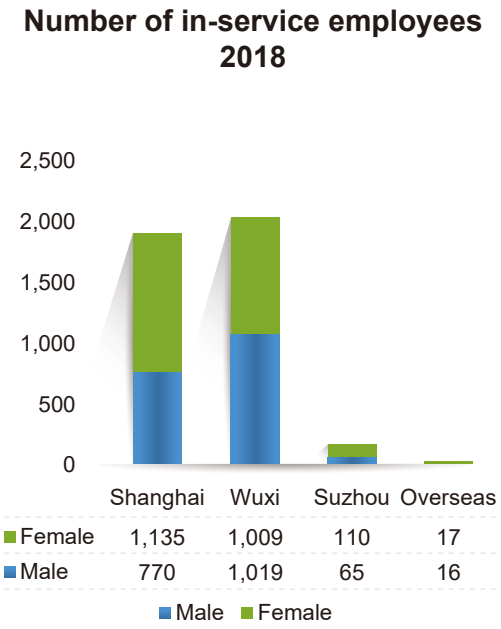
Figure: WuXi Biologics' fire drill in 2018

Commitment to community services

WuXi Biologics has always been very passionate about public services and campus activities. It believes that public services can improve the cohesion and sense of belongings to the Company, and spread its corporate spirit of devotion to the public.

- ***Promoting local employment***

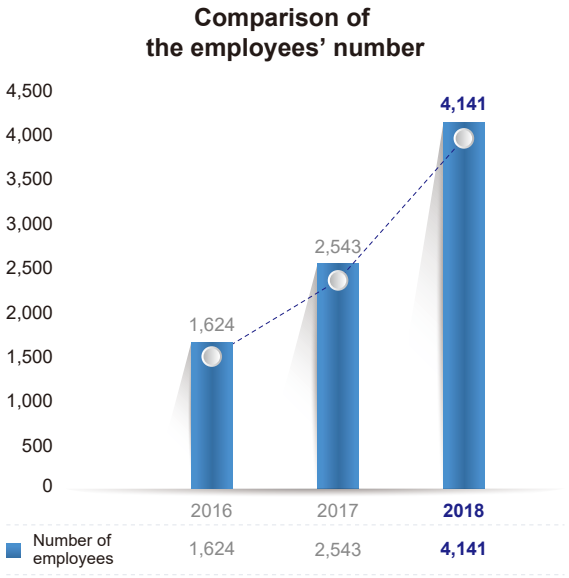
WuXi Biologics recruits and introduces talents in strict compliance with relevant legal provisions such as Labour Law. In recent years, with the continuous development of the Company, the gradual improvement of production capacity, and the implementation of its global strategic layout, the Company has provided more and more local job opportunities, fulfilling its social responsibilities to promote local development and employment.



As of December 31, 2018, its in-service employees reached 1,905 in Shanghai, 2,028 in Wuxi, 175 in Suzhou, and 33 overseas, increased by 1,598 in total with a growth rate of 62.8% year-on-year which implies that WuXi Biologics has continuously provided more local employment opportunities.

- ***Voluntary blood donation***

  WuXi Biologics is actively cooperating with Shanghai Pudong New Area Blood Management Office to participate in the annual voluntary blood donation activities. In 2018, WuXi Biologic and its three subsidiaries took active part in blood donation activities. The actual number of participants was 83, with a blood donation of 200 cc per capita, and a total of 16,600 cc.



- ***School-enterprise cooperation***

  In 2018, WuXi Biologics actively participated in the school-enterprise cooperation program to provide benefits and scholarships to the students and sponsored club activities. We firmly believe that we should strive to work with college and university to develop talents that can meet the enterprise's needs while presenting academic excellence of the university. This win-win situation can only be achieved jointly with the cooperation with colleges and universities.

Case: Scholarship for students of Jiangnan University

On January 19, 2018, Dr. Wang, Vice President of WuXi Biologics, and Ms. Lin, HR business partner of the Biologics and Development Department, attended the "WuXi Biologics Social Scholarship and Faculty Fellowship" awarding ceremony held by School of Biotechnology of Jiangnan University. At the ceremony, Dr. Wang encouraged students to study hard and be bold to practise, as well as extended his welcome for them to join WuXi Biologics upon graduation.

Case: Tsinghua University School of Life Sciences Doctoral Program Summer Internship Group

In August 5 to 10, 2018, it was the first time for the 16 students from the Tsinghua University School of Life Sciences Doctoral Program Summer Internship Group to undertake their internship at WuXi Biologics. Orientated by the employees of WuXi Biologics, the students from the Internship Group learned about the Company's business, received compliance training, and gained knowledge by visiting various departments.

Feedback from participants:

"Compliance is the basis of WuXi Biologics. We can deeply feel the Company's emphasis on compliance as they even offer compliance training for short-term participants like us!"

"There are learning and visits every day that correct my past recognition, which is the greatest pleasure for me during this internship."

Case: Chief Technology Officer of WuXi Biologics was hired as a tutor for Neo Startup at Shanghai Jiao Tong University

On November 11, 2018, the opening ceremony of "2018 Neo Show Week" was successfully held at Shanghai Jiao Tong University and the Chief Technology Officer and senior vice president of WuXi Biologics, Dr. Weichang Zhou was invited to deliver a speech at the event. He was also hired as a tutor for neo startup at the Shanghai Jiao Tong University. The Company will also discuss with Shanghai Jiaotong University to carry out school-enterprise cooperation, promoting the industrialization of scientific research results. In the event, Dr. Weichang Zhou shared his experience in starting up a business and emphasized the core position of talent strategy in the Company's development, arousing the general consensus of the guests.

Green operation

- ***Emissions management***

WuXi Biologics has set up the EHS Department staffed with environmental management professionals to effectively perform emissions management and continuous monitoring. We also regularly engage qualified testing institutions to do corresponding Environmental Impact Assessment (EIA) tests at the three sites (Shanghai, Wuxi, and Suzhou), and issue EIA reports to diagnose our emission of waste water, waste gas, noise, as well as solid wastes. In 2018, there was no excessive emissions at WuXi Biologics.

Note: The Suzhou site mainly focuses on biosafety testing. With only a very small scale of operation of 175 employees in addition to the fact that, it has no emission of industrial waste water or gas, therefore its environmental data was not collected and disclosed in this part of the Report.

- *Waste gas treatment*

WuXi Biologics produces only a small volume of waste gas during laboratory operations, which will be discharged from the fuming hood via its exhaust system. A treatment device has been installed at the end of ventilation system in each laboratory for up-to-standard gas emissions. The Company's emissions in 2018 complied with national regulations with corresponding records kept by a third party, ensuring no environmental impact was caused by the gas emission, making sure the hydrogen chloride and non-methane hydrocarbons in gas emissions are within limits, thus, when being diluted in the air, having small impacts on the surrounding companies and residents as well as other environment-sensitive targets.

Figure: VOC ventilating chimney

Since 2018, WuXi Biologics has begun to implement the "VOC (volatile organic compound) ventilating chimney" program, which effectively captured the waste gases generated by labs, and discharged them at 15m above the roof after treatment. These effective prevention and control measures could:

- Ensure the emission of main pollutants, namely hydrochloric acid and sodium hydroxide, meet the Integrated Emission Standard of Air Pollutants
- Ensure the emission of ethanol, acetic acid, and benzyl alcohol meet the Technical Methods for Making Local Emission Standards of Air Pollutants (GB/T 13201–91)

According to the EIA tests, all emitted gases out of the program's scope, including hydrochloric acid, sodium hydroxide, ethanol, acetic acid, and benzyl alcohol, were within the fugitive emissions limits.

In 2018 WuXi Biologics had a total carbon dioxide emission of 4,182.00 tons, and 1.01 tons per capita.

Indicator	2018 Data
Total waste gases from boiler (10,000 standard m^3)	3,139.00
Total NOx (ton)	2.35
Total dust(ton)	0.07
Total CO_2 (ton)	4,182.00
Total hazardous wastes (ton)	857.11
Total non-hazardous wastes (ton)	367.50
Total waste water (ton)	163,747.84

- *Solid waste treatment*

Hazardous wastes

WuXi Biologics has formulated the Hazardous Waste Management Policy to monitor and manage the generation, capture, storage, transfer, and disposal of hazardous wastes. WuXi Biologics requires that the heads of departments generating hazardous wastes to ensure harmless disposal, and employees in these departments must know the waste classification and disposal methods. All wastes are disposed of following specified processes, during which employees are properly protected and different types of wastes are placed in different temporary storage sites. The hazardous wastes disposal rate is 100%, with no impacts to the environment.

In 2018, WuXi Biologics had a total generation of hazardous waste of 857.11 tons and 206.98 kg per capita. In 2018, there was no environmental pollution incident due to hazardous wastes.

Non-hazardous wastes

The Shanghai site reports to Shanghai Waste Management Centre for the disposal costs of office solid waste, and the government is responsible for the clean-up and disposal work. In 2018, the office solid waste generated in Wuxi was 367.5 tons and 180 kg per capita.

- *Waste water treatment*

  Most of the waste water of WuXi Biologics is generated by daily biologics development experiments. WuXi Biologics is equipped with a sewage treatment station to uniformly collect and process the waste water. WuXi Biologics has installed the online Chemical Oxygen Demand ("**COD**") detection equipment, and established the supporting water treatment operation procedures. WuXi Biologics has also arranged personnel to carry out the operational maintenance work for the sewage treatment station regularly. Periodical self-inspections on the water samples and irregularity monitoring of the environmental monitoring station are conducted to ensure that the treated effluent meets the discharge standards set for the municipal pipe networks.

  Our Wuxi site works with the governmental sewage treatment station, and the government is responsible for processing the waste water collected. The Wuxi site generated a total of 163,747.84 tons of waste water in 2018.

  In 2018, WuXi Biologics's waste water treatment rate reached 100%, and it has promoted the work of reutilization of waste water. Our Wuxi site carries out the re-use of concentrated water to reduce the amount of waste water discharged and to realize the recycle of waste water resources.

Case: Concentrated water reuse at Wuxi site

Wuxi site produces a large amount of concentrated water and cooling water of boilers during manufacturing. Direct discharge of these water into the sewage disposal system could lead to a serious waste of water resources, increase the burden of the sewage disposal system, and raise the cost of sewage disposal largely.

Therefore, the Phase III plant of Wuxi site has launched the concentrated water reuse program, aiming to reduce the amount of waste water discharge and increase the cyclic utilization of water resources. The program achieved sizable water saving results.

- ***Energy conservation & emissions reduction***

  Seeking for circular development, WuXi Biologics recycles the waste heat, waste water, and other wastes created in production, comprehensively utilizes resources, increases investment in waste recovery devices, and replaces the high-energy consuming aged equipment to cut down energy consumption and waste generation.

	2018	
Index	Total	Per Capita
Total water consumption (t)	519,787.00	125.52
Total power consumption (KWH)	53,954,373.00	13,029.31
Total gas consumption (m^3)	3,381,315.00	816.55
Total packaging materials (kg)	10,287.00	N/A

Case: 2018 Golden Idea — "Practical use of pipette tip boxes" to reduce environmental costs

Figure: Application of the golden idea

Imported disposable pipette tips of different specifications are used in our laboratories. According to our statistics, WuXi Biologics uses over 5,000 boxes per year. The disposal of used boxes involves complicated operating procedures, such as collection, autoclave sterilization, and dangerous waste treatment which consume a lot of resources as well as manpower.

Therefore we apply the "Golden Idea" to avoid resources waste and save manpower cost by applying:

1) used tip boxes for desktop trash bins;

2) used tip boxes for PCR tube racks;

3) used tip boxes for storing sealing films

These measures have greatly reduced the workload for garbage sterilization and tedious human manipulation, as well as procurement costs. The annual cumulative cost saving in labor, sterilization cabinet using, and dangerous waste treatment is expected to reach over RMB100 thousand in total, embodying the spirit of recycling operation.

Appendix

Appendix I ESG Guidance Mapping Table

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Appendix I ESG Guidance Mapping Table (Continued)

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Appendix I ESG Guidance Mapping Table (Continued)

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Appendix II Comparative statistics

Chart 1: Data of environment

Environment					
Category	Description		Unit	2018 Total Amount	2017 Total Amount
Electricity	Production and office usage	Total	KWH	53,954,373.00	32,952,715.00
Gas	Production and office usage	Total	m^3	3,381,315.00	2,002,403.00
Water	Production and office usage	Total	Ton	519,787.00	329,983.42
Waste	Hazardous waste	Total	Ton	857.11	521.63
	Non-hazardous waste			367.50	240.00
	Waste water			163,747.84	40,080.00
Packaging Materials	Packaging materials consumption	Total	Kg	10,287.00	7,303.30
Greenhouse Gases	CO_2	Total	Ton	4,182.00	5,513.00
Pollutant Emissions	Boiler flue gas	Total	10,000 standard m^3	3,139.00	/
	Nitrogen oxide		Ton	2.35	/
	Smoke		Ton	0.07	/

Appendix (Continued)

Appendix II Comparative statistics (Continued)

Chart 2: Data of social responsibility

Social Responsibility					
Category	Description		Unit	2018 Total Amount	2017 Total Amount
Employee Structure	Number of employees	Total	person	4,141	2,543
	Gender	Female	person	2,271	1,384
		Male		1,870	1,159
	Age	Below age 30	person	2,543	1,775
		Age 30 to 50		1,507	711
		Above age 50		91	57
	Regional distribution	Shanghai	person	1,905	1,182
		Wuxi		2,028	1,226
		Suzhou		175	116
		Overseas		33	19
	Degree distribution	Phd	person	364	244
		Master		1,723	1,053
		Bachelor		1,509	915
		Junior college		432	267
		High school and below		113	64
Employee Turnover rate	Gender	Female	%	4.23%	/
		Male		4.42%	/
	Age	Below age 30	%	5.29%	/
		Age 30 to 50		3.29%	/
		Above age 50		0.07%	/
	Region area	Overseas	%	0.09%	/
		Domestic		8.56%	/

Appendix (Continued)

Appendix II Comparative statistics (Continued)

Chart 2: Data of social responsibility (Continued)

Social Responsibility					
Category	Description		Unit	2018 Total Amount	2017 Total Amount
Work-related Injuries	The number of deaths due to work-related injuries		person	0	0
	Workday loss		day	17	0
Staff Training	Total training hours	Total	hour	57,091	31,451
	Average hours	Total	hour/person	13.79	12.37
	Rank	Senior management	person-time	110	/
		Middle level management		389	/
		Basic level management		389	/
		Basic employees		4,263	/
Customer Complaints	Products and services complaints		piece	0	0
	Safety and health-led recalls			0	0
Anti-corruption	Number of corruption cases		piece	0	0

Appendix (Continued)

Appendix III Readers' Feedback Form

WuXi Biologics Cayman Inc. 2018 Environmental, Social and Governance Report Reader's Feedback Form

Respected Readers,

Hello! Thank you for reading WuXi Biologics Cayman Inc. 2018 Environmental, Social and Governance Report. Your opinions are important to us. Please help us improve by providing your opinions and suggestions.

- Name:
- Employer:
- Contact:

- Your evaluation of this report
  ☐Very good ☐Good ☐Fair ☐Poor
- Do you think whether the report structure is reasonable?
  ☐Very reasonable ☐Reasonable ☐Fair ☐Unreasonable
- Do you think whether this report is easy to read?
  ☐Extremely easy to read ☐Very easy to read ☐Fair ☐Not easy to read
- Which responsibility topic do you concern the most? (Can choose more than one topic)
  ☐Social responsibility management ☐Environmental protection
  ☐Business ethics ☐Employees
  ☐Product R&D ☐Society
  ☐Industrial cooperation ☐Shareholders
  ☐Suppliers management ☐Others
- What is the level of disclosure on the topic you are concerned about?
  ☐Very comprehensive ☐Fairly comprehensive ☐Partially included ☐Rarely included ☐Not included
- What suggestions do you have for our 2018 Environmental, Social and Governance Report? (Open question)

You can contact us in the following ways:

Mailing address: 46#, 299 Fute Zhong Road, Waigaoqiao, China (Shanghai) Pilot Free Trade Zone, Shanghai, China
Zip code: 200131
Tel: +86 400–820–0985
Email: ir@wuxibiologics.com

Independent Auditor's Report

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF WUXI BIOLOGICS (CAYMAN) INC.
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of WuXi Biologics (Cayman) Inc. (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 143 to 255, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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	How our audit addressed the key audit matter

Impairment assessment of trade receivables and contract assets under ECL model

We identified impairment assessment of trade receivables and contract assets as a key audit matter due to significance of the Group's trade receivables and contract assets in the context of the Group's consolidated financial statements, combined with the management estimates involved.

As disclosed in notes 22 and 23 to the consolidated financial statements, as at December 31, 2018, the carrying amount of trade receivables amounted to approximately RMB762.9 million (net of allowance for credit losses of RMB56.3 million) and contract assets amounted to approximately RMB36.0 million (net of allowance for credit losses of RMB6.6 million) which in total represented approximately 13.9% of the Group's total current assets. As disclosed in note 4 to the consolidated financial statements, the estimates of impairment assessment of trade receivables and contract assets require the use of management estimates.

Our procedures in relation to the impairment assessment of trade receivables and contract assets included:

- Understanding key controls on how the management estimates the loss allowance for trade receivables and contract assets;
- Testing the integrity of information used by management to develop the provision matrix, including trade receivables and contract assets historical collecting payments records over the past experience as at December 31, 2018, on a sample basis, by comparing individual items in the analysis with the supporting documents;
- Challenging management's basis and judgement in determining credit loss allowance on trade receivables and contract assets as at December 31, 2018, including their identification of credit impaired trade receivables and contract assets, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and
- Evaluating the disclosures regarding the impairment assessment of trade receivables and contract assets in notes 31(b) to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of contract costs We identified the impairment of contract costs as a key audit matter due to significance of the Group's contract costs in the context of the Group's consolidated financial statements, combined with the management estimates involved in the recoverable amount. Contract costs mainly consists of cost of materials consumed, cost of direct labour, other direct costs and related overheads engaged in providing the biologics discovery, development and manufacturing services. As disclosed in note 21 to the consolidated financial statements, as at December 31, 2018, the carrying amount of contract costs amounted to approximately RMB294.6 million. As disclosed in note 4 to the consolidated financial statements, impairment are applied to contract costs where events or changes in circumstances indicate that the recoverable amount is lower than the cost of contract costs. The assessment of the recoverable amount requires the use of management estimates.	Our procedures in relation to the impairment assessment of contract costs included: • Obtaining an understanding of the management controls over the assessment of the recoverable amount; • Examining the reasonableness of the recoverable amount, on a sample basis, by checking the remaining amount of consideration to be recognized upon the completion of the contract costs and the estimated percentage of completion at the end of the Reporting Period; • Checking to the contracts costs, on a sample basis, movement information to ensure the slow-moving contracts are identified; and • Evaluating the adequacy of impairment provision on contract costs with reference to the remaining amount of consideration to receive less the costs directly relate to providing services that have not been recognized as expense is lower than the carrying amount of contract costs.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Joseph Wing Ming Chan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 18, 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	**2,534,453**	1,618,829
Cost of services		**(1,516,698)**	(958,272)
Gross profit		**1,017,755**	660,557
Other income	6	**194,217**	34,694
Impairment losses, net of reversal	9	**(55,940)**	(13,747)
Other gains and losses	7	**21,128**	(89,863)
Selling and marketing expenses		**(42,430)**	(27,622)
Administrative expenses		**(227,721)**	(134,019)
Research and development expenses		**(169,287)**	(74,479)
Other expenses	9	**—**	(16,143)
Finance cost	8	**—**	(35,691)
Profit before tax	9	**737,722**	303,687
Income tax expense	10	**(107,257)**	(51,059)
Profit for the year		**630,465**	252,628
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**102**	—
Fair value gain on hedging instruments designated in cash flow hedges		**11,701**	—
Other comprehensive income for the year		**11,803**	—
Total comprehensive income for the year		**642,268**	252,628

(continued)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Profit for the year attributable to:			
Owners of the Company		**630,592**	252,628
Non-controlling interests		**(127)**	—
		630,465	252,628
Total comprehensive income for the year attributable to:			
Owners of the Company		**642,395**	252,628
Non-controlling interests		**(127)**	—
		642,268	252,628
		RMB	RMB
Earnings per share — Basic	12	**0.52**	0.24
— Diluted	12	**0.48**	0.22

Consolidated Statement of Financial Position

At December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current Assets			
Plant and equipment	13	**2,903,900**	1,780,172
Deferred tax assets	14	**22,481**	6,855
Intangible assets	15	**331,813**	—
Deposits paid for acquisition of a land use right		**—**	17,128
Prepaid lease payments	16	**168,623**	—
Equity instruments at fair value through other comprehensive income ("**FVTOCI**")	17	**136,578**	—
Financial assets at fair value through profit or loss ("**FVTPL**")	18	**55,699**	—
Derivative financial assets	27	**9,847**	—
Other long-term deposits	19	**19,021**	11,378
		3,647,962	1,815,533
Current Assets			
Inventories	20	**227,189**	135,547
Service work in progress		**—**	202,389
Contract costs	21	**294,569**	—
Trade and other receivables	22	**1,067,235**	614,302
Contract assets	23	**36,026**	—
Prepaid lease payments	16	**2,910**	—
Financial assets at FVTPL/designated at FVTPL	18	**—**	641,333
Tax recoverable		**793**	—
Pledged bank deposits	24	**25,197**	21,189
Time deposits	24	**—**	914,788
Bank balances and cash	24	**4,084,395**	503,881
Derivative financial assets	27	**6,874**	—
		5,745,188	3,033,429
Current Liabilities			
Trade and other payables	25	**711,779**	784,669
Contract liabilities	26	**499,743**	—
Income tax payable		**88,244**	13,405
Derivative financial liabilities	27	**18,991**	—
		1,318,757	798,074
Net Current Assets		**4,426,431**	2,235,355
Total Assets Less Current Liabilities		**8,074,393**	4,050,888

(continued)

Consolidated Statement of Financial Position

At December 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current Liabilities			
Deferred revenue	28	**77,408**	19,711
Derivative financial liabilities	27	**77**	—
Deferred tax liabilities	14	**2,680**	6,817
		80,165	26,528
Net Assets		**7,994,228**	4,024,360
Capital and Reserves			
Share capital	29	**202**	192
Reserves		**7,993,553**	4,024,168
Equity attributable to owners of the Company		**7,993,755**	4,024,360
Non-controlling interests		**473**	—
Total Equity		**7,994,228**	4,024,360

The consolidated financial statements on pages 143 to 255 were approved and authorized for issue by the Board of Directors on March 18, 2019 and are signed on its behalf by:

Zhisheng Chen
DIRECTOR

Weichang Zhou
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

	Attributable to owners of the Company										
	Share capital	Share premium	Statutory reserve	Equity-settled share-based compensation reserve	Cash flow hedging reserve	Group reorganization reserve	Foreign currency translation reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 *(Note i)*	RMB'000 *(Note ii)*	RMB'000	RMB'000 *(Note iii)*	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017	158	—	28,016	81,396	—	(4,636)	—	165,533	270,467	—	270,467
Total comprehensive income for the year	—	—	—	—	—	—	—	252,628	252,628	—	252,628
Transfer to statutory reserve	—	—	23,923	—	—	—	—	(23,923)	—	—	—
Recognition of equity-settled share-based compensation	—	—	—	65,076	—	—	—	—	65,076	—	65,076
Issue of shares at premium through initial public offerings *(note 29)*	34	3,572,905	—	—	—	—	—	—	3,572,939	—	3,572,939
Transaction costs attribute to issue of new shares	—	(136,750)	—	—	—	—	—	—	(136,750)	—	(136,750)
At December 31, 2017	192	3,436,155	51,939	146,472	—	(4,636)	—	394,238	4,024,360	—	4,024,360
Adjustments *(note 2)*	—	—	—	—	—	—	—	(7,598)	(7,598)	—	(7,598)
At January 1, 2018 (restated)	192	3,436,155	51,939	146,472	—	(4,636)	—	386,640	4,016,762	—	4,016,762
Profit for the year	—	—	—	—	—	—	—	630,592	630,592	(127)	630,465
Other comprehensive income for the year	—	—	—	—	11,701	—	102	—	11,803	—	11,803
Total comprehensive income for the year	—	—	—	—	11,701	—	102	630,592	642,395	(127)	642,268
Transfer to statutory reserve	—	—	55,006	—	—	—	—	(55,006)	—	—	—
Recognition of equity-settled share-based compensation	—	—	—	128,374	—	—	—	—	128,374	—	128,374
Exercise of pre-IPO share options	1	27,375	—	(7,842)	—	—	—	—	19,534	—	19,534
Issue of new shares *(note 29)*	9	3,205,917	—	—	—	—	—	—	3,205,926	—	3,205,926
Transaction costs attributable to issue of new shares	—	(19,236)	—	—	—	—	—	—	(19,236)	—	(19,236)
Contribution from non-controlling shareholders	—	—	—	—	—	—	—	—	—	600	600
At December 31, 2018	202	6,650,211	106,945	267,004	11,701	(4,636)	102	962,226	7,993,755	473	7,994,228

Notes:

(i) In accordance with the Articles of Association of all subsidiaries of WuXi Biologics (Cayman) Inc. (the "**Company**") established in the People's Republic of China (the "**PRC**"), they are required to transfer 10% of the profit after tax to the statutory reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.

(ii) The amount represents the equity-settled share-based compensation in respect of share options for shares of WuXi PharmaTech (Cayman) Inc. ("**WuXi PharmaTech**"), the then ultimate holding company of the Company before the completion of the group reorganization of the Company (see Note iii below), for the equity instruments granted by WuXi PharmaTech to certain directors of the Company and employees of the Company and its subsidiaries (collectively referred to as the "**Group**") for their service rendered to the Group and the equity-settled share-based compensation under the Company's pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") and the Company's restricted share award scheme (the "**Restricted Share Award Scheme**") as disclosed in note 37.

(iii) Group reorganization reserve represents the combined capital contribution of the entities comprising the Group, net of the settlement of the payables to their then shareholders; and the administration service cost borne or on behalf of the fellow subsidiaries by the Company prior to the completion of a group reorganization to rationalize the current group structure as at December 31, 2015 (the "**Group Reorganization**").

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**737,722**	303,687
Adjustments for:		
Interest expense	**—**	35,691
Depreciation for plant and equipment	**131,563**	87,479
Amortization of intangible assets	**9,969**	—
Amortization of prepaid lease payments	**2,238**	—
Amortization of retention bonus	**2,113**	—
Impairment loss (reversal)		
— trade and other receivables	**60,271**	8,788
— contract assets/unbilled revenue	**(4,331)**	4,959
Write down of inventories	**4,041**	2,665
Write down of contract costs	**2,475**	—
Net foreign exchange (gain) loss	**(17,736)**	25,382
Share-based compensation expense	**128,374**	65,076
Income from government grants and subsidies	**(2,845)**	(1,298)
Interest income	**(78,394)**	(8,746)
Gain on changes in fair value of financial assets at FVTPL	**(11,170)**	(6,877)
Loss on derivative financial liabilities	**93,942**	—
Loss on disposal of plant and equipment	**1,215**	1,001
	1,059,447	517,807
Income tax paid	**(52,103)**	(43,335)
Operating cash flows before movements in working capital	**1,007,344**	474,472
Increase in inventories and service work in progress	**(95,683)**	(103,642)
Increase in contract costs	**(14,075)**	—
Increase in trade and other receivables	**(452,521)**	(203,076)
Increase in contract assets	**(11,064)**	—
Increase in other long-term deposits	**(9,756)**	(11,378)
Increase in contract liabilities	**153,853**	—
Increase in trade and other payables	**183,509**	203,904
NET CASH PROVIDED BY OPERATING ACTIVITIES	**761,607**	360,280

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES		
Proceeds on disposal of plant and equipment	**530**	50
Purchase of plant and equipment	**(1,340,586)**	(670,601)
Purchase of prepaid lease payments	**(156,643)**	—
Purchase of equity instruments at FVTOCI	**(130,993)**	—
Purchase of intangible assets	**(333,254)**	—
Deposits paid for acquisition of a land use right	**—**	(17,128)
Government grants and subsidies received	**60,542**	8,450
Withdrawal of pledged bank deposits	**71,512**	135,450
Placement of pledged bank deposits	**(75,520)**	(123,377)
Withdrawal of financial assets designated as at FVTPL	**1,444,708**	1,275,430
Placement of financial assets designated as at FVTPL	**(846,325)**	(1,909,886)
Receipt of interest from bank	**79,755**	3,149
Withdrawal of time deposits	**890,087**	—
Placement of time deposits	**—**	(914,788)
Settlement of derivative financial instruments	**(79,887)**	—
NET CASH USED IN INVESTING ACTIVITIES	**(416,074)**	(2,213,251)
FINANCING ACTIVITIES		
Proceeds from bank borrowings	**—**	346,585
Repayment of bank borrowings	**—**	(1,238,616)
Interest paid	**—**	(36,292)
Finance lease charges paid	**—**	(476)
Repayment of obligation under a finance lease to a related party	**—**	(10,869)
Advance from related parties	**—**	55,026
Repayment to related parties	**—**	(238,915)
Repayment to related parties in relation to Group Reorganization	**—**	(83,325)
Proceeds from issue of ordinary shares	**3,205,926**	3,572,939
Payment of issue cost	**(19,236)**	—
Proceeds from exercise of pre-IPO share options	**19,534**	—
Proceeds from contribution from non-controlling shareholders of a subsidiary	**600**	—
Payment of listing related expense	**—**	(136,750)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**3,206,824**	2,229,307
Effects of exchange rate changes	**28,157**	(41,557)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**3,580,514**	334,779
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**503,881**	169,102
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH	**4,084,395**	503,881

1. GENERAL INFORMATION

The Company was established in the Cayman Islands as an exempted company with limited liability on February 27, 2014, and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since June 13, 2017. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report. The Company is an investment holding company. The Group is principally engaged in provision of discovery, development and manufacturing of biologics services.

As at the date of issuance of these consolidated financial statements, the immediate and ultimate holding company of the Company is WuXi Biologics Holdings Limited ("**Biologics Holdings**"), a company incorporated in the British Virgin Islands, which is ultimately controlled by Dr. Ge Li ("**Dr. Li**"); Dr. Ning Zhao, the spouse of Dr. Li; Mr. Xiaozhong Liu and Mr. Zhaohui Zhang who are all acting in concert (collectively known as "**Controlling Shareholders**").

The functional currency of the Company is Renminbi ("**RMB**"), which is the same as the presentation currency of the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the "**IASB**") for the first time in the current year:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRSs 2014–2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the year ended December 31, 2018. IFRS 15 superseded IAS 18 *Revenue* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognized in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and the related interpretations.

Summary of effects arising from initial application of IFRS 15

Taking into account the changes in accounting policy arising from initial application of IFRS 15 as stated in note 3, the directors of the Company considered that the initial application of IFRS 15 has no material impact on the timing and amount of revenue recognized.

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at December 31, 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	**Carrying amounts under IFRS 15 at January 1, 2018* RMB'000**
Current assets					
Service work in progress	a	202,389	(202,389)	—	**—**
Contract costs	a	—	202,389	—	**202,389**
Trade and other receivables	b, d	614,302	(24,447)	91,144	**680,999**
Contract assets	b	—	24,447	—	**24,447**
Current liabilities					
Trade and other payables	c	784,669	(254,746)	—	**529,923**
Contract liabilities	c, d	—	254,746	91,144	**345,890**

* The amounts in this column are before the adjustments from the application of IFRS 9.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

Notes:

(a) As at January 1, 2018, service work in progress of RMB202,389,000 are cost incurred in fulfilling contracts with customers. The costs incurred relate directly to specific identified contracts, generate or enhance resources of the Group that will be used in satisfying performance obligations in the future and are expected to be recovered. Thus, as at January 1, 2018, service work in progress were reclassified to contract costs.

(b) As at January 1, 2018, unbilled revenue included in trade and other receivables of RMB24,447,000 arising from contracts with customers which are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was reclassified from trade and other receivables to contract assets.

(c) As at January 1, 2018, advances from customers of RMB254,746,000 in respect of contracts with customers previously included in trade and other payables were reclassified to contract liabilities.

(d) As at January 1, 2018, RMB91,144,000 related to advance billings to customers for research services were recognized in trade receivables and contract liabilities upon application of IFRS 15.

The following tables summarize the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Current assets			
Service work in progress	—	294,569	294,569
Contract costs	294,569	(294,569)	—
Trade and other receivables	1,067,235	(123,636)	943,599
Contract assets	36,026	(36,026)	—
Current liabilities			
Trade and other payables	711,779	340,081	1,051,860
Contract liabilities	499,743	(499,743)	—

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Operating Activities			
Increase in service work in progress	—	(14,075)	(14,075)
Increase in contract costs	(14,075)	14,075	—
Increase in trade and other receivables	(452,521)	(11,064)	(463,585)
Increase in contract assets	(11,064)	11,064	—
Increase in trade and other payables	183,509	153,853	337,362
Increase in contract liabilities	153,853	(153,853)	—

2.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and other items (for example, contract assets) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognized in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

In addition, the Group has applied hedge accounting first time in accordance with IFRS 9 in the current year.

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.2 IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, January 1, 2018.

	Notes	Financial assets designated at FVTPL RMB'000	Financial assets at FVTPL RMB'000	Amortized cost (previously classified as loans and receivables) RMB'000	Contract assets RMB'000	Deferred tax assets RMB'000	Retained earnings RMB'000
Closing balance at December 31, 2017 — IAS 39		641,333	—	1,913,351	—	—	—
Effect arising from initial application of IFRS 15		—	—	66,697	24,447	—	—
Effect arising from initial application of IFRS 9:							
Reclassification							
From designated at FVTPL	a	(641,333)	641,333	—	—	—	—
Remeasurement							
Impairment under ECL model	b	—	—	(4,653)	(3,816)	871	(7,598)
Opening balance at January 1, 2018		—	641,333	1,975,395	20,631	871	(7,598)

Notes:

(a) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under IFRS 9. As a result, these investments of RMB641,333,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL. There was no impact on the amounts recognized in relation to these assets from the application of IFRS 9.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.2 IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9 (Continued)

Notes: (Continued)

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables and contract assets. The contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis. Trade receivables and contract assets are grouped based on internal credit rating.

ECL for other financial assets at amortized cost mainly comprise of pledged bank deposits, time deposits, bank balances and cash, receivables for purchase of raw materials on behalf of customers and other receivables are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at January 1, 2018, the additional credit loss allowance of RMB8,469,000 has been recognized against retained earnings. The additional loss allowance is charged against the respective asset. The corresponding impact on deferred tax assets of RMB871,000 has also been recognized against retained earnings.

All loss allowances, including contract assets, trade receivables and receivables for purchase of raw materials on behalf of customers as at December 31, 2017 reconciled to the opening loss allowances as at January 1, 2018 are as follows:

	Contract assets RMB'000	Unbilled revenue RMB'000	Trade receivables RMB'000	Receivables for purchase of raw materials on behalf of customers RMB'000	Total RMB'000
At December 31, 2017	—	(7,146)	(10,218)	—	(17,364)
Reclassification	(7,146)	7,146	—	—	—
Amount remeasured through opening retained earnings	(3,816)	—	(3,635)	(1,018)	(8,469)
At January 1, 2018	(10,962)	—	(13,853)	(1,018)	(25,833)

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognized for each of the line item affected. Line items that were not affected by the changes have not been included.

	December 31, 2017 (Audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	**January 1, 2018 (Restated) RMB'000**
Non-current assets				
Deferred tax assets	6,855	—	871	**7,726**
Current assets				
Service work in progress	202,389	(202,389)	—	**—**
Contract costs	N/A	202,389	—	**202,389**
Trade and other receivables	614,302	66,697	(4,653)	**676,346**
Contract assets	N/A	24,447	(3,816)	**20,631**
Financial assets designated as at FVTPL	641,333	—	(641,333)	**—**
Financial assets at FVTPL	N/A	—	641,333	**641,333**
Current liabilities				
Trade and other payables	784,669	(254,746)	—	**529,923**
Contract liabilities	N/A	345,890	—	**345,890**

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended December 31, 2018, movements in working capital have been computed based on opening statement of financial position as at January 1, 2018 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but not yet effective:

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015–2017 Cycle*[1]

1 Effective for annual periods beginning on or after January 1, 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020
5 Effective for annual periods beginning on or after January 1, 2020

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 16 Leases (Continued)

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payment will continue to be presented as investing cash flow in according to the nature as appropriate.

Under IAS 17, the Group has already recognized prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 16 Leases (Continued)

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB239,229,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of under IFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB10,785,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits would be adjusted to amortized cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements under IFRS 16 would result in changes in measurement, presentation and disclosure as indicated above. The management of the Group assessed that such changes would increase the consolidated assets and consolidated liabilities of the Group, but would not result in a significant impact on the financial performance of the Group upon adoption of IFRS 16.

The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elects the modified retrospective approach for the application of IFRS 16 as lessee and will recognize the cumulative effect of initial application to opening retained earnings without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of the Reporting Period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers

Revenue recognition upon application of IFRS 15 in accordance with transitions in note 2

Under IFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

The Group primarily earns revenues by providing research services to its customers through Fee-for-service ("**FFS**") contracts. Contract duration ranges from a few months to years. Under FFS method, the contracts usually have multiple deliverable units, which are generally in the form of technical laboratory reports and/or samples, each with individual selling price specified within the contract. The Group identifies each deliverable unit as a separate performance obligation, and recognizes FFS revenue of contractual elements at the point in time upon finalization, delivery and acceptance of the deliverable units or after the end of a confirmation period.

For the research services provided on a Full-time-equivalent ("**FTE**") basis, the Group provides its customer with a project team of employees dedicated to the customer's studies for a specific period of time and charges the customer at a fixed hourly/daily rate per employee. The Group recognized the FTE services revenue over the service period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Revenue recognition upon application of IFRS 15 in accordance with transitions in note 2 (Continued)

The Group also engages in commercial manufacturing contacts ("**CMO**") by manufacture and sale of drug substance and/or products under customers' specific order. The Group recognized revenue at a point in time upon acceptance of the deliverable drug substance and/or products under customers' specific order.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (i.e. FFS contracts usually have multiple deliverable units, which are generally in the form of technical laboratory reports and/or samples), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer.

If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Contracts with multiple performance obligations (including allocation of transaction price) (Continued)

The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, the Group generally measures its progress using units produced/services transferred to the customer to date (output method). The Group uses the known cost measure of progress when it best depicts the transfer of value to the customer which occurs as the Group incurs costs on its contract, generally related to fixed fee service contracts. The units produced/services transferred to the customer to date measure of progress is generally related to rate per unit contracts or contracts for the delivery of services, as the extent of progress towards completion is measured based on discrete service or time-based increments, such as samples tested or services transferred.

Variable consideration

For contracts that contain variable consideration (usually in the form of a milestone bonus when the service provided to the customer has reached into a certain stage or delivered a certain result), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each Reporting Period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the Reporting Period and the changes in circumstances during the Reporting Period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Costs to fulfil a contract

The Group incurs costs to fulfil a contract under FFS and commercial manufacturing contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant Standards, failing which it recognizes an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is also subject to impairment review.

Revenue recognition prior to application of IFRS 15

The Group recognizes FFS revenues of contractual elements upon finalization, delivery and acceptance of the deliverable units, which is generally in the form of a technical laboratory reports and/or samples. Excess of the amount of revenue recognized over the amount billed on a particular contract is included in trade and other receivables as unbilled revenue. Amounts billed in accordance with pre-agreed payment schedule specified in the contract in advance of the Group fulfilling its contractual obligations and recognizing revenue are recorded in current liabilities as advance from customers. Most contracts are terminable by the customers, with or without prior notice. These contracts often require payment to the Group a fee to compensate costs incurred up to the date of termination or, in some cases, a termination fee. Such payments are included in revenue when earned.

The Group recognizes FTE revenue based on the number of employees assigned to the team and the amount of time they have worked on the project. FTE contracts do not require acceptance by the customer of specified deliverables from the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating lease, are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Leasehold land and building

When the Group makes payments for a property interest which included both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the Reporting Period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rate prevailing at the end of each Reporting Period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Pension obligations

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the schemes. Payments to such retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees (including directors of the Company) are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (equity-settled share-based compensation reserve). At the end of each Reporting Period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled share-based compensation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to employees (Continued)

When the share options are exercised, the amount previously recognized in equity-settled share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in equity-settled share-based compensation reserve will continue to be held in share options reserve.

Equity instruments granted by the then ultimate holding company to employees of the Group

The grant by the then ultimate holding company of equity instruments under its employee stock incentive plan to the employees of the Group (including directors of the Company) is treated as equity-settled share-based payments in the consolidated financial statements. An expense for the grant date fair value of the equity instruments under the employee stock incentive plan is recognized over the vesting period of the instruments, with a corresponding increase in equity. The increase in equity is treated as a deemed capital contribution into the Group and is included in equity-settled share-based compensation reserve.

Restricted share award payment transactions

For shares of the Group granted under Restricted Share Award Scheme ("**Restricted Shares**"), the fair value of the employee services received is determined by reference to the fair value of the Restricted Shares granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (equity-settled share-based compensation reserve). At the end of each Reporting Period, the Group revises its estimates of the number of Restricted Shares that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the estimates, if any, is recognized in the profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity-settled share-based compensation reserve.

When the Restricted Shares vested, the amount previously recognized in share award scheme reserve will be transferred to share premium.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the Reporting Period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each Reporting Period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the Reporting Period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the Reporting Period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Plant and equipment

Plant and equipment other than assets under construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate category of plant and equipment when completed and ready for their intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets other than plant and equipment in the course of construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the Reporting Period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each Reporting Period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Internally-generated intangible asset — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible assets, intangible assets and contract costs

At the end of the Reporting Period, the Group reviews the carrying amounts of its tangible assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually, or when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Before the Group recognizes an impairment loss for assets capitalized as contract costs under IFRS 15, the Group assesses and recognizes any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalized as contract costs is recognized to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognized as expenses. The assets capitalized as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or a cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average method. Net realizable value represents the contracted selling price less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial assets is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortized cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (Continued)

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next Reporting Period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the Reporting Period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in OCI and accumulated in FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity instruments, and will continue to be held in FVTOCI reserve.

Dividends from these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other gains and losses" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets as FVTPL are measured at fair value at the end of each reporting, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses" line item.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2)

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9, including trade receivables, receivables for purchase of raw materials on behalf of customers, contract assets, other receivables, pledged bank deposits and bank balances and cash. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings, estimated based on the financial quality of debtors and historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect the current conditions at the reporting date as well as the forecast of future conditions.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2) (Continued)

(ii) Definition of default (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2) (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables, contract assets, receivables for purchase of raw materials on behalf of customers, other receivables, pledged bank deposits and bank balances and cash are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL (Continued)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, receivables for purchase of raw materials on behalf of customers and contract assets where the corresponding adjustment is recognized through a loss allowance account.

Financial assets are classified into the following specified categories: financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on January 1, 2018)

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on January 1, 2018) (Continued)

(i) Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in note 31(c).

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, time deposits and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of IFRS 9 on January 1, 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the Reporting Period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization;

For certain categories of loans and receivables such as trade receivables, assets that are assessed not to be impaired individually are in addition assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all loans and receivables. For trade receivables, receivables for purchase of raw materials on behalf of customers and service work in progress, the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities at amortized cost

Financial liabilities namely trade and other payables are subsequently measured at amortized cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount of the financial liability on initial recognition. Interest expense is recognized on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the Reporting Period. The resulting gain or loss is recognized in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Cash flow hedges

The effective portion of changes in the fair value of derivatives instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the "other gains and losses" line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future that amount is immediately reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transactions is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumption are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if revision affects both current and future periods.

Critical judgements in applying accounting policies

The following is the critical judgements, apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Judgements in determining the performance obligations and timing of satisfaction of performance obligations

The Group has different contractual arrangements with different customers. In determining the performance obligations and timing of satisfaction of performance obligations, the management of the Company review the contract term of each individual contract. In making their judgments, the directors of the Company consider the detailed criteria for recognition of revenue set out in IFRS 15.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies (Continued)

Performance Obligation Determination:

A performance obligation represents a good and service that is distinct or a series of distinct goods or services that are substantially the same. In certain long-term sales contracts, the Group is required to fulfil multiple promised goods and/or services. In determining performance obligations, the directors of the Company consider whether the nature of the promise, within the context of the contract, is to transfer each of those goods and/or services individually or, instead, to transfer a combined item. Considering those goods and/or services are considered to be distinct, separately identifiable, the directors of the Company concluded those goods and/or services as multiple performance obligations.

Key sources of estimation uncertainty

Provision of ECL for trade receivables and contract assets

The Group uses provision matrix to calculate ECL for trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets and are disclosed in note 31(b).

As at December 31, 2018, the carrying amounts of trade receivables and contract assets are RMB762,858,000 and RMB36,026,000 respectively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Amortization lives and estimated impairment on plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The Group regularly reviews whether there are any indications of impairment and recognizes an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The Group tests for impairment for plant and equipment whenever there is an indication that the asset may be impaired. The recoverable amounts have been determined based on the higher of the fair value less costs of disposal and value in use. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

As at December 31, 2018, the carrying amount of plant and equipment (without impairment loss recognized) was RMB2,903,900,000 (December 31, 2017: RMB1,780,172,000).

Amortization lives and estimated impairment on intangible assets

The Group determines the estimated amortization period for intangible assets with finite useful lives based on the expected useful lives of the assets. The Group will increase the amortization charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The Group regularly reviews whether there are any indications of impairment and recognizes an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The Group tests for impairment for intangible assets with finite useful lives whenever there is an indication that the asset may be impaired. The recoverable amounts have been determined based on the higher of the fair value less costs of disposal and value in use.

As at December 31, 2018, the carrying amount of intangible assets with finite useful lives was RMB331,813,000 (December 31, 2017: nil) and the management concludes there is no impairment indication that the assets may be impaired.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of contract costs

The Group assesses periodically if contract costs may not be recoverable based on an assessment of the remaining amount of consideration the Group expects to receive in exchange of goods or services. Impairment are applied to contract costs where events or changes in circumstances indicate that the remaining amount of consideration to receive less the costs directly relate to providing goods or services that have not been recognized as expense is lower than the carrying amount of contract costs. The remaining amount of consideration to receive has been determined based on the remaining amount of consideration expects to be recognized upon the completion of the contract. Where the expectation is different from the original estimate, such difference will impact the carrying value of contract costs in the year in which such estimate changes.

As at December 31, 2018, the carrying amounts of contract costs was RMB294,569,000 (net of write downs of RMB2,475,000).

Fair value measurements and valuation processes

Certain of the Group's financial assets including financial assets at FVTPL and equity instruments at FVTOCI amounting to RMB55,699,000 and RMB136,578,000 as at December 31, 2018 respectively are measured at fair value with fair values being determined based on unobserved inputs using valuation techniques, judgement and estimation are required in establishing the relevant valuation techniques and relevant inputs thereof. Changes in assumption relating to these factors could affect the reported fair values of these instruments. See note 31 (c) for further disclosures.

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

The Group derives its revenue from the transfer of goods and services at a point in time and over time in the following major service lines:

	2018 RMB'000	2017 RMB'000
Type of goods or services		
Research services		
— Revenue on FFS basis	**2,405,627**	1,570,471
— Revenue on FTE basis	**84,226**	48,358
	2,489,853	1,618,829
Sales of goods		
— Revenue on CMO basis	**44,600**	—
Total	**2,534,453**	1,618,829

	2018 RMB'000	2017 RMB'000
Timing of revenue recognition		
A point in time	**2,450,227**	1,570,471
Over time	**84,226**	48,358
Total	**2,534,453**	1,618,829

5. REVENUE (Continued)

(ii) Transaction price allocated to the remaining performance obligation for contracts with customers

The aggregate amount of the transaction price allocated to performance obligations of goods or services type that are unsatisfied (or partially unsatisfied) are approximately RMB10,799 million as at December 31, 2018 including no variable consideration. The management of the Group expects the transaction price allocated to the unsatisfied contracts will be recognized as revenue with approximately RMB2,391 million within one year, approximately RMB3,614 million in 2–5 years, the remaining approximately RMB4,794 million will be recognized as revenue in 5–10 years from the year ended December 31, 2018.

For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Group) reviews the overall results and financial position of the Group as a whole prepared based on the same accounting policies as set out in note 3. Accordingly, the Group has only one single operating and reportable segment and no further analysis of this single segment is present.

Geographical information

The Group's operations are primarily located in the PRC. An analysis of the Group's revenue from external customers, analyzed by their respective country/region of operation, is detailed below:

	2018 **RMB'000**	2017 RMB'000
Revenue		
— North America	**1,283,935**	907,408
— PRC	**980,024**	552,039
— Europe	**171,664**	65,305
— Rest of the world	**98,830**	94,077
	2,534,453	1,618,829

As at December 31, 2018, the Group's non-current assets (excluding financial instruments, deferred tax assets) located in Ireland amount to RMB549,426,000, the remaining of the non-current assets (excluding financial instruments, deferred tax assets) are primarily located in the PRC.

5. REVENUE (Continued)

(ii) Transaction price allocated to the remaining performance obligation for contracts with customers (Continued)

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	2018 RMB'000	2017 RMB'000
Customer A	**281,281**	N/A*
Customer B	**N/A***	192,689

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the year concerned.

(iii) Performance obligations for contracts with customers

For revenue under FFS model, the directors of the Company have determined that performance obligations are satisfied upon finalization, delivery and acceptance of the deliverable units, which is generally in the form of a technical laboratory report and/or product/samples. The key judgement is that the Group's performance does not create an asset with alternative future use since the Group cannot redirect the asset for use on another customer, but the Group has a present right to payment from the customers for the services performed only at a point in time upon finalization, delivery and acceptance of the deliverable units. Therefore, the directors of the Company have satisfied that the performance obligation of FFS is satisfied at a point in time and recognized FFS revenue at a point in time. The Group's research contracts include payment schedules which require stage payments over the research period once certain specified milestones are reached.

For the services under FTE model, the directors of the Company have assessed that the customers simultaneously receive and consume benefit provided by the Group's performances. Therefore, the management of the Group have satisfied that the performance obligation on FTE services is satisfied over time and recognized FTE revenue over the service period. The customers shall pay the Group a prorated amount for the service based on the fixed rate per employee.

For revenue under CMO model, the directors of the Company have determined that performance obligations are satisfied upon acceptance of the deliverable drug substance and/or products under customers' specific order. Therefore, the directors of the Company have satisfied that the performance obligation of CMO is recognized revenue at a point in time. The Group shall invoice 50% of the price on acceptance of manufacturing orders to clients for products and services upon commencement thereof, this will give rise to contracts liability at the start of a contract.

6. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Bank interest income	**78,394**	3,149
Interest income from time deposits	**—**	5,597
Government grants and subsidies related to		
— Asset *(Note i)*	**2,845**	1,298
— Income *(Note ii)*	**112,978**	24,650
	194,217	34,694

Notes:

(i) The Group has received certain government grants and subsidies to invest in laboratory equipment. The grants and subsidies were recognized in profit or loss over the useful lives of the relevant assets. Details of the grants and subsidies are set out in note 28.

(ii) The government grants have been received for the Group's contribution to the local high-tech industry and economy. These grants are unconditional and accounted for as immediate financial support with neither future related costs expected to be incurred nor related to any assets.

7. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Net foreign exchange gain (loss)	**101,224**	(99,025)
Loss on derivative financial instruments	**(93,942)**	—
Gain on fair value changes from financial assets at FVTPL	**11,170**	6,877
Others	**2,676**	2,285
	21,128	(89,863)

8. FINANCE COST

	2018 RMB'000	2017 RMB'000
Interest expense	**—**	36,292
Interest on finance lease	**—**	476
Less: amounts capitalized	**—**	(1,077)
	—	35,691

9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	2018 RMB'000	2017 RMB'000
Depreciation for plant and equipment	**212,143**	122,748
Less: capitalized in contract costs/service work in progress	**80,580**	35,269
	131,563	87,479
Staff cost (including directors' emoluments):		
— Salaries and other benefits	**688,228**	394,825
— Retirement benefits scheme contributions	**67,806**	51,529
— Retention bonus	**2,113**	—
— Share-based payment expenses	**128,374**	65,076
	886,521	511,430
Less: capitalized in contract costs/service work in progress	**264,353**	119,889
	622,168	391,541
Impairment losses, net of reversal		
— Trade receivables	**60,275**	8,788
— Receivables for purchase of raw materials on behalf of customers	**(4)**	—
— Contract assets/unbilled revenue	**(4,331)**	4,959
	55,940	13,747
Amortization of intangible assets	**9,969**	—
Amortization of prepaid lease payments	**2,238**	—
Auditors' remuneration	**4,591**	3,100
Minimum operating lease payment in respect of rented premises	**54,481**	34,524
Initial public offering expenses (included in other expenses)	**—**	16,143
Write down of inventories (included in cost of services)	**4,041**	2,665
Write down of contract costs (included in cost of services)	**2,475**	—
Loss on disposal of plant and equipment	**1,215**	1,001
Cost of inventories recognized as an expense	**449,306**	303,401

10. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax:		
— the PRC Enterprise Income Tax ("**EIT**")	**133,011**	50,721
— Hong Kong profits tax	**—**	1,633
— the US Federal and State Income taxes	**1,018**	1,173
— the UK Income taxes	**218**	45
(Over) Under provision in prior years:		
— EIT	**(8,098)**	645
Deferred tax:	**126,149**	54,217
— Current year	**(18,892)**	(3,158)
	107,257	51,059

The Company is registered as an exempted company and as such is not subject to Cayman Islands taxation.

On March 21, 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of the group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. No provision for Hong Kong profits tax has been made since the Group did not have any assessable profit arising in Hong Kong for 2018.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiaries is 25%, with the exception of WuXi Biologics Co., Ltd. ("**WuXi Co.**") and WuXi Biologics (Shanghai) Co., Ltd. ("**Shanghai Biologics**") and WuXi Apptec (Suzhou) Testing Technology Co., Ltd. ("**Suzhou Biologics**").

WuXi Co. was accredited as a "High and New Technology Enterprise" on August 5, 2013. In 2016, WuXi Co. renewed its High and New Technology Enterprise status, which has been approved by the relevant government authorities, and it is entitled to a preferential tax rate of 15% for a three-year period commencing from the year of 2016.

10. INCOME TAX EXPENSE (Continued)

Shanghai Biologics was accredited as a High and New Technology Enterprise in November 2016 and therefore is entitled to a one year's exemption from EIT followed by three years of 50% tax reduction with effect from the beginning of 2016 in accordance with Guo Fa No. 40. Accordingly, the applicable EIT rate of Shanghai Biologics for the year ended December 31, 2018 is 12.5% (year ended December 31, 2017: 12.5%).

Suzhou Biologics was accredited as a "High and New Technology Enterprise" on December 12, 2018 and it is entitled to a preferential tax rate of 15% for a three-year period commencing from the year of 2018.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	2018 RMB'000	2017 RMB'000
Profit before tax	**737,722**	303,687
Tax charge at the EIT rate of 25%	**184,431**	75,922
Tax effect of income that is exempt from taxation	**(39,214)**	(300)
Tax effect of expenses not deductible for tax purpose	**31,065**	16,812
(Over) under provision in respect of prior years	**(8,098)**	645
Effect of unused tax losses and other deductible temporary differences not recognized as deferred tax assets	**9,023**	398
Effect of previously unrecognized and unused temporary now recognized as deferred assets	**(548)**	—
Utilization of tax losses previously not recognized as deferred tax assets	**(1,477)**	(2,673)
Tax at concessionary rate	**(64,396)**	(39,858)
Effect of different EIT rate applied to deferred tax and current tax	**503**	412
Effect of different tax rate of operating entities in other jurisdiction	**(4,032)**	(299)
Income tax expense	**107,257**	51,059

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid or payable to the directors and the Chief Executive of the Company (including emoluments for their services as managerial level employees of group entities prior to becoming the directors of the Company) for the service provided to the Group during the years ended December 31, 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Chief Executive and executive director:		
Dr. Zhisheng Chen *(Note i)*		
— director's fee	**—**	—
— salaries and other benefits	**2,438**	1,899
— performance-based bonus	**1,261**	1,188
— retirement benefits scheme contributions	**—**	35
— share-based compensation	**15,823**	20,575
	19,522	23,697
Executive director:		
Dr. Weichang Zhou *(Note ii)*		
— director's fee	**—**	—
— salaries and other benefits	**1,455**	1,530
— performance-based bonus	**668**	802
— retirement benefits scheme contributions	**89**	84
— share-based compensation	**2,416**	3,257
	4,628	5,673

The executive directors' emoluments shown above were for their service in connection with the management of the affairs of the Company and the Group.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

	2018 RMB'000	2017 RMB'000
Non-executive directors:		
Dr. Li		
— director's fee	—	—
— salaries and other benefits	—	—
— performance-based bonus	—	—
— retirement benefits scheme contributions	—	—
— share-based compensation	—	—
	—	—
Mr. Edward Hu		
— director's fee	—	—
— salaries and other benefits	—	—
— performance-based bonus	—	—
— retirement benefits scheme contributions	—	—
— share-based compensation	—	—
	—	—
Mr. Yibing Wu *(Note iii)*		
— director's fee	—	—
— salaries and other benefits	—	—
— performance-based bonus	—	—
— retirement benefits scheme contributions	—	—
— share-based compensation	—	—
	—	—
Mr. Yanling Cao *(Note iii)*		
— director's fee	—	—
— salaries and other benefits	—	—
— performance-based bonus	—	—
— retirement benefits scheme contributions	—	—
— share-based compensation	—	—
	—	—

The non-executive director's emoluments shown above were for their services as directors of the Company or its subsidiaries.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

	2018 RMB'000	2017 RMB'000
Independent non-executive directors:		
Mr. William Robert Keller *(Note iv)*		
— director's fee	**380**	379
— salaries and other benefits	**—**	—
— performance-based bonus	**—**	—
— retirement benefits scheme contributions	**—**	—
— share-based compensation	**—**	—
	380	379
Mr. Teh-Ming Walter Kwauk *(Note iv)*		
— director's fee	**380**	379
— salaries and other benefits	**—**	—
— performance-based bonus	**—**	—
— retirement benefits scheme contributions	**—**	—
— share-based compensation	**—**	—
	380	379
Mr. Wo Felix Fong *(Note iv)*		
— director's fee	**380**	379
— salaries and other benefits	**—**	—
— performance-based bonus	**—**	—
— retirement benefits scheme contributions	**—**	—
— share-based compensation	**—**	—
	380	379

The independent non-executive director's emoluments shown above were for their services as directors of the Company or its subsidiaries.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Notes:

(i) Dr. Zhisheng Chen is the Chief Executive of the Group and his emoluments disclosed above included those for services rendered by him as the Chief Executive.

(ii) Dr. Weichang Zhou was appointed as a director of the Company in May 2016.

(iii) Mr. Yibing Wu and Mr. Yanling Cao were appointed as non-executive directors of the Company in May 2016.

(iv) Mr. William Robert Keller, Mr. Teh-Ming Walter Kwauk and Mr. Wo Felix Fong were appointed as independent non-executive directors of the Company in May 2017.

(v) The performance-based bonus is discretionary based on the Group's financial results and the directors' performance as decided by the management of the Group.

Five highest paid individuals' emoluments

The five individuals with the highest emoluments in the Group include two (2017: two) directors disclosed above. The emoluments of the five highest paid individuals (including directors) for the years ended December 31, 2018 and 2017 were as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	**8,493**	7,826
Performance-based bonus	**3,242**	3,689
Retirement benefits scheme contributions	**179**	203
Share-based compensation	**24,417**	28,117
	36,331	39,835

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Five highest paid individuals' emoluments (Continued)

The emoluments of the five highest paid individuals were within the following bands:

	Number of individuals 2018	Number of individuals 2017
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	1
HK$5,000,001 to HK$5,500,000	**1**	1
HK$6,000,001 to HK$6,500,000	**1**	–
HK$6,500,001 to HK$7,000,000	**–**	1
HK$23,000,001 to HK$23,500,000	**1**	–
HK$27,000,001 to HK$27,500,000	**–**	1
	5	5

During the year ended December 31, 2018, no emoluments (2017: nil) were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company have waived any emoluments during the year ended December 31, 2018 (2017: nil).

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2018 RMB'000	2017 RMB'000
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**630,592**	252,628

	2018	2017
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,210,539,897**	1,074,088,204
Effect of dilutive potential ordinary shares:		
Share options	**101,850,082**	86,267,013
Restricted shares	**1,481,453**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,313,871,432**	1,160,355,217

The computation of diluted earnings per share for the year ended December 31, 2018 does not assume the exercise of certain pre-IPO share options since their exercise prices plus fair value of services yet to be rendered are higher than the average share prices of the Company.

13. PLANT AND EQUIPMENT

	Machinery RMB'000	Furniture fixtures and equipment RMB'000	Transportation equipment RMB'000	Leasehold improvement RMB'000	Construction in progress (or "CIP") RMB'000	Total RMB'000
COST						
At January 1, 2017	566,945	45,243	747	387,346	379,656	1,379,937
Additions	21,912	14,019	—	38,490	672,769	747,190
Adjustment in relation to leased assets (Note)	3,976	(1,245)	—	1,280	—	4,011
Transfer from CIP	446,561	10,308	—	129,555	(586,424)	—
Disposals	(1,536)	(188)	—	—	—	(1,724)
At December 31, 2017	1,037,858	68,137	747	556,671	466,001	2,129,414
Additions	11,355	6,967	—	25,361	1,293,933	1,337,616
Transfer from CIP	428,990	49,907	995	233,966	(713,858)	—
Disposals	(5,123)	(1,015)	(218)	—	—	(6,356)
At December 31, 2018	1,473,080	123,996	1,524	815,998	1,046,076	3,460,674
DEPRECIATION AND IMPAIRMENT						
At January 1, 2017	(152,978)	(13,116)	(298)	(60,775)	—	(227,167)
Provided for the year	(81,518)	(7,645)	(112)	(33,473)	—	(122,748)
Eliminated on disposals	553	120	—	—	—	673
At December 31, 2017	(233,943)	(20,641)	(410)	(94,248)	—	(349,242)
Provided for the year	(142,939)	(13,037)	(155)	(56,012)	—	(212,143)
Eliminated on disposals	3,716	699	196	—	—	4,611
At December 31, 2018	(373,166)	(32,979)	(369)	(150,260)	—	(556,774)
CARRYING VALUES						
At December 31, 2017	803,915	47,496	337	462,423	466,001	1,780,172
At December 31, 2018	1,099,914	91,017	1,155	665,738	1,046,076	2,903,900

Note:

The Group leases from WuXi AppTec (Shanghai) Co., Ltd. ("**WXAT Shanghai**") certain of its machinery, equipment and leasehold improvement on January 1, 2016 under a finance lease. On December 26, 2017, the Group terminated the finance lease agreement and entered into a purchase agreement with WXAT Shanghai to purchase the above-mentioned machinery, equipment and leasehold improvement and a difference between the net book value of these assets and cash consideration paid was recorded.

13. PLANT AND EQUIPMENT (Continued)

The above items of plant and equipment except for construction in progress are depreciated on a straight-line basis after taking into account of the residual value as follows:

Machinery	9%–18% per annum
Furniture, fixtures and equipment	9%–18% per annum
Transportation equipment	18% per annum
Leasehold improvement	Over the shorter of the lease term or ten years

14. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is a summary of the deferred tax balances for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**22,481**	6,855
Deferred tax liabilities	**(2,680)**	(6,817)
	19,801	38

The following are the major deferred tax assets and liabilities recognized and movements thereon before offsetting during the year ended December 31, 2018:

	Deferred revenue RMB'000	**Allowance on inventories and credit losses** RMB'000	**Accrued expenses** RMB'000	**Accelerated tax depreciation** RMB'000	**Total** RMB'000
At January 1, 2017	1,456	985	—	(5,561)	(3,120)
Credited (charged) to profit or loss	1,011	1,755	3,548	(3,156)	3,158
At December 31, 2017	2,467	2,740	3,548	(8,717)	38
IFRS 9 adjustment *(note 2)*	—	871	—	—	871
Credited (charged) to profit or loss	10,916	7,169	2,577	(1,770)	18,892
At December 31, 2018	13,383	10,780	6,125	(10,487)	19,801

14. DEFERRED TAXATION (Continued)

As at December 31, 2018, the Group had unused tax losses of RMB73,490,000 (2017: RMB8,719,000), available to offset against future profits. No deferred tax asset has been recognized in respect of such losses in both 2018 and 2017 due to the unpredictability of future profit streams.

Apart from unused tax losses as mentioned above, at December 31, 2018, the Group had other deductible temporary differences of RMB191,503,000 (2017: RMB61,253,000), available to offset against future profits. As at December 31, 2018, deductible temporary differences of RMB191,503,000 (2017: RMB58,366,000) had been recognized in deferred tax assets, while nil (2017: RMB2,887,000) had been recognized due to the unpredictability of future profit streams.

Balances of deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized due to the unpredictability of future profits stream are as follows:

	2018 RMB'000	2017 RMB'000
Deferred revenue	**—**	2,887
Tax losses	**73,490**	8,719
	73,490	11,606

The Group had unrecognized tax losses of RMB73,490,000 (2017: RMB8,719,000) as at December 31, 2018, of which RMB69,698,000 of the losses arising from subsidiaries located in Hong Kong, Cayman and Ireland will be carried forward indefinitely until it's fully offset. The remaining unrecognized tax losses will be carried forward and expire in years as follows:

	2018 RMB'000	2017 RMB'000
2020	**140**	7,239
2021	**25**	25
2022	**1,455**	1,455
2023	**2,172**	—
	3,792	8,719

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB939,159,000 as at December 31, 2018 (December 31, 2017: RMB449,380,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

15. INTANGIBLE ASSETS

	2018 RMB'000
Cost	
At December 31, 2017	—
Additions	**333,254**
Exchange adjustment	**8,528**
At December 31, 2018	**341,782**
Amortization	
At December 31, 2017	—
Charge for the year	**(9,969)**
At December 31, 2018	**(9,969)**
Carrying Values	
At December 31, 2017	—
At December 31, 2018	**331,813**

On June 25, 2018, the Group has entered into a platform license agreement with Open Monoclonal Technology, Inc. ("**OMT**"), an independent third party not connected to the Group, under which OMT has granted the Group a non-exclusive, non-transferable, non-sublicensable license to use certain animals, namely, OmniRat, OmniMouse and OmniFlic, for the purpose of researching, developing, and making antibodies, for a cash consideration of US$51million (equivalent to approximately RMB341,782,000). The Group has estimated the useful life of this license is 18 years and therefore the license payment is amortized over 18 years on a straight-line basis.

16. PREPAID LEASE PAYMENTS

	2018 RMB'000
At beginning of the year	—
Additions	**173,771**
Released to profit or loss	**(2,238)**
At end of the year	**171,533**
Less: Amount to be amortized within one year	**(2,910)**
Non-current portion	**168,623**

Prepaid lease payments represent the land use rights located in the PRC and Ireland respectively which are released to profit or loss on a straight-line basis over the lease period of 50 years and 999 years in line with land use right certificates. The amount to be amortized within one year is presented as current portion of prepaid lease payments.

17. EQUITY INSTRUMENTS AT FVTOCI

On June 25, 2018, the Group subscribed 19.9% of the equity interest of Tysana Pte. Ltd. ("**Tysana**"), a Singapore corporation, for a cash consideration of US$9,950,000 (equivalent to approximately RMB68,289,000 as at December 31, 2018). Tysana focuses on the business of infectious diseases drug research, development and commercialization in respect of the monoclonal antibodies.

On July 16, 2018, the Group subscribed 19.9% of the equity interest of Privus Biologics, LLC ("**Privus**"), a limited liability company organized under the law of the State of Delaware, U.S.A., with a consideration of US$9,950,000 (equivalent to approximately RMB68,289,000 as at December 31, 2018). Privus focuses on the business of optimizing, manufacturing and developing pharmaceuticals intended for use in the field containing one or more subject antibodies as an active ingredient.

The Group has no controlling power nor significant influence over the management and the operations of Tysana and Privus. At the date of initial recognition, the Group made an irrevocable election to designate these equity instruments as at FVTOCI as the management of the Company believes that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

17. EQUITY INSTRUMENTS AT FVTOCI (Continued)

During the year ended December 31, 2018, the Group managed and evaluated the unlisted investments performance of ordinary shares purchased on a fair value basis in accordance with the Group's investment strategy. As at December 31, 2018, the management of the Company has confirmed with the respective management of Tysana and Privus that there were no significant changes of Tysana and Privus in business and together with the fact that the respective investment dates were close to the year ended December 31, 2018, the directors of the Company are of the opinion that there was no significant fair value change occurred in these FVOCI investments as of December 31, 2018.

Details of the fair value measurement of the equity instrument at FVTOCI are set out in note 31(c).

18. FINANCIAL ASSETS AT FVTPL/DESIGNATED AT FVTPL

	2018 RMB'000	2017 RMB'000
Current assets		
Monetary fund investments *(Note i)*	—	573,378
Financial products *(Note ii)*	—	67,955
	—	641,333
Non-current assets		
Unlisted equity investments *(Note iii)*	**55,699**	—

Notes:

i During 2017, the Group entered into several contracts of funds (the "**Fund**") with a financial institution. The Fund primarily invested in debt securities including but not limited to the US treasury securities, securities issued or guaranteed by the US government or by its agencies, corporate securities and asset-backed securities, with the objective of achieving returns in excess of those achieved by holding a portfolio of the US money market instruments over a comparable period. The entire contracts have been designated as at financial assets at FVTPL on initial recognition. As at December 31, 2017, the fair value of the Fund was US$87,750,000 (equivalent to RMB573,378,000) based on the investment report provided by the financial institution. During 2018, the Group has withdrawn the investment in the Fund in full.

18. FINANCIAL ASSETS AT FVTPL/DESIGNATED AT FVTPL (Continued)

Notes: (Continued)

ii During 2017, the Group also entered into a contract of financial product (the "**Financial Product**") with a bank for a period of six months, which has been designated as at financial assets at FVTPL on initial recognition. The return of the Financial Product was determined by reference to the performance of the underlying instruments in the currency market, the interbank market, the bond market, the security and equity market and the derivative financial assets. The principal of the Financial Product was US$10,400,000 (equivalent to RMB67,955,000) as at December 31, 2017; and the expected return rate stated in the contract was 2.45% per annum. In March 2018, the Group withdrew the Financial Product as it expired.

iii During 2018, the Group entered into an agreement to purchase 429,799 Series Mezzanine 2 Preferred Shares of Inhibrx, Inc. ("**Inhibrx**"), a Delaware corporation, for a cash consideration of US$3,000,000 (equivalent to approximately RMB20,590,000). Inhibrx focuses on the business of delivering optimized, biologic therapeutics to people with life-threatening conditions and building a large and diverse pipeline with the potential to impact cancer, infectious disease and orphan diseases.

On September 10, 2018, the Group entered into an agreement to purchase 481,454 Series C-1 Preferred Shares of Canbridge Pharmaceuticals Inc. ("**Canbridge**"), an exempted company incorporated with limited liability under the laws of Cayman Islands, for a cash consideration of US$5,000,000 (equivalent to approximately RMB34,313,000). Canbridge focuses on the business of developing, selling, or marketing the pharmaceuticals for treatment or prevention of oncology or rare disease indications.

During the year ended December 31, 2018, the Group managed and evaluated the unlisted investment performance of preferred share purchased on a fair value basis in accordance with the Group's investment strategy. Gain on fair value change of RMB796,000 was recognized for the equity instrument in Canbridge, which was backsolved from the most recent transaction price.

Details of the fair value measurement of the financial assets at FVTPL/designated at FVTPL are set out in note 31(c).

18. FINANCIAL ASSETS AT FVTPL/DESIGNATED AT FVTPL (Continued)

Financial assets at FVTPL/designated at FVTPL that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2018 RMB'000	2017 RMB'000
US$	—	641,333

19. OTHER LONG-TERM DEPOSITS

Other long-term deposits represent rental deposits paid under operating leases and deposits paid to guarantee certain milestones of construction projects.

20. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw material and consumables	**227,189**	135,547

The inventories are net of a write-down of approximately RMB6,706,000 as at December 31, 2018 (2017: RMB2,665,000).

21. CONTRACT COSTS

	2018 RMB'000
Costs to fulfil contracts	**294,569**

Impairment allowance of RMB2,475,000 (2017: nil) is charged to the carrying amount of contract costs which has been written off in full as at December 31, 2018.

22. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables		
— related parties	**8,791**	6,425
Less: Allowance for credit losses	**(3)**	—
— third parties	**810,365**	293,650
Less: Allowance for credit losses	**(56,295)**	(10,218)
	762,858	289,857
Unbilled revenue		
— related parties	**—**	1,645
— third parties	**—**	29,948
Less: Allowance for credit losses	**—**	(7,146)
	—	24,447
Receivables for purchase of raw materials on behalf of customers		
— third parties	**87,980**	108,295
Less: Allowance for credit losses	**(1,014)**	—
	86,966	108,295
Advances to suppliers	**18,647**	12,256
Prepayments	**3,153**	927
Other receivables	**24,604**	20,609
Custom duty recoverable *(Note)*	**1,669**	30,285
Value added tax recoverable	**169,338**	127,626
	217,411	191,703
Total trade and other receivables	**1,067,235**	614,302

Details of the trade and other receivables due from related parties are set out in note 36 (2).

22. TRADE AND OTHER RECEIVABLES (Continued)

Note:

WuXi Co. has been recognized by the relevant government authority as a foreign-invested research and development center, which makes it eligible for a waiver of import tax on imported raw materials and equipment. The related import tax has been levied by way of "paid and refund" basis. The amount represents the related import tax paid by WuXi Co. to the PRC Customs which shall be refunded upon the application documents of the import tax refund have been validated by the PRC Customs.

The Group allows a credit period ranging from 10 to 90 days to its customers. The following is an aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice dates, at the end of December 31, 2018:

	2018	2017
	RMB'000	RMB'000
Not past due	**461,772**	186,442
Within 90 days	**236,288**	57,549
91 days to 1 year	**60,556**	45,554
Over 1 year	**4,242**	312
	762,858	289,857

As at December 31, 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB301,086,000 which are past due as at the reporting date. Out of the past due balances, RMB64,798,000 has been past due 90 days or more and is not considered as in default as the amount will be repaid by the customer based on the customer's promise and historical experience. The Group does not hold any collateral over these balances.

As at December 31, 2017, 64% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group.

As at December 31, 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB103,415,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES (Continued)

Aging of trade receivables which are past due but not impaired:

	2017 RMB'000
Within 90 days	57,549
91 days to 1 year	45,554
Over 1 year	312
	103,415

Movement in the allowance of trade receivables for doubtful debts:

	2017 RMB'000
1 January	(3,448)
Impairment losses recognised	(9,755)
Impairment losses reversed	4
Write-offs	2,981
31 December	(10,218)

Movement in the allowance of unbilled revenue for doubtful debts:

	2017 RMB'000
1 January	(3,150)
Impairment losses recognised	(3,996)
Impairment losses reversed	—
Write-offs	—
31 December	(7,146)

Details of impairment assessment of trade receivables and receivables for purchase of raw materials on behalf of customers for the year ended 31 December 2018 are set out in note 31(b).

22. TRADE AND OTHER RECEIVABLES (Continued)

Trade and other receivables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2018 RMB'000	2017 RMB'000
US dollars ("**US$**")	**520,779**	179,964
Euro ("**EUR**")	**—**	3,302
Japanese yen ("**JPY**")	**—**	1,605

23. CONTRACT ASSETS

	31/12/2018 RMB'000	01/01/2018* RMB'000
Contract assets		
— third parties	**42,657**	**29,948**
— related parties	**—**	**1,645**
Less: Allowance for credit losses	**(6,631)**	**(10,962)**
	36,026	**20,631**

* The amounts in this column are after the adjustments from the application of IFRS 9 and 15.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned upon the Group's future performance in achieving specified milestones as stipulated in the contract.

Typical payment terms which impact on the amount of contract assets recognised are as follows:

— Revenue on FFS basis

The Group's research contracts include payment schedules which require stage payments over the research period once certain specified milestones are reached. The Group requires certain customers to pay 20%-50% of total contract value as project start-up cost as part of its credit risk management policies.

The Group classifies these contract assets as current because the Group expects to realize them in their normal operating cycle.

Details of the impairment assessment of contract assets for the year ended December 31, 2018 are set out in note 31(b).

23. CONTRACT ASSETS (Continued)

Contract assets that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2018 RMB'000	2017 RMB'000
US dollars ("**US$**")	**22,967**	—

24. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS/TIME DEPOSITS

Bank balances and cash of the Group comprised of cash and short term bank deposits with an original maturity of three months or less. The short term bank deposits carry interests at market rates which ranged from 0.001% to 3.55% per annum as at December 31, 2018 (2017: 0.001% to 1.650%).

Certain deposits are pledged to banks as collateral for the issue of letter of credit by the bank in connection with the purchase of raw materials, and plant and equipment by the Group.

For the year ended December 31, 2018, the Group performed impairment assessment on pledged bank deposits and bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Bank balances and cash, pledged bank deposits and time deposits that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2018 RMB'000	2017 RMB'000
US$	**708,093**	1,386,109
Hong Kong dollars ("**HK$**")	**44,934**	4,603
EUR	**6,461**	—

25. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables		
— related parties	**9,143**	—
— third parties	**211,840**	137,293
	220,983	137,293
Other payables and accrual		
— related parties	**—**	13,919
— third parties	**107,855**	50,927
	107,855	64,846
Advances from customers		
— related parties	**—**	11,064
— third parties	**—**	243,682
	—	254,746
Option fee received *(Note)*	**27,453**	26,136
Payable for purchase of plant and equipment	**210,052**	213,022
Salary and bonus payables	**142,161**	85,240
Other taxes payable	**3,275**	3,386
	711,779	784,669

Note:

The amount represents a US$4 million non-refundable option fee received from an independent third party for granting the party an option to purchase certain of the Group's assets. In December 2015, an agreement (hereafter referred to as the "**Option to Purchase Agreement**") was entered into between the Company and a Company's strategic customer, pursuant to which the Company granted the customer an option to acquire certain of its biologics manufacturing facilities. The total consideration for the option was US$8 million, 50% of which had been paid in March 2016 and the remaining 50% would be payable upon the Company completing certain required documentations. Pursuant to the Option to Purchase Agreement, the customer has a right to exercise the purchase option on or before June 30, 2020, which upon mutual agreement between the Company and the customer, may be extended until no later than June 30, 2023. Should the customer choose to exercise the purchase option, it has to pay the Company an acquisition price for the biologics manufacturing facilities determined on the basis as specified in the Option to Purchase Agreement; and the Company has to fulfil certain stipulated conditions including completing the transfer of the title to the biologics manufacturing facilities to the customer or its designated person, and obtaining all necessary regulatory approvals and consents in relation to the transfer of the facilities. The option fee would then be applied for part payment for the manufacturing facilities acquisition price. Should the customer choose to terminate the agreement without exercising the purchase option, the customer could apply the option fee to pay for any service fees due and payable to the Group for services rendered by the Group, up to a maximum of 50% of the option fee paid.

25. TRADE AND OTHER PAYABLES (Continued)

Details of the trade and other payables due to related parties are set out in note 36 (2).

Payment terms with suppliers are mainly on credit within 90 days from the time when the goods are received from the suppliers. The following is an age analysis of trade payables presented based on invoice date at the end of the Reporting Period:

	2018 RMB'000	2017 RMB'000
Within three months	**192,189**	129,184
Over three months but within one year	**27,721**	6,660
Over one year but within two years	**1,073**	1,449
	220,983	137,293

Trade and other payables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2018 RMB'000	2017 RMB'000
US$	**154,276**	294,453
EUR	**12,187**	17,191
Swiss Francs ("**CHF**")	**5,258**	6,362

26. CONTRACT LIABILITIES

	31/12/2018 RMB'000	**01/01/2018* RMB'000**
Contract liabilities	**499,743**	**345,890**

* The amounts in this column are after the adjustments from the application of IFRS 15.

Revenue of RMB303,337,000 was recognized during the year ended December 31, 2018 that was included in the contract liabilities at the beginning the year of 2018.

The Group classifies these contract liabilities as current because the Group expects to realize them in their normal operating cycle.

26. CONTRACT LIABILITIES (Continued)

Typical payment terms which impact on the amount of contract liabilities recognized are as follows:

— Revenue on FFS basis

The Group requires certain customers to pay 20%-50% of total contract value as project start-up cost as part of its credit risk management policies. The advance payment schemes result in contract liabilities which represent the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

— Revenue on CMO basis

The Group shall invoice client for products and services upon commencement thereof, this will give rise to contracts liability at the start of a contract. The Group typically invoices 50% of the price on acceptance of manufacturing orders to commence work.

Contract liabilities that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2018 RMB'000
US$	**359,038**
EUR	**650**

27. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Assets		Liabilities	
	December 31, 2018 RMB'000	December 31, 2017 RMB'000	**December 31, 2018 RMB'000**	December 31, 2017 RMB'000
Derivatives not under hedge accounting				
Foreign currency forward contracts	**—**	—	**14,010**	—
Less: current portion	**—**	—	**14,010**	—
Non-current portion	**—**	—	**—**	—

	Assets		Liabilities	
	December 31, 2018 RMB'000	December 31, 2017 RMB'000	**December 31, 2018 RMB'000**	December 31, 2017 RMB'000
Derivatives under hedge accounting				
Foreign currency forward contracts				
— Cash flow hedges	**16,721**	—	**5,058**	—
Less: current portion	**6,874**	—	**4,981**	—
Non-current portion	**9,847**	—	**77**	—

27. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

Derivatives not under hedge accounting

During the year ended December 31, 2018, the Group entered into several USD/RMB foreign currency forward contracts with banks in order to manage the Group's currency risk. Under the foreign currency forward contracts, the Group will pay to the bank notional amount of USD and receive from the bank an amount in RMB equal to the product of the relevant notional amount of USD and the relevant forward rate as specified within the respective contracts.

Except for above, the Group also entered into USD/RMB foreign currency forward contract of European knockout with conditional payment structured forward ("**European Knockout**") with conditional payment structured forward with certain banks. The strike price of the forward contract is 6.5250 (the "**Strike Price**") and the European Knockout barrier is 6.1900 (the "**KO Barrier**") which means the Group is entitled to the right of selling USD to the bank at the Strike Price when the mid spot exchange rate of USD/RMB on the relevant expiration date is above the KO Barrier. The bank shall pay the Group one additional payment of RMB65,000 if the mid spot exchange rate of USD/RMB on the relevant expiration date is at or below the KO Barrier.

Extracts of major terms of foreign currency forward contracts on a net settlement basis from the respective contracts as at December 31, 2018 are as follows:

	Average strike/ forward rate	Foreign currency USD'000	Total outstanding notional value RMB'000	Fair value liabilities RMB'000
Sell USD				
Less than 3 months	6.4600–6.5990	21,000	137,959	6,474
4 to 6 months	6.4807–6.7260	24,000	159,904	5,214
7 to 12 months	6.7260	15,000	100,890	2,322

The Group did not elect to adopt hedge accounting for these contracts and therefore, for year ended December 31, 2018, losses under such forward foreign exchange contracts of RMB93,942,000 was recognized in other gains and losses.

27. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

Derivatives under hedge accounting

The Group entered into forward foreign exchange contracts with banks to manage its foreign exchange rate risk arising from anticipated future foreign currency sales transactions up to 18 months, in particular, the exchange rate between USD and RMB, which are designated as cash flow hedges. The major terms of these contracts on a net settlement basis as at December 31, 2018 presented are as follows:

	Average strike/ forward rate	Foreign currency USD'000	Total outstanding notional value RMB'000	Fair value assets RMB'000
Sell USD				
Less than 3 months	6.8925–6.9022	24,000	165,535	654
4 to 6 months	6.8743–6.9175	48,000	331,044	1,169
7 to 12 months	6.8861–7.0410	135,600	938,132	5,051
13 to 18 months	6.9282–7.0033	140,000	973,500	9,847

	Average strike/ forward rate	Foreign currency USD'000	Total outstanding notional value RMB'000	Fair value liabilities RMB'000
Sell USD				
Less than 3 months	6.7490–6.8715	44,000	301,527	941
4 to 6 months	6.8510–6.8715	18,000	123,380	450
7 to 12 months	6.7750–6.8820	61,000	416,069	3,590
13 to 18 months	6.8820	14,000	96,348	77

As at December 31, 2018, the aggregate amount of gains after tax under foreign exchange forward contracts recognized in other comprehensive income and accumulated in the cash flow hedging reserve relating to the exposure on anticipated future sales transactions denominated in USD is RMB11,701,000. It is anticipated that the sales will take place within next 18 months at which time the amount deferred in equity will be reclassified to profit or loss.

As at December 31, 2018, no ineffectiveness has been recognized in profit or loss.

27. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

Derivative financial instruments that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2018 RMB'000	2017 RMB'000
Assets		
US$	**16,721**	—
Liabilities		
US$	**19,068**	—

28. DEFERRED REVENUE

	2018 RMB'000	2017 RMB'000
Assets related government grants	**77,408**	19,711

Movements of assets related government grants:

	RMB'000
At January 1, 2017	12,559
Government grants received	8,450
Credited to profit or loss *(note 6)*	(1,298)
At December 31, 2017	19,711
Government grants received	60,542
Credited to profit or loss *(note 6)*	(2,845)
At December 31, 2018	77,408

During the year ended December 31, 2018, the Group received government grants of RMB60,542,000 (2017: RMB8,450,000) for its investment in laboratory equipment. The grants were recognized in profit or loss over the useful lives of the relevant assets.

29. SHARE CAPITAL

	Number of shares	Amount US$
ORDINARY SHARES OF US$0.000025 EACH AUTHORIZED:		
At January 1, 2017, December 31, 2017 and December 31, 2018	2,000,000,000	50,000

ISSUED AND FULLY PAID:

	Number of shares	Amount US$	Shown in the financial statements as RMB'000
At January 1, 2017	964,000,000	24,100	158
Issue of shares by initial public offerings	170,118,057	4,253	29
Issue of shares by exercise of over-allotment option	28,947,000	724	5
At December 31, 2017	1,163,065,057	29,077	192
Issue of new shares *(Note)*	57,000,000	1,425	9
Exercise of pre-IPO share options	5,876,333	147	1
At December 31, 2018	1,225,941,390	30,649	202

Note:

On March 29, 2018, the Company issued 57,000,000 new ordinary shares of US$0.000025 each through placement to certain independent third parties at a price of HK$70.00 per share. The net cash proceeds was HK$3,966,060,000 (equivalent to approximately RMB3,186,690,000), after deducting the issue cost of HK$23,940,000 (equivalent to approximately RMB19,236,000).

All the shares issued by the Company ranked pari passu in all respects.

30. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts.

31. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortized cost/Loans and receivables (including bank balances and cash)	**4,985,689**	1,913,351
Financial assets at FVTPL	**55,699**	641,333
Equity instruments at FVTOCI	**136,578**	—
Derivative financial assets	**16,721**	—
Financial liabilities		
Derivative financial liabilities	**19,068**	—
Financial liabilities at amortized cost	**495,186**	403,050

b. Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and other receivables, contract assets, financial assets at FVTPL, equity instruments at FVTOCI, derivative financial assets, pledged bank deposits, bank balances and cash, derivative financial liabilities and trade and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk

The Group's activities expose it primarily to currency risk, interest rate risk and other price risk. There had been no change in the Group's exposure to these risks or the manner in which it managed and measured the risks during the year ended December 31, 2018.

Currency risk

Certain group entities have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain of the Group's bank balances and cash, time deposits, pledged bank deposits, trade and other receivables, trade and other payables are denominated in currencies other than the functional currency of the relevant group entities and expose to such foreign currency risk. The carrying amounts of relevant group entities' foreign currency denominated monetary assets and liabilities other than their functional currency are disclosed in the respective notes.

The Group mainly exposes to foreign currency of US$, EUR, JPY, HK$ and CHF. During the year ended December 31, 2018, the Group entered into several USD/RMB foreign currency forward contracts with banks in order to manage the Group's currency risk associated with anticipated sales transactions up to 18 months (see note 27 for details).

The carrying amounts of the Group's foreign currency denominated monetary assets (trade and other receivables, pledged bank deposits, time deposits, bank balances and cash and derivative financial assets) and liabilities (trade and other payables and derivative financial liabilities) at the end of the Reporting Period are as follows:

	2018 RMB'000	2017 RMB'000
Assets		
US$	**1,268,560**	1,566,073
EUR	**6,461**	3,302
JPY	**—**	1,605
HK$	**44,934**	4,603
Liabilities		
US$	**532,382**	294,453
EUR	**12,837**	17,191
CHF	**5,258**	6,362

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US$, the foreign currency with which the Group may have a material exposure. No sensitivity analysis has been disclosed for the EUR, JPY, HK$ and CHF denominated assets/liabilities as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the Reporting Period for a 5% change in foreign currency rate. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% against US$. For a 5% weakening of RMB against US$, there would be an equal and opposite impact on profit.

	2018 RMB'000	2017 RMB'000
Impact on profit or loss		
US$	**(31,457)**	(52,891)

Forward foreign exchange contracts

In addition, the Group has elected hedge accounting for certain foreign exchange forward contracts as set out in Note 27 since July 1, 2018. As at December 31, 2018, the Group has assessed the hedge effectiveness and concluded that all the hedge contracts are highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk and therefore there is no effect on profit or loss as the fair value change of the hedging instruments is recorded in other comprehensive income for the year ended December 31, 2018. As at December 31, 2018, the Group has elected not to adopt hedge accounting for certain foreign exchange forward contracts, that the fair value change of those hedging instruments are amounted to RMB14,055,000. The Group has assessed that the exposure of 5% foreign exchange rate changes on those hedging instruments not under hedge accounting is insignificant.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits (see note 24 for details). The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 24 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

The Group fully repaid the bank borrowings during the year ended December 31, 2018 and is not exposed to cash flow interest rate risk in relation to bank borrowings as at December 31, 2018.

Other price risk

The Group is exposed to other price risk through its equity instruments measured at FVTOCI and FVTPL. The management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. The directors of the Company consider that the exposure of other price risk arising from equity instruments measured at FVTOCI and FVTPL is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of each Reporting Period, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of the financial position.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

In order to minimize credit risk, the Group has developed and maintained the Group's credit risk grading to categorize exposures according to their degree of risk of default. Management uses publicly available financial information and the Group's own historical repayment records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Receivables for purchase of raw materials on behalf of customers/other financial assets
Low risk	The counterparty has a low risk of default and does not have any past due amounts	Lifetime ECL — not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit-impaired	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets which are subject to ECL assessment:

2018	Internal credit rating	12-month or lifetime ECL RMB'000	Gross carrying amount RMB'000
Financial assets at amortized cost			
Pledged bank deposits	Low risk	12-month ECL	25,197
Bank balances	Low risk	12-month ECL	4,084,395
Other receivables	Low risk	12-month ECL	24,604
Receivables for purchase of raw materials on behalf of customers	note 1	12-month ECL	87,980
Trade receivables	note 2	Lifetime ECL (provision matrix)	819,156
Other items			
Contract assets	note 2	Lifetime ECL (provision matrix)	42,657

Notes:

1. For receivables for purchase of raw materials on behalf of customers, the Group has applied the 12-month ECL approach.

2. For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix and categorizes its customers into three types: strategic type customers, normal risk type customers and high risk type customers, based on financial quality of debtors and historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Provision matrix — internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired).

Gross carrying amount

Internal credit rating	Average loss rate	Trade receivables RMB'000	Contract assets RMB'000
Grade A: Low risk	0.08%	643,606	25,350
Grade B: Doubtful	3.39%	123,841	11,177
Grade C: Loss	100.00%	51,709	6,130
		819,156	42,657

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management of the Company to ensure relevant information about specific debtors is updated.

As at 31 December 2018, the Group provided RMB56,298,000 and RMB6,631,000 impairment allowance for trade receivables and contract assets respectively, based on the provision matrix.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Provision matrix — internal credit rating (Continued)

The following table shows the movement in lifetime ECL that has been recognized for trade receivables and contract assets under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under IAS 39	—	(17,364)	(17,364)
Adjustment upon application of IAS 39	(7,451)	—	(7,451)
As at January 1, 2018 — As restated	(7,451)	(17,364)	(24,815)
Changes due to financial instruments recognized as at January 1:			
— Impairment losses recognized	—	(22,296)	(22,296)
— Impairment losses reversed	7,105	3,948	11,053
— Write-offs	—	17,830	17,830
New financial assets originated or purchased	(4,744)	(39,957)	(44,701)
As at December 2018	(5,090)	(57,839)	(62,929)

The following table shows the reconciliation of loss allowances that has been recognized for receivables for purchase of raw materials on behalf of customers.

	12m ECL RMB'000
As at 31 December 2017 under IAS 39	—
Adjustment upon application of IAS 39	(1,018)
As at January 1, 2018 — As restated	(1,018)
Changes due to financial instruments recognized as at January 1:	
— Impairment losses reversed	959
New financial assets originated or purchased	(955)
As at December 2018	(1,014)

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Provision matrix — internal credit rating (Continued)

For the purposes of impairment assessment, other current assets are considered to have low credit risk. Accordingly, for the purpose of impairment assessment for these financial assets, the loss allowance is measured at an amount equal to 12-month ECL. In determining the ECL for other financial assets at amortized cost, the directors of the Company have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of the other financial assets at amortized cost occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the 12-month ECL allowance is insignificant at the end of each Reporting Period.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash and unused banking facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities and derivative instrument. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the Reporting Period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual settlement dates as the management consider that the settlement dates are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average Interest rate	On demand or less than one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2018						
Trade and other payables	N/A	495,186	—	—	495,186	495,186
Derivative — net settlement						
Foreign exchange forward contracts		4,981	77	—	5,058	5,058

	Weighted average Interest rate	On demand or less than one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2017						
Trade and other payables	N/A	403,050	—	—	403,050	403,050

31. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the Reporting Period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments (Continued)

Financial assets/ financial liabilities	Fair value as at December 31, 2018	Fair value as at December 31, 2017	Fair value hierarchy	Valuation technique and key inputs
Financial assets designated at FVTPL	N/A	Funds: RMB573,378,000	Level 3	Discounted cash flows. Key unobservable inputs: (1) expected yields of debt instruments invested by the financial institution (2) a discount rate that reflects the credit risk of the financial institution
Financial assets designated at FVTPL	N/A	Financial Product: RMB67,955,000	Level 3	Discounted cash flows. Key unobservable inputs: (1) expected yields of underlying instruments invested by the bank (2) a discount rate that reflects the credit risk of the bank
Financial assets at FVTPL	Equity Instruments: RMB20,590,000	N/A	Level 2	Most recent transaction price (Note)
Financial assets at FVTPL	Equity Instruments: RMB35,109,000	N/A	Level 3	Backsolve from most recent transaction price
Equity instruments at FVTOCI	Equity Instruments: RMB136,578,000	N/A	Level 2	Most recent transaction price (Note)
Foreign currency forward contracts classified as derivative financial assets and liabilities at FVTPL	Derivative financial liabilities: RMB14,010,000	N/A	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of the banks.
Foreign currency forward contracts classified as derivative financial assets and liabilities at FVTOCI	Derivative financial assets: RMB16,721,000 Derivative financial liabilities: RMB5,058,000	Derivative financial assets/liabilities: nil	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of the banks.

Note:

The investments were acquired in June and July 2018 respectively. No significant milestone was achieved since the acquisition. Hence, the most recent transaction price, which is the cost of acquisition, is used as the best estimate of the fair value.

There is no transfer between level 2 and level 3 during the period. The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

31. FINANCIAL INSTRUMENTS (Continued)

c. Fair value measurements of financial instruments (Continued)

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL RMB'000
At January 1, 2018	641,333
Total gains — in profit or loss	11,170
Purchases	827,195
Disposals	(1,444,708)
Exchange adjustments	119
At December 31, 2018	35,109

32. OPERATING LEASES

The Group as Lease

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**40,327**	21,876
In the second to fifth year inclusive	**124,648**	75,254
Over five years	**74,254**	65,468
	239,229	162,598

Operating lease payments represent rentals payable by the Group for certain of its office premises, factories and laboratories. Leases are for a term of 8 to 10 years and rentals are fixed for a range of 8 to 10 years.

33. CAPITAL COMMITMENTS

The Group had capital commitments for equipment purchase and building construction under non-cancellable contracts as follows:

	2018 RMB'000	2017 RMB'000
Contracted but not provided for	**1,366,689**	285,697

34. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiaries are members of the state-managed retirement benefits schemes operated by government. The subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to profit or loss in respect of the above-mentioned schemes amounted to approximately RMB67,806,000 for the year ended December 31, 2018 (the year ended December 31, 2017: RMB51,529,000).

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both the cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Loan from a related party RMB'000	Payable to related parties in relation to Group Reorganization RMB'000	Bank borrowings RMB'000	Payable in relation to listing of Company shares RMB'000	Obligations under a finance lease RMB'000	Total RMB'000
At January 1, 2017	183,417	84,317	905,000	—	41,026	1,213,760
Financing cash flows *(Note)*	(183,889)	(83,325)	(928,323)	(136,750)	(11,345)	(1,343,632)
Terminate of finances lease	—	—	—	—	(30,157)	(30,157)
Interest expense	—	—	36,292	—	476	36,768
Transaction costs attribute to issue of new shares (included in share premium)	—	—	—	136,750	—	136,750
Foreign exchange translation	472	(992)	(12,969)	—	—	(13,489)
At December 31, 2017	—	—	—	—	—	—
Financial cash flows	—	—	—	—	—	—
At December 31, 2018	—	—	—	—	—	—

Note:

The financing cash flows of bank borrowings represent the proceeds from and repayment of bank borrowings and interest paid in the consolidated statement of cash flows. The financing cash flows of obligations under a finance lease represent the repayment of obligations under a finance lease to a related party and the finance lease charges paid.

36. RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transactions and balances disclosed in notes 22, 23, 25 and 26, the Group had the following significant transactions and balances with related parties during the year ended December 31, 2018:

(1) Related party transactions:

(a) Provision of research and development service to related parties

	2018 RMB'000	2017 RMB'000
WuXi MedImmune Biopharmaceutical Co., Ltd. ("**WX MedImmune**")	**19,763**	10,928
Adagene (Suzhou) Limited ("**Adagene**")	**—**	26,656
Huahui Anjian (Beijing) Biologics Technology Co., Ltd. ("**Huahui Anjian**")	**—**	16,692
JW Therapeutics (Shanghai) Co., Ltd.	**391**	292
	20,154	54,568

Note:

WX MedImmune is a joint venture held by WuXi AppTec (Hong Kong) Limited ("**WAHK**"), an indirect wholly-owned subsidiary of WuXi PharmaTech.

As at December 31, 2017, Adagene and Huahui Anjian were associates of WuXi AppTec (Shanghai) Co., Ltd. ("**WXAT Shanghai**"). Adagene and Huahui Anjian were no longer associates of WXAT Shanghai since January 2018, thereafter they were no longer related parties of the Group.

JW Therapeutics (Shanghai) Co., Ltd. is a joint venture held by WAHK.

(b) Provision of premises sub-leasing services

	2018 RMB'000	2017 RMB'000
Abgent Biotechnology (Suzhou) Co., Ltd	**—**	431
WuXi AppTec (Suzhou) Co., Ltd. ("**AppTec Suzhou**")	**—**	399
	—	830

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(1) Related party transactions: (Continued)

(c) Testing service received

	2018 RMB'000	2017 RMB'000
WuXi NextCode Genomics (Shanghai) Co., Ltd.	**622**	—
WuXi AppTec, Inc.	**8,998**	16,124
AppTec Suzhou	**—**	8
	9,620	16,132

(d) Purchase of materials, plant and equipment

	2018 RMB'000	2017 RMB'000
WuXi AppTec Sales LLC ("**AppTec Sales**")	**—**	732
WXAT Shanghai	**—**	71,156
	—	71,888

(e) Labor secondment service received

	2018 RMB'000	2017 RMB'000
WXAT Shanghai	**—**	711
WuXi AppTec UK Ltd. ("**WuXi AppTec UK**")	**—**	611
	—	1,322

(f) Premises leasing services received

	2018 RMB'000	2017 RMB'000
WXAT Shanghai	**1,431**	1,431

The transactions above were carried out in accordance with the terms agreed with the counterparties.

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(2) Related party balances:

As at December 31, 2018, the Group had balances with related parties as follows:

	2018 RMB'000 Non-interest bearing	2017 RMB'000 Non-interest bearing
Amounts due from related parties		
Trade related		
WX MedImmune	**8,791**	1,328
Less: Allowance for credit losses	**(3)**	—
Adagene	**—**	2,099
Huahui Anjian	**—**	4,509
JW Therapeutics (Shanghai) Co., Ltd.	**—**	134
	8,788	8,070
Amounts due to related parties		
Trade related		
WXAT Shanghai	**8,894**	—
Adagene	**—**	3,049
Huahui Anjian	**—**	8,015
JW Therapeutics (Shanghai) Co., Ltd.	**249**	—
	9,143	11,064
Non-trade related		
Huahui Anjian	**—**	13,919
	—	13,919

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(2) Related party balances: (Continued)

Maximum outstanding balance during the year ended December 31, 2018 of non-trade related amounts due from related parties are as follows:

	2018 RMB'000 Maximum outstanding balance during the year	2017 RMB'000 Maximum outstanding balance during the year
Amounts due from related parties		
Non-trade related		
WX MedImmune	**—**	2,812

All the above balances with related parties are unsecured, interest free and repayable on demand.

Except for WX MedImmune, Adagene, Huahui Anjian and JW Therapeutics, whose relationship with the Group have been disclosed previously, all of the other above mentioned related parties are considered to be related to the Group because they are the fellow subsidiaries of the Group under the common control of the Controlling Shareholders.

(3) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management of the Group during the years ended December 31, 2018 were as follows:

	2018 RMB'000	2017 RMB'000
Director's fee	**1,140**	1,137
Salaries and other benefits	**10,840**	8,964
Performance-based bonus	**4,162**	4,010
Retirement benefits scheme contributions	**245**	267
Share-based compensation	**25,914**	28,117
	42,301	42,495

The remuneration of key management is determined with reference to the performance of the individuals and market trends.

37. SHARE-BASED COMPENSATION

Equity instruments granted by WuXi PharmaTech to employees of the Group

WuXi PharmaTech was once listed on the New York Stock Exchange and used to have an employee stock incentive plan ("**WuXi PharmaTech Stock Units and Options**"). Pursuant to the WuXi PharmaTech Stock Units and Options, certain directors of the Company and employees of the Group were issued shares of WuXi PharmaTech which are restricted in that these shares are subject to vesting term of one to five years ("**WX RSUs**"). The share restriction will be released when vested.

WuXi PharmaTech was privatized and delisted from the New York Stock Exchange on December 10, 2015, and was taken control by New WuXi Life Science Holdings Limited ("**Life Science Holdings**") which is a company controlled by the Controlling Shareholders. As part of the privatization process, the terms and conditions of WuXi PharmaTech Stock Units and Options were modified.

Under the modified WuXi PharmaTech Stock Units and Options, the total number of the outstanding WX RSUs remained unchanged, but all outstanding WX RSUs as at December 10, 2015 would be settled by a cash consideration based on the closing price of WuXi PharmaTech on December 10, 2015 (US$5.75 per share). Part of the cash consideration was paid out immediately to some of the designated employees ("**Designated Employees**") of the Group holding outstanding WX RSUs as their WX RSUs were deemed to be immediately vested. For the other remaining employees of the Group ("**Non-designated Employees**") holding outstanding WX RSUs, an escrow arrangement was made by Life Science Holdings to put aside the cash consideration in an escrow account and the cash consideration would be paid out to the Non-designated Employees when the original vesting conditions of the WX RSUs are met.

Because the fair values of the outstanding WX RSUs under both the original and modified WuXi PharmaTech Stock Units and Options as measured at the date of modification are determined to be the same, therefore, the outstanding WX RSUs would continue to be measured at the original grant-date fair value. For the Designated Employees, because their outstanding WX RSUs were deemed to be immediately vested, the Group recognized the share-based compensation expense related to this acceleration of vesting immediately in the profit and loss of the year ended December 31, 2015. For the Non-designated Employees, the Group continued to recognize the corresponding share-based compensation expense of their outstanding WX RSUs in the profit and loss of the Group over the original vesting periods.

For the years ended December 31, 2018, the Group recognized RMB2,495,000 (December 31, 2017: RMB6,183,000) share-based compensation expense in relation to WuXi PharmaTech Stock Units and Options.

37. SHARE-BASED COMPENSATION (Continued)

Pre-IPO Share Option Scheme

The Company's Pre-IPO Share Option Scheme was adopted pursuant to resolutions passed on January 5, 2016 for the primary purpose of attracting, retaining and motivating employees and directors. Under the Pre-IPO Share Option Scheme, the directors of the Company may grant up to 144,600,000 share options to eligible employees, including the directors of the Company and its subsidiaries, to subscribe for shares in the Company. Grantee accepting an option grant offered by the Company has to sign an acceptance letter and pay to the Company an amount of HK$1.00 as consideration for the grant.

(1) As of December 31, 2018, pre-IPO share options granted to the employees of the Group and directors of the Company are as follows:

Date of grant	Number of options	Exercise price per share
January 7, 2016	89,364,668	US$0.50
March 28, 2016	2,412,750	US$0.50
August 10, 2016	5,729,313	US$0.66
November 11, 2016	6,321,000	US$0.79
March 15, 2017	20,970,000	US$1.02
May 12, 2017	3,804,000	US$1.80

(2) Each option granted under the Pre-IPO Share Option Scheme can only be exercised in the following manners (each date on which any portion of option granted shall be vested is hereinafter referred to as a "**Vesting Date**" and each tranche on which any portion of option granted shall be vested is hereinafter referred to as a "**Tranche**"):

Tranche	Vesting Date
twenty percent (20%) of the shares subject to an option so granted	second (2nd) anniversary of the offer date for an Option
twenty percent (20%) of the shares subject to an option so granted	third (3rd) anniversary of the offer date for an Option
twenty percent (20%) of the shares subject to an option so granted	fourth (4th) anniversary of the offer date for an Option
forty percent (40%) of the shares subject to an option so granted	fifth (5th) anniversary of the offer date for an Option

37. SHARE-BASED COMPENSATION (Continued)

Pre-IPO Share Option Scheme (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Share Option Scheme during the years ended December 31, 2018 and 2017:

Option batch	Outstanding as at January 1, 2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at December 31, 2018
January 7, 2016	**81,281,882**	**—**	**4,995,983**	**173,640**	**76,112,259**
March 28, 2016	**1,414,750**	**—**	**102,475**	**36,000**	**1,276,275**
August 10, 2016	**5,570,313**	**—**	**470,275**	**93,600**	**5,006,438**
November 11, 2016	**5,575,000**	**—**	**307,600**	**235,400**	**5,032,000**
March 15, 2017	**20,048,000**	**—**	**—**	**200,500**	**19,847,500**
May 12, 2017	**3,758,000**	**—**	**—**	**40,000**	**3,718,000**
	117,647,945	**—**	**5,876,333**	**779,140**	**110,992,472**
Exercisable at the end of the year	**—**				**12,353,416**
Weighted average exercise price (US$)	**0.65**	**—**	**0.53**	**0.81**	**0.66**

Option batch	Outstanding as at January 1, 2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at December 31, 2017
January 7, 2016	83,509,994	—	—	2,228,112	81,281,882
March 28, 2016	2,412,750	—	—	998,000	1,414,750
August 10, 2016	5,709,313	—	—	139,000	5,570,313
November 11, 2016	6,045,000	—	—	470,000	5,575,000
March 15, 2017	—	20,970,000	—	922,000	20,048,000
May 12, 2017	—	3,804,000	—	46,000	3,758,000
	97,677,057	24,774,000	—	4,803,112	117,647,945
Exercisable at the end of the year	—				—
Weighted average exercise price (US$)	0.53	1.14	—	0.65	0.65

37. SHARE-BASED COMPENSATION (Continued)

Pre-IPO Share Option Scheme (Continued)

The estimated fair value of the Pre-IPO share options granted were approximately USD20,489,000, USD555,000, USD1,773,000, USD2,227,000, USD9,430,000 and USD2,974,000 for the January 7, 2016, March 28, 2016, August 10, 2016, November 11, 2016, March 15, 2017 and May 12, 2017 grants, respectively. The fair value was calculated using the Binomial model. The major inputs into the model are as follows:

Grant date	January 7, 2016	March 28, 2016	August 10, 2016	November 11, 2016	March 15, 2017	May 12, 2017
Share price (US$)	0.48	0.48	0.65	0.75	0.95	1.65
Exercise price (US$)	0.50	0.50	0.66	0.79	1.02	1.80
Expected volatility	40.80%	40.80%	40.92%	40.87%	40.65%	40.46%
Expected life (years)	10	10	10	10	10	10
Risk-free interest rate	2.92%	2.92%	2.72%	2.83%	3.39%	3.67%
Forfeiture rate	7.70%	7.70%	7.70%	7.70%	7.70%	7.70%

Share price is determined as the total fair value of the Company's equity divided by the total number of shares, assuming the allotment of shares as disclosed in Note 29 has been effective on January 1, 2016. To determine the grant date fair values of the Company's equity prior to the Company's Initial Public Offering on May 31, 2017, the Company used primarily the discounted cash flow method under the income approach, using cash flow projections based on financial forecasts approved by management covering a five-year period as appropriate and a discount rate of 13%. Cash flow beyond that five-year period has been extrapolated using a steady 5% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates. The result from the income approach was cross checked with the market approach, which incorporates certain assumptions, including the market performance of comparable listed companies, as well as the financial results and growth trends of the Company, to derive the total equity of the Group.

The risk-free interest rate was based on market yield rate of China government bonds with the term corresponding to the contractual life of the options. Expected volatility was determined by using the historical volatility of the comparable companies. Changes in variables and assumptions may result in changes in the fair values of the share options.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognized total expense of approximately RMB50,515,000 for the year ended December 31, 2018 (December 31, 2017: RMB58,893,000) in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was HK$66.28 (2017: nil).

37. SHARE-BASED COMPENSATION (Continued)

Restricted Share Award Scheme

On January 15, 2018, the Company adopted the Restricted Share Award Scheme for the primary purpose of (i) recognize the contributions by certain employee of the Group (the "Selected Participants"); (ii) encourage, motivate and retain the Selected Participants, whose contributions are beneficial to the continual operation, development and long-term growth of the Group; and (iii) provide additional incentive for the Selected Participants to achieve performance goals, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the Selected Participants to the shareholders of the Company through ownership of Shares. The total number of the restricted shares underlying all grants made pursuant to the Restricted Share Award Scheme shall not exceed three percent (i.e. 34,953,032 shares) of the issued share capital of the Company as at the adoption date.

The Company will issue and allot to trustee new shares under the general mandate granted by the shareholders of the Company from time to time. The new shares so issued will be held on trust until the end of each vesting period and will be transferred to the Selected Participants upon satisfaction of the relevant original vesting conditions.

The fair value of the restricted shares awarded was determined based on the market value of the Company's shares at the grant date.

(1) As of December 31, 2018, the restricted share granted to the employees of the Group and directors of the Company are as follows:

Date of grant	Number of restricted shares	Fair value per share
January 15, 2018	3,122,240	HK$55.00
March 20, 2018	1,846,677	HK$75.70
June 13, 2018	784,946	HK$88.50
August 21, 2018	1,339,787	HK$70.50
November 20, 2018	1,026,230	HK$65.55

37. SHARE-BASED COMPENSATION (Continued)

Restricted Share Award Scheme (Continued)

(2) Each restricted share granted under the Restricted Share Award Scheme can only be vested in the following manners (each date on which any portion of restricted share granted shall be vested is hereinafter referred to as a "Vesting Date" and each tranche on which any portion of restricted share granted shall be vested is hereinafter referred to as a "Tranche"):

Tranche	Vesting Date
twenty percent (20%) of the restricted shares so granted	second (2nd) anniversary of the grant date for an restricted share
twenty percent (20%) of the restricted shares so granted	third (3rd) anniversary of the grant date for an restricted share
twenty percent (20%) of the restricted shares so granted	fourth (4th) anniversary of the grant date for an restricted share
forty percent (40%) of the restricted shares so granted	fifth (5th) anniversary of the grant date for an restricted share

Set out below are details of the movements of the outstanding restricted shares granted under the Restricted Share Award Scheme during the year ended December 31, 2018:

Option batch	Outstanding as at January 1, 2018	Granted during the year	Vested during the year	Forfeited during the year	Outstanding as at December 31, 2018
January 15, 2018	—	3,122,240	—	343,580	2,778,660
March 20, 2018	—	1,846,677	—	95,794	1,750,883
June 13, 2018	—	784,946	—	43,244	741,702
August 21, 2018	—	1,339,787	—	13,727	1,326,060
November 20, 2018	—	1,026,230	—	4,859	1,021,371
	—	8,119,880	—	501,204	7,618,676
Weighted average fair value per share (HK$)	—	66.84	—	62.37	67.13

The Group recognized total expense of approximately RMB75,364,000 for the year ended December 31, 2018 (December 31, 2017: nil) in relation to restricted shares granted by the Company under the Restricted Share Award Scheme.

38. DETAILS OF SUBSIDIARIES

The direct and indirect interests in the following subsidiaries held by the Company during the years ended December 31, 2018 and 2017 are as follows:

Name of subsidiaries	Place of Incorporation/ operation, date of incorporation	Authorized share capital/Registered capital	Paid up capital	Attributable equity interests held by the Company as at December 31		Principal activities
				2018 %	2017 %	
Directly held:						
WuXi Biologics Investment Limited (formally known as "Global Bond Investments Limited.") ("**Biologics Investment**")	Hong Kong November 18, 2010	Not applicable	RMB2,065,376,000	**100**	100	Investment holding
WuXi Biologics Ireland Limited ("**Biologics Ireland**")	Ireland March, 2018	Not applicable	—	**100**	—	Sales and marketing services in Europe
無錫明德生物醫藥有限公司* (WuXi Medi Biologics, Inc.)#	The PRC September 26, 2016	US$20,000,000	—	**100**	100	Development of, and the provision of consultation services in relation to the biopharmaceutical technology
WuXi Biologics HealthCare Venture (Cayman) Inc.	Cayman Islands April 10, 2018	Not applicable	—	**100**	—	Investment holding
WuXi Biologics HealthCare Venture Hong Kong Holding Limited	Hong Kong April 25, 2018	Not applicable	—	**100**	—	Investment holding
Indirectly held:						
無錫藥明康德企業管理有限公司* (WuXi Biologics Holdings Co., Ltd.)#	The PRC August 14, 2014	RMB951,180,000	RMB951,180,000	**100**	100	Investment holding
無錫藥明生物技術股份有限公司* (WuXi Biologics Co., Ltd)# ("**WuXi Co.**")	The PRC May 25, 2010	RMB4,915,770,000	RMB2,015,770,000	**100**	100	Development of, and the provision of consultation services in relation to the biopharmaceutical technology
WuXi Biologics (Hong Kong) Limited	Hong Kong May 12, 2014	Not applicable	HK$1	**100**	100	International sales contracting service
蘇州藥明康德檢測檢驗有限責任公司* (WuXi Apptec (Suzhou) Testing Technology Co., Ltd.)# ("**Suzhou Biologics**")	The PRC May 30,2012	RMB42,860,000	RMB42,860,000	**100**	100	Testing and development of testing technologies
上海藥明生物技術有限公司* (WuXi Biologics (Shanghai) Co., Ltd.)# ("**Shanghai Biologics**")	The PRC January 6, 2015	RMB130,000,000	RMB130,000,000	**100**	100	Research and development in relation to biologics
WuXi Biologics USA, LLC. ("**USA Biologics**")	The United States of America April 21, 2016	US$100	US$100	**100**	100	Sales and marketing services in US

38. DETAILS OF SUBSIDIARIES (Continued)

Name of subsidiaries	Place of Incorporation/ operation, date of incorporation	Authorized share capital/Registered capital	Paid up capital	Attributable equity interests held by the Company as at December 31		Principal activities
				2018 %	2017 %	
WuXi Biologics UK Ltd. ("**UK Biologics**")	The United Kingdom December 2, 2016	Pound Sterling 1,000	Pound Sterling 1,000	**100**	100	Sales and marketing services in Europe
上海藥明康德生物醫藥有限公司* (WuXi Biopharmaceuticals (Shanghai) Co., Ltd)#	The PRC April 7, 2017	US$50,000,000	RMB180,341,000	**100**	100	Production and sales of medicals, and provision of services in relation to the biopharmaceutical technology
成都藥明生物技術有限公司* (WuXi Biologics (Chengdu) Co., Ltd)#	The PRC December 4, 2017	US$80,000,000	RMB179,340,000	**100**	100	Research and development in relation to biologics
上海藥明海德生物科技有限公司* (WuXi Vaccines Co., Ltd.)#	The PRC August 1, 2018	RMB500,000,000	RMB2,000,000	**70**	—	Biologics manufacturing service
無錫藥明偶聯生物技術有限公司* (WuXi Biologics Conjugation Co., Ltd.)# ("**Biologics Conjugation**")	The PRC March 13, 2018	US$20,000,000	US$16,000,000	**100**	—	Biologics discovery, development and manufacturing service
河北藥明生物技術有限公司* (WuXi Biologics (Hebei) Co., Ltd.)#	The PRC June 19, 2018	US$17,000,000	—	**100**	—	Biologics discovery, development and manufacturing service
WuXi Biologics HealthCare Venture (Cayman)	Cayman Islands May 29, 2018	Not applicable	—	**100**	—	Investment holding

English name is for identification purpose only.
* They are enterprises established in the People's Republic of China.

39. FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
Non-current Assets		
Investments in subsidiaries	**2,288,456**	97,209
Amounts due from subsidiaries	**—**	1,245,753
Derivative financial assets	**7,211**	—
	2,295,667	1,342,962
Current Assets		
Other receivables and prepayments	**4,301**	1,054
Amounts due from subsidiaries	**1,429,652**	1,118,857
Financial assets at FVTPL	**—**	573,378
Time deposits	**—**	98,013
Bank balances and cash	**3,275,568**	323,073
Derivative financial assets	**3,465**	—
	4,712,986	2,114,375
Current Liabilities		
Trade and other payables	**41,719**	30,288
Amounts due to subsidiaries	**2,883**	25,268
Derivative financial liabilities	**4,351**	—
	48,953	55,556
Net Current Assets	**4,664,033**	2,058,819
Total Assets Less Current Liabilities	**6,959,700**	3,401,781
Non-current Liabilities		
Derivative financial liabilities	**77**	—
Net Assets	**6,959,623**	3,401,781
Capital and Reserves		
Share capital	**202**	192
Reserves	**6,959,421**	3,401,589
Total Equity attributable to the Owners of the Company	**6,959,623**	3,401,781

40. RESERVES MOVEMENT OF THE COMPANY

The movement of the reserves of the Company are as follows:

	Share premium RMB'000	Equity-settled share-based compensation reserve RMB'000	Accumulated profit (loss) RMB'000	Total reserves RMB'000
At January 1, 2017	—	38,308	(37,744)	564
Loss for the year	—	—	(94,023)	(94,023)
Share premium	3,436,155	—	—	3,436,155
Recognition of equity-settled share-based compensation	—	58,893	—	58,893
At December 31, 2017	3,436,155	97,201	(131,767)	3,401,589
Total comprehensive income for the year	—	—	225,739	225,739
Share premium	3,206,214	—	—	3,206,214
Recognition of equity-settled share-based compensation	—	125,879	—	125,879
At December 31, 2018	**6,642,369**	**223,080**	**93,972**	**6,959,421**

41. INVESTMENTS IN SUBSIDIARIES

	2018 RMB'000	2017 RMB'000
Unlisted shares, at cost *(Note i)*		
Biologics Investment	**2,065,376**	8
Deemed capital contributions to *(Note ii)*:		
WuXi Co.	**92,225**	32,221
Shanghai Biologics	**120,276**	61,330
USA Biologics	**4,513**	1,424
Suzhou Biologics	**4,389**	1,811
UK Biologics	**838**	415
Biologics Ireland	**641**	—
Biologics Conjugation	**198**	—
	2,288,456	97,209

41. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

(i) The amount represents the cost of investment amounting to HK$2,357,198,000 (equivalent to approximately RMB2,065,376,000) in Biologics Investments, a wholly owned subsidiary of the Company incorporated in Hong Kong.

(ii) The amounts represent the equity-settled share-based compensation in respect of the respective share options granted by the Company to certain employees of the specified subsidiaries for employees' services rendered to the respective subsidiaries under the Company's Pre-IPO Share Option Scheme as disclosed in note 37. Since the subsidiaries have no obligation to reimburse such expense, the amounts are treated as deemed capital contribution by the Company to the subsidiaries and included in the Company's cost of investments in subsidiaries.

42. SUBSEQUENT EVENTS

The Group has the following events taken place subsequent to December 31, 2018:

On January 2, 2019, the Group entered into an agreement to purchase 1,719,197 Series Mezzanine 2 Preferred Shares of Inhibrx, Inc, in addition to Mezzanine 2 Preferred Shares obtained during the year ended December 31, 2018, for a cash consideration of US$12,000,000 (equivalent to approximately RMB82,358,000).

On February 1, 2019, the Group entered into an agreement to purchase 481,454 Series C-3 Preferred Shares of Canbridge Pharmaceuticals Inc., in addition to C-1 Preferred Shares obtained during the year ended December 31, 2018, for a cash consideration of US$5,000,000 (equivalent to approximately RMB34,313,000).

Definitions

"AGM"	annual general meeting of the Company
"Articles of Association"	the articles of association of the Company (as amended from time to time) adopted on June 13, 2017
"Audit Committee"	the audit committee of the Board
"Biologics Holdings"	WuXi Biologics Holdings Limited, a company incorporated under the laws of the British Virgin Islands on December 17, 2015 with limited liability and a controlling shareholder of the Company
"Board"	the board of Directors of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"cGMP"	Current Good Manufacturing Practice regulations, regulations enforced by the Food and Drug Administration of the United States on pharmaceutical and biotech firms to ensure that the products produced meet specific requirements for identity, strength, quality and purity
"Chairman"	the Chairman of the Board
"China" or "the PRC"	the People's Republic of China excluding, for the purpose of this report, Hong Kong, Macau Special Administrative Region and Taiwan
"Company" or "WuXi Biologics"	WuXi Biologics (Cayman) Inc. (藥明生物技術有限公司*), an exempted company incorporated in the Cayman Islands with limited liability on February 27, 2014
"Controlling Shareholders"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, includes the Founding Individuals, Biologics Holdings, G&C Limited, G&C I Limited, G&C III Limited, G&C V Limited, G&C VI Limited, G&C VII Limited, G&C IX Limited, G&C Partnership L.P. Group & Cloud Limited, i-growth Ltd, I-Invest World Ltd and New WuXi ESOP L.P.
"Director(s)"	the director(s) of the Company
"EU"	a politico-economic union of 28 member states that are located primarily in Europe
"Founding Individuals"	Dr. Ge Li, Dr. Ning Zhao, Mr. Xiaozhong Liu and Mr. Zhaohui Zhang
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"HKEX"	Hong Kong Exchanges and Clearing Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IND"	investigational new drug, an experimental drug for which a pharmaceutical company obtains permission to ship across jurisdictions (usually to clinical investigators) before a marketing application for the drug has been approved
"Life Science Holdings"	New WuXi Life Science Holdings Limited, a company incorporated under the laws of the Cayman Islands on July 2, 2015 with limited liability, which holds 100% issued share capital of Life Science Limited
"Life Science Limited"	New WuXi Life Science Limited, a company incorporated under the laws of the Cayman Islands on July 2, 2015 with limited liability, which holds 100% issued share capital of WuXi PharmaTech
"Listing" or "IPO"	the listing of the Shares on the Main Board of the Stock Exchange on June 13, 2017
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"NYSE"	the New York Stock Exchange
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company with effect from January 5, 2017, and amended on August 10, 2017, the principal terms of which are summarized in "Statutory and General Information — E. Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus
"Prospectus"	the prospectus issued by the Company dated May 31, 2017
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the one-year period from January 1, 2018 to December 31, 2018
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of China
"Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company with effect from January 15, 2018

Definitions

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	ordinary share(s) in the capital of the Company with nominal value of US$0.000025 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S." or "U.S.A"	the United States of America
"U.S. dollar(s)" or "US$" or "USD"	United States dollar(s), the lawful currency of the United States of America
"U.S. FDA" or "FDA"	The Food and Drug Administration of the United States of America
"Written Guidelines"	the Guidelines for Securities Transactions by Directors adopted by the Company
"WuXi Biopharma"	WuXi AppTec Biopharmaceuticals Co., Ltd. (無錫藥明康德生物技術股份有公司), a company incorporated in the PRC on May 25, 2010 and an indirect wholly-owned subsidiary of the Company. WuXi Biopharma changed name to WuXi Biologics Co., Ltd. (無錫藥明生物技術股份有限公司) in 2018.
"WuXi AppTec"	WuXi AppTec Co., Ltd. (無錫藥明康德新藥開發股份有限公司), a company incorporated in the PRC on December 1, 2000 and the shares of which are listed on Shanghai Stock Exchange (Stock code: 603259) and the Main Board of the Stock Exchange (Stock code: 2359). It is regarded as an associate of the Founding Individuals and hence a connected person of the Company
"WuXi PharmaTech"	WuXi PharmaTech (Cayman) Inc., a company incorporated under the laws of the Cayman Islands on March 16, 2007 with limited liability. Its shares were listed on the NYSE (stock code: WX), and were delisted from the NYSE on December 10, 2015
"WX MedImmune"	WuXi MedImmune Biopharmaceutical Co. Ltd (無錫藥明利康生物醫藥有限公司), a company incorporated in the PRC on September 5, 2013, which is a wholly owned subsidiary of WuXi MedImmune Biopharmaceutical Co. Limited
"WXAT Shanghai"	WuXi AppTec (Shanghai) Co., Ltd. (上海藥明康德新藥開發有限公司), a company incorporated in the PRC on April 2, 2002 and a wholly-owned subsidiary of WuXi AppTec

In this annual report, unless otherwise indicated, the terms "associate", "associated corporation", "connected person", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules.