

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

INTERIM REPORT 2018

WuXi Biologics
Global Solution Provider

*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. Yong Tong
Ms. Cheng Pik Yuk

REGISTERED OFFICE

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG LEGAL ADVISER

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AUDITOR

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STOCK CODE

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Financial Highlights

	Six months ended June 30,		
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	Change (%)
Operating results			
Revenue	1,054,385	654,040	61.2%
Gross profit	414,718	264,269	56.9%
Profit before tax	285,075	116,193	145.3%
Net profit	249,570	92,197	170.7%
Adjusted net profit ⁽¹⁾	296,673	152,793	94.2%
Profitability			
Gross margin (%)	39.3%	40.4%	
Net profit margin (%)	23.7%	14.1%	
	As at June 30, 2018 RMB'000 (Unaudited)	As at December 31, 2017 RMB'000 (Audited)	Change (%)
Financial position			
Total assets	8,578,757	4,848,962	76.9%
Total equity	7,519,556	4,024,360	86.9%
Total liabilities	1,059,201	824,602	28.4%
Cash and cash equivalents	4,371,148	503,881	767.5%

⁽¹⁾ Excluding impacts from share-based compensation, foreign exchange gains or losses and Listing expenses.

Corporate Profile

The Group is a global leading open-access biologics technology platform company offering end-to-end solutions for biologics discovery, development and manufacturing. Biologics are a subset of pharmaceuticals and are revolutionizing the treatment of diseases in many major therapeutic areas globally. The Group's end-to-end service platform enables it to provide service offerings covering the entire biologics development process as well as customized solutions to its customers according to their respective service requirements at any stage of the biologics development process.

The biologics development process typically spans five stages: (i) drug discovery, (ii) pre-clinical development, (iii) early-phase (phases I & II) clinical development, (iv) late-phase (phase III) clinical development, and (v) commercial manufacturing. Services required for the biologics development process can be grouped into two categories: (1) pre-IND services, which include services provided during the first two stages of the biologics development process, and (2) post-IND services, which include services provided during the remaining three stages of the biologics development process.

The Group's business model is built upon a "Follow-the-Molecule" strategy: its customers' demand for its services typically increases as their biologics advance through the biologics development process and ultimately to commercial manufacturing. Consequently, the Group's revenue from each integrated project typically increases as the project advances.

Management Discussion and Analysis

Business Review

During the Reporting Period, the Group continued to implement its “Follow-the-Molecule” strategy and enhanced efficiency in various business segments based on the principle of customer first and the highest standards of IP protection system. As at June 30, 2018, the Group had a total of 187 integrated projects, which means for each integrated project the Group provides services and achieves revenue across different divisions/departments and at various stages of the biologics development process. This number of integrated projects represents an increase of 39.6% as compared to 134 projects as of June 30, 2017. The number of early-phase (phase I & II) clinical development projects achieved a robust growth by an increase of 122.9% from 35 as at June 30, 2017 to 78 as at June 30, 2018. As more and more late-phase (phase III) clinical development projects were launched, the Group continued to gain more market share globally and take advantage of the pharmaceutical industries market growth opportunity.

The Group’s revenue for the six months ended June 30, 2018 reached RMB1,054.4 million, representing an increase of 61.2% as compared to the same period of 2017. The Group realized phenomenal growth in total backlog, which comprised both service backlog and upcoming potential milestone fees. The service backlog increased steadily by 27.4% from approximately US\$419.0 million for the six months ended June 30, 2017 to approximately US\$534.0 million for the six months ended June 30, 2018, and the upcoming potential milestone fees surged tremendously from approximately US\$33.0 million for the six months ended June 30, 2017 to approximately US\$1,248.0 million for the six months ended June 30, 2018. The service backlog represents the amount which the Group has contracted but yet to perform. The 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 stages of drug development.

For the six months ended June 30, 2018, the Group achieved great success in progressing projects from pre-IND stage to post-IND stage. As at June 30, 2018, 98 projects were in pre-clinical development stage and 78 projects were in early-phase (phase I & II), out of which 43 projects were added to early-phase stage. The number of late-phase (phase III) projects also increased from 6 as at June 30, 2017 to 10 as at June 30, 2018. The first commercial manufacturing project has commenced production at the Wuxi site (Manufacturing 1, “**MFG1**”). **MFG1** is the first U.S. FDA-certified cGMP biologics manufacturing facility in China. This milestone fully validated the Company’s global quality assurance program and its pioneering use of disposable bioreactors for commercial manufacturing.

Management Discussion and Analysis

The following table sets forth the status of the on-going integrated projects of the Group as at June 30, 2018:

Biologics development process stage	Number of on-going integrated projects⁽¹⁾	Typical duration	Typical Service Revenue⁽²⁾
Pre-IND			
– Drug discovery	—	2 years	US\$1.5-2.5 mm
– Pre-clinical development	98	2 years	US\$4-6 mm
Post-IND			
– Early-phase (phases I & II) clinical development	78	3 years	US\$4-6 mm
– Late-phase (phase III) clinical development	10	3-5 years	US\$20-50 mm
– Commercial manufacturing	1	Annually	US\$50-100 mm ⁽³⁾
Total	187		

Notes:

- (1) Integrated projects are projects that required the Group to provide service 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 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.

During the Reporting Period, the Group continued to diversify its customer base, which included leading global pharmaceutical companies as well as virtual, start-up companies and small-to-medium sized biotechnology companies. As at June 30, 2018, the Group had worked with 13 out of the 20 largest pharmaceutical companies in the world as measured by their respective pharmaceutical sales in 2017. The Group provided services to 168 customers for six months ended June 30, 2018, compared with 151 customers for the six months ended June 30, 2017. The average revenue per customer among the top ten customers grew 54.1% from RMB39.4 million for the six months ended June 30, 2017 to RMB60.7 million for the six months ended June 30, 2018, thus supporting the Group’s “Follow-the-Molecule” strategy. The Group believes that continued cooperation and commitment with its existing customers could allow it to further enhance its value chain and capture the growing market opportunity in the future.

Management Discussion and Analysis

In January 2018, 5 internationally-recognized scientists, entrepreneurs and visionary thinkers were appointed as the members of the Company's newly formed Scientific Advisory Board ("SAB"). The SAB will support the Company'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 ultimately benefiting patients worldwide.

On March 6, 2018, the Company's partner (**TaiMed**) received U.S. FDA's approval for Ibalizumab (**Trogarzo™**) and the Company became one of the biologics development and manufacturing service providers who have obtained the U.S. FDA cGMP manufacturing approval, thus officially initiating the Group's first commercial manufacturing project and validating the Company's single-source integrated service model. During the Reporting Period, the Company completed several GMP batches of Trogarzo™ drug substance ("DS") and drug product ("DP"). It is the first commercial manufacturing project of the Company and showcases the success of the "Follow-the-Molecule" strategy.



To realize its globalization strategy, the Group successively announced new capacity expansion plans in China and globally to enable both local and overseas partners to expedite the development of biologics. This will be the start and integral part of the Group's globalization strategy to ensure that biologics are manufactured by the Group with highest quality standards to benefit patients worldwide through a robust supply chain network.

Our Facilities

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

Management Discussion and Analysis

Wuxi Site

The Wuxi site houses part of our clinical and commercial manufacturing facilities, and also provides services such as assay, formulation and process development and 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 conjugate (“**ADC**”).

The Group’s Manufacturing 2 (“**MFG2**”) site began cGMP biologics manufacturing in December 2017. The site utilizes fourteen 2,000L-capacity and two 1,000L-capacity disposable bioreactors primarily dedicated to manufacturing of existing late-phase projects or future commercial products.

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 subsequently has commenced to manufacture commercial products since the medicine’s approval by the U.S. FDA in March 2018.

On May 18, 2018, the Group started construction of the WuXi Biologics Life Science and Technology Park and held the ground breaking ceremony in Wuxi. The park will be one of the world’s largest integrated centers for the research, development and manufacturing of biologics. The gross floor area of WuXi Biologics Life Science and Technology Park is approximately 66 acres (equivalent to approximately 266,660 square meters) and the site will become the Group’s global headquarters for integrated R&D, manufacturing, training, international cooperation and exchange and business support.

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, cell line engineering and development, assay, formulation and process development, assay and process validation, product analytical characterization, and cGMP cell banking.

The R&D team in the Shanghai site continues to improve and expand the scope of services, capabilities and capacities leveraging the booming growth of the antibody therapeutics market. The Company updated various technology platforms to help its customers to improve their products, starting from studies that require milligram levels of proteins or antibodies for early stage product evaluation to gram level quantities required for critical druggability and developability studies as well as purification, formulation and analytical method development to support early Chemical, Manufacturing and Control (“**CMC**”) activities. The Group has also developed 253 cell lines for therapeutic protein purpose and 103 cell-based bioassays thus becoming one of the world’s largest cell culture development laboratories.

MFG3, the new facility for clinical manufacturing at the Shanghai site with total bioreactor capacity of 7,000L and both next-generation fed-batch and perfusion lines, will double the Group’s existing cGMP capacity for clinical trial material and thus allows the Group to concurrently run 10 GMP campaigns of different products to enable its global customers and accelerate their R&D process.

Management Discussion and Analysis

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.

The Suzhou site has optimized internal operations and management during the Reporting Period and combined with recent laboratory expansions, further shortened the delivery time of projects for the Group's clients and completed multiple virus clearance validation and critical cell line characterization studies required for projects applying for product registration.

Research and Development ("R&D")

During the Reporting Period, the Group continuously focused on (i) developing next generation technologies to continue to enhance our single-source integrated services, in particular next generation mAb discovery platform, next generation production cell line platform, novel ADC linker and payload system and continuous biologics manufacturing technologies; (ii) improving the quality and efficiency of the services and costs control and (iii) further improving the existing human antibody, bispecific antibody and nanobody/VHH antibody discovery technologies. Through R&D activities, the Group generates proprietary technologies, which enable it to receive milestone and royalty fees from customers utilizing such technologies.

For the six months ended June 30, 2018, the R&D expenditure was RMB56.2 million, which was 5.3% of the Company's revenue. The R&D team of the Company has over 190 scientists, many of whom have multiple years of biologics discovery experience at multinational pharmaceutical companies.

The Company's R&D team is committed to our mission of enabling our partners to address unmet medical needs both at home and abroad and our goal to strengthen our innovation capabilities, by adopting the approach of (i) acquiring advanced technologies and (ii) developing novel discovery technologies via internal research and development.

The Company hopes to continuously enhance operational efficiency, continue to resource and build our integrated service capabilities and capacities and strive for excellence and ongoing innovation of the technology platform, which has ensured that the Company can provide optimal technical solutions according to different demands of customers to greatly accelerate the R&D process of novel biologics, while the excellent quality of novel biologics has also greatly reduced future R&D risks of customers.

Management Discussion and Analysis

Sales and Marketing

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

The multichannel marketing approach involves both academic and sales presence at various global industry trade conferences. In the first half 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 drug development efforts. The Group also attended more regional venues like BioEurope, BioKorea and CPhI Japan and attended or presented its various platform technologies at technology-centric conferences dedicated to biologics development and manufacturing, including the Bioprocess International West Conference, Biologics Manufacturing Asia and PEGS (Protein Engineering Summit).

To enhance its brand recognition and promote its brand, the Group creates publicity by placing advertisements through various industry-leading print and digital publications and social media, such as Biopharm International and Bioprocess International, and highly-trafficked blogs like the Cell Culture Dish. The Group also takes advantage of webinars and white papers to carry out its marketing initiatives. For example, a white paper written by one of the Group's key scientist discussing the industries' use of continuous bioprocessing technologies and another covering the Group's "Scale-out" GMP manufacturing strategy helped solidify the Group as technical leaders in the bioprocessing field. In addition, a series of bioprocessing educational videos were created and promoted to establish our technical team as experts in the CMC and manufacturing fields that comprise biologics development. Moreover, by consistently utilizing social media outlets such as LinkedIn and WeChat, we continuously publicize our business, major milestones, technologies, recruitment and training videos to enhance the Company's awareness to a larger market.

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.

Management Discussion and Analysis

Quality Assurance

The Group is committed to ensuring and maintaining the highest standard of regulatory compliance while providing high quality services and products that meet customers' needs. The quality assurance department's 155 employees implement our well-established quality system, supervise the daily quality operations and ensure GMP compliance within the manufacturing environments.

During the U.S. FDA's PLI in August 2017, both drug substance and drug product facilities passed the inspection with no critical observations, which validated that the Group has established a global quality standard.

In January 2018, Dr. Chiang Syin joined the Group as Chief Quality Officer and is responsible for the Group's global quality management system, Quality Assurance, Quality Control and Regulatory Affairs. Dr. Syin has 30 years' experiences in U.S. FDA regulatory review and cGMP certification of biological products and biological medicines. In April 2018, Dr. Gang Wang, another former FDA inspector, joined the Group as Vice President of Quality, reporting to Dr. Chiang Syin. Dr. Wang worked for the U.S. FDA and China Drug Administration ("NMPA") (formerly China Food and Drug Administration ("CFDA")) for 13 years and was a peer-review expert on cGMP and manufacturing of biologics, with particular expertise in cellular and gene therapy products. Their leadership will bring the Group's quality and compliance management system to an even higher level.

Capacity Expansion Plan

The Group's increasing late-phase projects, long-term globalization strategy and a growing global demand has led the Group not only to expand capacity at our existing sites in China, but also to build and diversify both globally and regionally. The Group's well-planned capacity expansions will also lay a solid foundation for the Group to sustain its favourable position in biologics industry and continue to seize emerging opportunities from the biologics outsourcing market. In the first half of 2018, the Group approved the following rapid capacity expansion plans:

Factory No.	Designed Capacity	Location	Usage
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	5,000L fed-batch/perfusion	Shijiazhuang	Clinical/Commercial
MFG10	4,500L fed-batch/perfusion	Singapore	Clinical/Commercial
MFG11	4,500L fed-batch/perfusion	Worcester, US	Clinical/Commercial

Management Discussion and Analysis

Most of the new capacity expansion plans will start in 2018. Once implemented, the Group will maintain more than 220,000L manufacturing bioreactor capacity across four countries and thus offer a robust global supply chain system for our clients.



These new sites will enable the Group to continue to implement the “Follow-the-Molecule” and “globalization” strategies and maintain fast-track growth compared to its competitive peers. Accordingly, the Group will be able to establish comprehensive capabilities to realize the full drug development and manufacturing cycles. The capacity expansion plans will be reviewed regularly to align with future client needs and market conditions.

Management Discussion and Analysis

Future and Outlook

The global biologics market has increased over the years and it is predicted that the market will continue to grow at a steady pace over the next few years, particularly due to the increasing rate of successful biologics approvals and the growing incidence of chronic diseases resulting from the aging population. Therefore, the growth of the global biologics market shall benefit from: the popularity of advanced diagnostics, increasing rates of auto-immune diseases, significant increased usage of mAbs for the treatment of different diseases and general advancements in healthcare & biotechnology. Accordingly, the biopharmaceutical industry has become one of the fastest-growing subsectors in the pharmaceutical industry. According to a report published by EvaluatePharma, from 2016 to 2017, there were at least 7 biologics appearing in the Top 10 Best-selling Drugs list. The efficacy and safety of biologics, in addition to the ability to treat previously untreatable diseases, is also the single largest influencing factor for the growth of this market. It is expected that the biopharmaceutical industry will continue its growth trend with more innovative technologies and therapies coming to the market.

It is expected that there will be more potential for the future growth of the biopharmaceutical market, which will be driven by the continuous investments in R&D activities in the biotechnology and pharmaceutical sector and the soaring demand for novel therapies for various rare diseases. Recent intensive research in novel therapies and combination therapies have established the efficacy of biologics for treating a wide range of chronic diseases such as cancer, rheumatoid arthritis, macular degeneration, and hematological malignancies. The increasing rate of approval of biologics by various regulatory agencies such as the U.S. FDA and European Medicines Agency (“EMA”) has also positively impacted the market. Five new Biologics License Applications (“BLA”) are approved by the U.S. FDA in the first half of 2018 and some of those drugs are expected to be the “blockbusters” and generate peak annual sales of at least US\$1 billion. Given the historically high 74% Phase III-to-approval success rate of biologics in late-phase development, it is envisaged that during the next decade, the biologics pipeline will experience exponential increase.

Due to the increasing demand for biologics and the increased regulatory approvals for these drugs, there is thus a huge demand for outsourcing services from pharmaceutical companies and the biotechnological industries. Currently, as an important component of the biologics market, antibody drugs thus create tremendous business opportunities for the biologics outsourcing market. Globalization of the pharmaceutical industry has resulted in outsourcing options becoming more international in nature, driving growth in outsourcing services both domestically and internationally. Moreover, the robust supply chain ensured by contract manufacturers makes outsourcing more attractive to drug development companies.

Management Discussion and Analysis

China has become the world's second largest pharmaceutical market. As the Chinese government further deepens reforms of the drug regulatory system, China's pharmaceutical market will become more diversified. Meanwhile, China has experienced a trend of pharmaceutical innovation and a relatively strong business environment for pharmaceutical R&D innovation, resulting from supportive policy at the government level, the recruitment and training of experienced and innovative R&D personnel, and a robust investment and financing environment for innovative drugs. Policies encouraging innovation successively introduced from the second half of 2017 to the present included the "Opinions on Deepening the Reform of the Evaluation and Approval Systems to Encourage Innovation on Drugs and Medical Devices" (《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》), the "Provisions for Drug Registration (Revised Draft)" (《藥品註冊管理辦法(修訂稿)》) and the "Technical Guidelines for the Acceptance of Overseas Clinical Trial Data of Drugs" (《接受藥品境外臨床試驗數據的技術指導原則》). These policies will simplify the overseas drug evaluation and approval procedures for innovative drugs, optimize drug clinical trial evaluation and approval procedures, improve the innovation environment and stimulate market vitality. The investment and financing environments of innovative drugs are also becoming more friendly. Venture funds are highly enthusiastic for investment in biologics, while the Stock Exchange has opened a green channel for the listing of biotech companies with no revenue. Innovative drugs will bring about opportunities in the pharmaceutical outsourcing market. In the future, it is expected that more companies will choose CDMOs versus attempting to build infrastructure and manufacturing capabilities. Large pharmaceutical companies will continue to outsource to focus resources and strengths on their core R&D technologies while reducing assets and risks, and at the same time, take advantage of CDMO streamlined process development platforms to reduce cost and improve efficiency.

China's demand for biologics medicines has grown at a fast pace in the past decade. It is anticipated in the next 10 years that both production and demand will maintain continuous growth. Riding on the fact that the China Drug Administration ("NMPA") has become a member of The International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use ("ICH"), China now begins to truly integrate into the international drug regulatory system, and China's biologics outsourcing industry has also ushered in a new peak. As a global leading enabling platform with open-access and integrated biologics capabilities and technologies, the Company will benefit from the relevant policy changes and leverage China's fast-growing market.

Management Discussion and Analysis

Riding on the growth of to the global industry and the Chinese biologics outsourcing market, the Company has maintained strong growth. As a leading global biologics service provider that offers comprehensive, integrated and highly customizable services, the Company offers multinational pharmaceutical and biotechnological companies in the world end-to-end solutions empowering anyone and any company to discover, develop and manufacture biologics from concept to commercial manufacturing. The Company's services are designed to help the worldwide clients to shorten the discovery and development period and lower the cost of biologics. The Group will as always strengthen the sustainable innovation and continuous upgrading capabilities of its technology platforms to help improve R&D efficiency and reduce R&D costs so as to enhance competitiveness of customers. Meanwhile, the Group will seize the momentum of the booming industry to strengthen internal management and start from the second venture to ensure the sustainable development of the Group's business with the execution of fast action.

Grateful to the past and looking into the future. The Group's commitment has always remained the same –“every drug can be made and every disease can be treated”, which is not only the greatest ambition but also the challenge of the healthcare industry. The new era has given us a great development opportunities and also endowed the Group with unique missions and duties. The Group has a fresh start to embrace evolution and innovation across biologics industry to create more values for its customers, employees and shareholders.

Financial Review

Revenue

The revenue of the Group increased by 61.2% from approximately RMB654.0 million for the six months ended June 30, 2017 to approximately RMB1,054.4 million for the six months ended June 30, 2018. The growth of sales was mainly attributed to (i) a steady growth in number of integrated projects from 134 as at June 30, 2017 to 187 as at June 30, 2018; (ii) more projects of pre-IND stage progressing into next stages such as early phase (phase I and II) and late-phase (phase III) successfully by implementing the “Follow-the-Molecule” strategy; and (iii) production expansion of new fed-batch facility of **MFG2**, which commenced from the fourth quarter of 2017, enabling higher revenue for more projects in late-phase (phase III).

Management Discussion and Analysis

The revenue of the Group has maintained a strong growth during the Reporting Period. The Group derived a vast majority of its revenue from providing services to customers headquartered in the United States and China. The table below shows the revenue distribution by countries/regions:

	Six months ended June 30,			
	2018		2017	
Revenue	RMB million	%	RMB million	%
– United States of America	547.6	51.9%	342.3	52.3%
– PRC	370.4	35.1%	255.6	39.1%
– Europe	52.9	5.0%	19.4	3.0%
– Rest of the World (Note)	83.5	8.0%	36.7	5.6%
Total	1,054.4	100.0%	654.0	100.0%

Note: Rest of the world primarily includes Canada, Israel, Japan, India and South Korea.

Regarding the revenue of the Group generated from different stages, since the Group has adopted “Follow-the-Molecule” strategy, most of its projects are currently under the pre-IND stage and therefore, the pre-IND service revenue of the Group accounted for a larger proportion of the revenue of the Group. For the six months ended June 30, 2018, the pre-IND revenue of the Group increased by 46.4% to approximately RMB656.3 million, accounting for 62.2% of the revenue of the Group. On the other hand, the post-IND service revenue of the Group showed a rapid increase of 93.5% to approximately RMB398.1 million, accounting for 37.8% of the total revenue of the Group, as the projects moved to later stages.

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:

	Six months ended June 30,			
	2018		2017	
	RMB million	%	RMB million	%
Pre-IND services	656.3	62.2%	448.3	68.5%
Post-IND services	398.1	37.8%	205.7	31.5%
Total	1,054.4	100.0%	654.0	100.0%

Management Discussion and Analysis

Cost of Services

The cost of services of the Group increased by 64.1% from approximately RMB389.8 million for the six months ended June 30, 2017 to approximately RMB639.7 million for the six months ended June 30, 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, bonus, 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 the rendering of the Group's services, such as reagents and chromatograph columns. Overhead primarily consists of depreciation charges of the facilities and equipment used in the rendering of the Group's services, utilities and maintenance.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 56.9% from approximately RMB264.3 million for the six months ended June 30, 2017 to approximately RMB414.7 million for the six months ended June 30, 2018. The increase in the gross profit was mainly attributed to the Group's strong growth in the number of integrated projects as a result of its rapid business growth. The Group's gross profit margin was 39.3% for the six months ended June 30, 2018, compared to 40.4% for the same period of 2017, driven by the combined effect of: (i) better capacity utilization and (ii) more efficient business operation; partially offset by (iii) strong depreciation of USD against RMB in the first half of 2018 while significant part of the Group's revenue is denominated in USD.

Other Income

The other income of the Group increased by 153.4% from approximately RMB16.1 million for the six months ended June 30, 2017 to approximately RMB40.8 million for the six months ended June 30, 2018, primarily due to an increased interest income by bank deposits as a result of the receipts of IPO proceeds in June 2017 and placement proceeds in March 2018.

Other Gains and Losses/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 statement, 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 six months ended June 30, 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).

Management Discussion and Analysis

The Group has recorded RMB19.6 million net impairment losses during the Reporting Period under ECL model, representing 2.0% of trade and other receivables and contract assets. Following the application of IFRS 9, the comparative period result of RMB4.0 million was not restated through ECL model (If restated under ECL model for the six months ended June 30, 2017: RMB12.5 million, representing 2.0% of trade and other receivables). As a result, the unfavorable change of the net impairment losses were mainly due to the change of assessment method following IFRS 9, coupled with the increased trade receivable balance as a result of the Group's growing business. The management of the Group considers the impairment loss under ECL model to be in a more conservative view and has been continuously managing the credit risk through periodic review and monitoring on the doubtful debts.

The Group recorded net other gains of approximately RMB12.3 million for the six months ended June 30, 2018, compared with net other losses of approximately RMB11.9 million for the six months ended June 30, 2017, as a net effect of (i) a net foreign exchange gain of RMB5.0 million for the six months ended June 30, 2018 as compared to a net loss of RMB13.8 million for the six months ended June 30, 2017; and (ii) a gain from investments in money market fund for unused IPO proceeds 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 (1.9% for the six months ended June 30, 2018, as compared to 2.0% for the six months ended June 30, 2017) and increased by 49.6% from approximately RMB13.3 million for the six months ended June 30, 2017 to approximately RMB19.9 million for the six months ended June 30, 2018, primarily because (i) more talents were recruited for enhancement of the Group's capability in business development to meet the requirements of continuous rapid business growth; and (ii) more promotions through advertising and maintenance of its premier positioning with industry leading technical content media.

Administrative Expenses

The administrative expenses of the Group increased by 70.5% from approximately RMB51.1 million for the six months ended June 30, 2017 to approximately RMB87.1 million for the six months ended June 30, 2018, primarily due to (i) workforce expansion for enhancement of capability of operation and business supporting to meet the increasing requirements of rapid growth business and support long term development of the Group; (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 administrative staff cost, management's share-based compensation cost and insurance fee, etc., which are in line with the Group's business growth.

Management Discussion and Analysis

Research and Development Expenses

The research and development expenses of the Group increased by 54.4% from approximately RMB36.4 million for the six months ended June 30, 2017 to approximately RMB56.2 million for the six months ended June 30, 2018, primarily due to (i) an increase in its research and development activities in connection with the development of next generation technologies; and (ii) the Group's continuous efforts made to improve its service efficiency.

Other Expenses

No other expenses was recorded for the six months ended June 30, 2018.

Finance Cost

No finance cost was recorded for the six months ended June 30, 2018, as compared to approximately RMB31.3 million for the six months ended June 30, 2017, representing the interest expenses on bank borrowings and finance lease.

Income Tax Expense

The income tax expense of the Group increased by 47.9% from approximately RMB24.0 million for the six months ended June 30, 2017 to approximately RMB35.5 million for the six months ended June 30, 2018, as a result of the growth of the Group's business. The effective income tax rate decreased from 20.7% for the six months ended June 30, 2017 to 12.5% for the six months ended June 30, 2018, primarily because (i) an increase of year 2017 enterprise income tax refund of RMB7.3 million and (ii) a decreased weight of non-tax-deductible share-based compensation.

Net Profit and Net Profit Margin

As a result of the foregoings, the net profit of the Group increased 170.7% from approximately RMB92.2 million for the six months ended June 30, 2017 to approximately RMB249.6 million for the six months ended June 30, 2018. The net profit margin of the Group for the six months ended June 30, 2018 was 23.7%, compared to 14.1% for the six months ended June 30, 2017. The significantly higher net profit margin compared to the six months ended June 30, 2017 was primarily due to (i) the Group's strong growth in the number of integrated projects and as a result, strong growth in revenue; (ii) solid cost control and business operation efficiency enhancement; (iii) an increase in government subsidy; (iv) an increased interest income in the first half of 2018 from bank deposits as a result of the receipts of IPO proceeds in June 2017 and placement proceeds in March 2018 instead of interest cost in first half of 2017; partially offset by (v) strong depreciation of USD against RMB through second half of 2017 to first half of 2018 while a significant part of the Group's revenue is denominated in USD.

Management Discussion and Analysis

The adjusted net profit¹ of the Group increased 94.2% from approximately RMB152.8 million for the six months ended June 30, 2017 to approximately RMB296.7 million for the six months ended June 30, 2018. The adjusted net profit margin of the Group for the six months ended June 30, 2018 was 28.1%, compared to 23.4% for the six months ended June 30, 2017. The higher adjusted net profit margin of the Group for the six months ended June 30, 2018 follows the same set of reasons as in above discussion.

EBITDA

The EBITDA² of the Group increased by 85.5% from approximately RMB205.5 million for the six months ended June 30, 2017 to approximately RMB381.1 million for the six months ended June 30, 2018. The EBITDA margin of the Group for the six months ended June 30, 2018 was 36.1%, compared to 31.4% for the six months ended June 30, 2017. The higher EBITDA margin of the Group for the six months ended June 30, 2018 was primarily due to a higher net profit margin as discussed above.

The adjusted EBITDA³ of the Group increased by 61.0% from approximately RMB266.1 million for the six months ended June 30, 2017 to approximately RMB428.3 million for the six months ended June 30, 2018. The adjusted EBITDA margin of the Group for the six months ended June 30, 2018 was 40.6%, compared to 40.7% for the six months ended June 30, 2017. The adjusted EBITDA margin of the Group for the six months ended June 30, 2018 maintained similar level with the six months ended June 30, 2017.

Basic and diluted earnings per share

The basic earnings per share of the Group increased 133.3% from RMB0.09 for the six months ended June 30, 2017 to RMB0.21 for the six months ended June 30, 2018. The diluted earnings per share of the Group increased 111.1% from RMB0.09 for the six months ended June 30, 2017 to RMB0.19 for the six months ended June 30, 2018. The increase in the basic and diluted earnings per share was primarily due to the increase in the net profit resulting from the strong business growth of the Group.

The adjusted diluted earnings per share⁴ of the Group for the six months ended June 30, 2018 amounted to RMB0.23, representing an increase of 53.3% when compared with that of RMB0.15 for the six months ended June 30, 2017. The increase in the adjusted diluted earnings per share was primarily due to the increase in the adjusted net profit resulting from the strong business growth of the Group as discussed in the above section headed “Net profit and Net Profit Margin”.

¹ The adjusted net profit is calculated as net profit for the Reporting Period, excluding share-based compensation, foreign exchange gains or losses and Listing expenses.

² EBITDA represents net profit before (i) interest expense, income tax expenses and (ii) amortization and depreciation.

³ Adjusted EBITDA is calculated as the EBITDA for the Reporting Period, excluding (i) interest expense, income tax expenses; (ii) certain non-cash expenses, consisting of share-based compensation, amortization and depreciation; (iii) Listing expenses and (iv) foreign exchange gains or losses.

⁴ Adjusted diluted earnings per share is calculated as adjusted net profit divided by weighted average number of ordinary shares for the purpose of calculating diluted earnings per share.

Management Discussion and Analysis

Plant and equipment

The plant and equipment balance of the Group increased by 21.7% from RMB1,780.2 million as at December 31, 2017 to RMB2,166.2 million as at June 30, 2018. During the six months ended June 30, 2018, the Group acquired approximately RMB480.1 million (during the six months ended June 30, 2017: approximately RMB200.6 million) of plant and equipment for the expansion of research, development and manufacturing capacities.

Other intangible assets

During the six months ended June 30, 2018, the Group acquired approximately US\$51 million (equivalent to approximately RMB333.3 million) (during the six months ended June 30, 2017: nil) of licenses in provision of discovery, development and manufacturing of biologics services.

Prepaid lease payments (Current portion & Non-current portion)

Prepaid lease payments represent the land use rights the Group acquired by approximately RMB137.2 million during the six months ended June 30, 2018 (during the six months ended June 30, 2017: nil).

Equity instruments at FVTOCI

On May 10, 2018, the Group entered into an agreement to purchase 266,666 Series Mezzanine 2 Preferred Shares of Inhibrx, Inc. (“**Inhibrx**”), a Delaware corporation, with a consideration of US\$3.0 million (equivalent to approximately RMB19.9 million). Inhibrx is a privately held bi-therapeutic company, which has developed an efficient and productive scientific and business approach to rapidly develop transformative therapeutics for patients in need.

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 RMB65.8 million). 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.

The Group has no controlling power or significant influence over the management and the operation of the two investments. At the date of initial recognition, the Group made an irrevocable election to designate the two investments in equity instruments as at FVTOCI. Following this election, the Group will present in other comprehensive income the subsequent changes in the fair value of the two investments. As a result, any fair value change of the two investments would be reflected in the Group’s statement of financial position, instead of the profit & loss statement.

Inventories

The inventories of the Group increased by 79.6% from approximately RMB135.5 million as at December 31, 2017 to approximately RMB243.3 million as at June 30, 2018, primarily as a result of the Group’s business growth.

Management Discussion and Analysis

Service work in progress/Contract costs

As a result of the application on IFRS 15 Revenue from Contracts with Customers, service work in progress has been reclassified to contract costs as at January 1, 2018. Contract costs increased by 15.5% from approximately RMB202.4 million of service work in progress as at December 31, 2017 to approximately RMB233.7 million of contract costs as at June 30, 2018, primarily due to the growth of the Group's business.

Trade and other receivables/Contract assets

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 increased by 51.1% from RMB614.3 million as at December 31, 2017 to RMB928.1 million as at June 30, 2018, primarily due to the growth of the Group's business.

Trade and other payables/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 50.3% increase in contract liabilities (advances from customers) along with its business growth and the improved credit control. Excluding the advances from customers, trade and other payables have been kept at a stable balance.

Liquidity and Capital Resources

The Group's bank balances and cash, time deposits and financial assets as at fair value through profit or loss amounted to approximately RMB4,371.9 million in total as at June 30, 2018, as compared to approximately RMB2,060.0 million as at December 31, 2017, as a result of placement proceeds received in March 2018 of RMB3,186.7 million; partially offset by working capital funding and payments for the purchase of plant and equipment and others. The cash and cash equivalents held by the Company are composed of RMB 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 June 30, 2018, there were no significant investment held by the Company, nor were any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Management Discussion and Analysis

Indebtedness

Borrowings

There was no bank borrowing drawn by the Group as at June 30, 2018. During the first half of 2017, the Group incurred new borrowings to (i) repay the loans borrowed from related parties, which were primarily used to fund the working capital needs of the Group; and (ii) fund the ongoing construction of the new facilities at the Wuxi site. All these borrowings were subsequently repaid by the end of September 2017.

Contingent Liabilities and Guarantees

As at June 30, 2018, the Group did not have any material contingent liabilities or guarantees.

Charges of Assets

As at June 30, 2018, the Group pledged bank deposits with an amount of approximately RMB21.5 million, which kept stable with 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 equipment.

Contractual Obligations

As at June 30, 2018, the Group had contractual obligations in an amount of approximately RMB1,181.7 million, which increased by 163.6% from approximately RMB448.3 million as at December 31, 2017, primarily due to (i) an approximately RMB691.6 million increase in capital commitments; and (ii) an approximately RMB41.8 million increase in operating lease commitments.

Gearing Ratio

Gearing ratio is calculated using interest-bearing borrowings less cash and cash equivalents divided by total equity and multiplied by 100%. As at June 30, 2018, the Group had no borrowing and thus, gearing ratio is not applicable.

Employees and Remuneration Policies

As at June 30, 2018, the Group had a total of 3,059 employees, of whom 1,455 were located in Shanghai, 1,450 were located in Wuxi, Jiangsu Province, 132 were located in Suzhou, Jiangsu Province, and 22 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 RMB266.7 million for the six months ended June 30, 2018, as compared to approximately RMB147.8 million for the six months ended June 30, 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.

Management Discussion and Analysis

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.

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.

Interim Dividend

The Board resolved not to declare any interim dividend for the six months ended June 30, 2018.

Non-IFRS Measures

To supplement the Group's condensed 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.

Management Discussion and Analysis

EVENTS AFTER THE REPORTING PERIOD

The Group has the following events taken place subsequent to June 30, 2018:

- On July 9, 2018, the Company concluded a development and manufacturing agreement with NASDAQ listed company Immune Pharmaceuticals (stock code: IMNP) (“**Immune**”) for the production of bertilimumab, Immune’s first-in-class anti-eotaxin-1 monoclonal antibody. The new partnership combines Immune’s leading expertise in immunology research and development with the Company’s expertise in biologics late-stage development and commercial manufacturing to expedite the development of bertilimumab towards potential global product approval.
- On July 18, 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) in relation to the formation of a joint venture with total registered capital proposed to be RMB500 million, which shall primarily engage in human vaccine (e.g. cancer vaccine) CDMO business and provision of end-to-end integrated service and solution platform covering the discovery, development and manufacturing of human vaccine from concept to commercial manufacturing. Details of the joint venture agreement are set out in the announcement of the Company dated July 18, 2018.
- On July 25, 2018, **MFG3** has successfully completed its first cGMP run. With **MFG3**’s newly added capacity, the Company boasts the largest mammalian cell culture capacity in China and globally unparalleled capacities.
- On July 31, 2018, a process validation campaign at the 6,000L scale has been initiated to support global product registration and launch for a key partner in the fed-batch facility of **MFG2**.
- In August 2018, the Company has been selected by Hang Seng Indexes as a constituent of the Hang Seng HK 35 index, effective September 10, 2018, which signifies that the Company is recognized as a global company by the market.

Compliance with the Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with all the code provisions as set out in the CG Code throughout the six months ended June 30, 2018. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Changes in Directors' Information

There were changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2017 Annual Report of the Company as follows:

- As disclosed in the Prospectus, Dr. Ge Li, Mr. Edward Hu and Mr. Yibing Wu, being the non-executive directors of the Company, are serving as the directors of WuXi AppTec at the same time. On May 8, 2018, the shares of WuXi AppTec are listed on Shanghai Stock Exchange (stock code: 603259).
- Mr. Wo Felix Fong, independent non-executive director of the Company, resigned as independent non-executive director of China Investment Development Limited, the shares of which are listed on the Stock Exchange, with effect from July 23, 2018.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Written Guidelines on no less exacting terms than the Model Code as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines throughout the six months ended June 30, 2018. No incident of non-compliance of the Guidelines for Securities Transactions by Employees by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

Review of Interim Report

The Audit Committee, which comprises two independent non-executive Directors, namely Mr. Teh-Ming Walter Kwauk and Mr. William Robert Keller, and one non-executive Director, namely Mr. Edward Hu, has reviewed the unaudited interim results and the interim report of the Group for the Reporting Period, and was of the opinion that the interim results and interim report had been prepared in accordance with the relevant accounting standards and that adequate disclosures had been made in accordance with the requirements of the Listing Rules.

Other Information

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 healthcare system in the PRC is undergoing a crucial reform period, where laws, regulations and policies in effect governing the medical, healthcare and pharmaceutical industry are constantly evolving. From the second half of 2017 to the present, policies encouraging innovation included "Opinions on Deepening the Reform of the Evaluation and Approval Systems to Encourage Innovation on Drugs and Medical Devices" (《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》), "Technical Guidelines for the Acceptance of Overseas Clinical Trial Data of Drugs" (《接受藥品境外臨床試驗數據的技術指導原則》), "Opinions on Drug Priority Review to Encourage Innovation" (《關於鼓勵藥品創新實行優先審評審批的意見》), "Amendment of Pharmaceutical Administration Law (Seeking for Publics' Opinion)" (《藥品管理法修正案(徵求意見稿)》), and "Provisions for Drug Registration (Revised Draft)" (《藥品註冊管理辦法(修訂稿)》). These policies will simplify the approval procedures for innovative drugs, optimize drug clinical trial evaluation and approval procedures, improve the innovation environment, and stimulate market vitality. However, several drug safety incidents which occurred recently have aroused public concern to the drugs security and induced the regulator to implement much stricter and more specific supervision and inspection. In response to this, the Group sticks to the strategies of "Innovation" and "Globalization" to handle the ever-changing regulations. The Group has formed a dedicated Regulatory Affairs team which comprises members with years of experience and diversified backgrounds in both domestic and overseas markets. The team members are responsible for actively monitoring new or updated guidance published by regulatory agencies and implementing the changes needed to stay in compliance with such guidance.

Global Economy Upheaval Risk

While global economic activities continues to grow, there are still a number of uncertainties and risks affecting the global economy. Increasing trade tensions between the United States and certain major nations, the outcomes of negotiations of between the United Kingdom and the European Union regarding leaving the European Union, the fluctuation of the U.S. dollar against major currencies around the world and the continuing geopolitical tensions create uncertainties in the world economy and global financial market. A slowdown in global economic growth could lead to economic contractions in certain markets, commercial and consumer delinquencies, weakened consumer confidence and increased market volatility. The Group has investments in different countries around the world. Any adverse economic conditions in these countries may potentially impact on the Group's financial position or potential income, asset value and liabilities.

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 condensed 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 qualification, monitoring credit records, sending confirmations and initiating collection procedures to promptly recover overdue debts. With more new customers introduced, the management has also made efforts to assess credit limits, approve credit term granted and other monitoring procedures to monitor the overall risk exposure. 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 financial assets designated as FVTPL, time deposits and bank balances 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 liquid funds, 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 global offerings and subsequent primary placement.

In the management of the liquidity risk, the Group monitors and maintains sufficient cash and cash equivalents and unused banking facilities. The Group regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient cash balances and adequate credit facilities to meet its liquidity requirements in the short and long term.

As at June 30, 2018, there was a balance of unutilized net proceeds from the issue of new Shares by the Company in its Listing and from the placing of new Shares by the Company in March 2018 kept in the bank accounts of the Group. For more details, please refer to the section headed "Use of Net Proceeds" in this interim report.

Other Information

Currency Risk

The Group principally operates in the PRC with a major portion of the procurements being settled in RMB, which is the functional currency of the Group's 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. dollar.

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 RMB. As a result, the Group's margins are pressured when 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 Renminbi appreciates or depreciates 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 in order to manage the Group's currency risks.

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

As at June 30, 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:

(1) Interests in Shares or underlying Shares of the Company

Name of Director	Capacity/ Nature of interest	Number of Shares ⁽¹⁾	Number of underlying Shares	Aggregate Interests ⁽¹⁾	Approximate percentage of shareholding interest
Dr. Ge Li	Interests of controlled corporations; Interests of parties acting in concert	724,935,597 (L) ⁽²⁾⁽³⁾	—	724,935,597 (L)	59.20%
Mr. Edward Hu	Beneficial owner	1,441,500 (L)	—	1,441,500 (L)	0.12%
Dr. Zhisheng Chen	Beneficial owner	711,418 (L)	40,844,000 share options (L) ⁽⁴⁾	41,555,418 (L)	3.39%
Dr. Weichang Zhou	Beneficial owner		5,931,000 share options (L) ⁽⁴⁾	5,931,000 (L)	0.48%

Other Information

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/ underlying shares in the associated corporation ⁽¹⁾	Approximately 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 the exercise of 59.37% of the voting power at general meetings of Biologics Holdings.
- (3) Dr. Ge Li controlled, directly and indirectly, the exercise of 10.06% and 8.38% 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 June 30, 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.

Other Information

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

As at June 30, 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⁽¹⁾	Approximate percentage of shareholding interest
Dr. Ge Li	Interests of controlled corporations; Interests of parties acting in concert	724,935,597 (L) ^{(3) (4)}	59.20%
Dr. Ning Zhao	Interests of spouse; Interests of parties acting in concert	724,935,597 (L) ^{(2) (4)}	59.20%
Mr. Zhaohui Zhang	Interests of controlled corporations; Interests of parties acting in concert	724,935,597 (L) ^{(4) (5)}	59.20%
Mr. Xiaozhong Liu	Interests of controlled corporations; Interests of parties acting in concert	724,935,597 (L) ^{(4) (6)}	59.20%
Life Science Holdings	Interests of controlled corporations	676,380,917 (L) ⁽⁷⁾	55.23%
Life Science Limited	Interests of controlled corporations	676,380,917 (L) ⁽⁷⁾	55.23%
WuXi PharmaTech	Interests of controlled corporations	676,380,917 (L) ⁽⁷⁾	55.23%
Biologics Holdings	Beneficial owner	676,380,917 (L) ⁽⁷⁾	55.23%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) Dr. Ning Zhao is the spouse of Dr. Ge Li and is deemed to be interested in the Shares interested by Dr. Ge Li.
- (3) 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.
- (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.

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.

Other Information

The table below shows details of the movements in the share options granted and outstanding under the Pre-IPO Share Option Scheme during the Reporting Period.

Category of participants	Date of Grant	Outstanding as at January 1, 2018	Number of options				Outstanding as at June 30, 2018
			Granted during the Reporting period	Exercised during the Reporting period ⁽¹⁾	Cancelled during the Reporting period	Lapsed during the Reporting period	
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	—	3,767,843	—	173,640	36,590,399
24 employees	March 28, 2016	1,414,750	—	96,475	—	36,000	1,282,275
102 employees	August 10, 2016	5,570,313	—	—	—	—	5,570,313
92 employees	November 11, 2016	5,575,000	—	—	—	56,000	5,519,000
321 employees	March 15, 2017	13,373,000	—	—	—	170,500	13,202,500
74 employees	May 12, 2017	3,758,000	—	—	—	20,000	3,738,000
Sub-total		70,222,945	—	3,864,318	—	456,140	65,902,487
Total		117,647,945	—	4,514,318	—	456,140	112,677,487

Note:

- (1) The weighted average closing price immediately before the date on which the options were exercised was HK\$66.23.

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 movements of the options granted and outstanding during the Reporting Period, exercise price, the vesting period and the impact of options granted under the Pre-IPO Share Option Scheme on the financial statements are set out under note 33 to the condensed consolidated financial statements.

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.

Pursuant to the Restricted Share Award Scheme, the Board shall select the Eligible Participant and determine the number of shares to be awarded.

The restricted shares and the related income derived therefrom are subject to a vesting scale to be determined by the Board at the date of the grant of the award. Vesting of the restricted shares will be conditional on the Selected Participants satisfying all vesting conditions specified by the Board at the time of making the award and, for the majority of the Selected Participants, the relevant restricted shares will be transferred to the Selected Participants on or about the relevant vesting dates.

Upon granting of the restricted shares, shares will be acquired by the Trustee at the cost of the Company or shares will be allotted to the Trustee under the general mandate granted or to be granted by the shareholders of the Company at general meetings from time to time (except for those shares granted to the directors or substantial shareholders of the Company), and will be held in trust for the Selected Participants until the end of each vesting period. Vested shares will be transferred at no cost to the Selected Participants.

During the Reporting Period, a total of 5,753,863 restricted shares were granted under the Restricted Share Award Scheme. Details of the movements in the Restricted Share Award Scheme during the Reporting Period are set out in note 33 to the condensed consolidated financial statements.

Other Information

The table below shows details of the restricted shares granted under the Restricted Share Award Scheme during the Reporting Period.

Name of grantee	Date of grant	Number of restricted shares				Outstanding as at June 30, 2018	Vesting Period
		Outstanding as at January 1, 2018	Granted during the Reporting Period	Vested during the Reporting Period	Forfeited during the Reporting Period		
Employees in aggregate							
259 employees	January 15, 2018	—	3,122,240	—	196,130	2,926,110	5 Years
540 employees	March 20, 2018	—	1,846,677	—	66,377	1,780,300	5 Years
170 employees	June 13, 2018	—	784,946	—	—	784,946	5 Years
Total:		—	5,753,863	—	262,507	5,491,356	

USE OF NET PROCEEDS

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 RMB1,278.2 million was kept at the bank accounts of the Group as at June 30, 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 below table sets out the planned applications of the net proceeds and actual usage up to June 30, 2018:

Use of proceeds	Planned applications (RMB Million)	Percentage of total net proceeds	Unutilized Actual net proceeds	
			usage up to June 30, 2018 (RMB Million)	as at June 30, 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%	756.1	983.6
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%	2,089.7	1,278.2

Other Information

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.

The net proceeds from the placing of new Shares by the Company 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.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Report on Review of Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the condensed consolidated financial statements of WuXi Biologics (Cayman) Inc. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 39 to 96, which comprise the condensed consolidated statement of financial position as of June 30, 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

August 20, 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2018

	NOTES	Six months ended June 30,	
		2018	2017
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue	5	1,054,385	654,040
Cost of services		(639,667)	(389,771)
Gross profit		414,718	264,269
Other income	6	40,815	16,076
Other gains and losses	7	12,349	(11,928)
Impairment losses, net of reversal		(19,562)	(3,993)
Selling and marketing expenses		(19,943)	(13,286)
Administrative expenses		(87,083)	(51,132)
Research and development expenses		(56,219)	(36,409)
Other expenses		—	(16,143)
Finance cost	8	—	(31,261)
Profit before tax	9	285,075	116,193
Income tax expense	10	(35,505)	(23,996)
Profit for the period attributable to the owners of the Company		<u>249,570</u>	<u>92,197</u>
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		(56)	—
Total comprehensive income for the period attributable to the owners of the Company		<u>249,514</u>	<u>92,197</u>
		RMB	RMB
Earnings per share - Basic	11	<u>0.21</u>	<u>0.09</u>
– Diluted	11	<u>0.19</u>	<u>0.09</u>

Condensed Consolidated Statement of Financial Position

As at June 30, 2018

	NOTES	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Non-current assets			
Plant and equipment	12	2,166,201	1,780,172
Deferred tax assets		14,176	6,855
Other intangible assets	13	331,866	—
Deposits paid for acquisition of a land use right		—	17,128
Prepaid lease payments	14	133,449	—
Equity instruments at fair value through other comprehensive income ("FVTOCI")	15	85,685	—
Other long-term deposits and prepayments	16	16,950	11,378
Derivative financial assets	25	135	—
		2,748,462	1,815,533
Current assets			
Inventories	17	243,336	135,547
Service work in progress		—	202,389
Contract costs	18	233,673	—
Trade and other receivables	19	928,082	614,302
Contract assets	20	28,468	—
Prepaid lease payments	14	2,743	—
Financial assets as at fair value through profit or loss ("FVTPL")	21	801	641,333
Pledged bank deposits	22	21,495	21,189
Time deposits	22	—	914,788
Bank balances and cash	22	4,371,148	503,881
Derivative financial assets	25	549	—
		5,830,295	3,033,429
Current liabilities			
Trade and other payables	23	535,772	784,669
Contract liabilities	24	382,890	—
Derivative financial liabilities	25	29,954	—
Income tax payable		41,556	13,405
		990,172	798,074
Net current assets		4,840,123	2,235,355
Total assets less current liabilities		7,588,585	4,050,888

Condensed Consolidated Statement of Financial Position

As at June 30, 2018

	NOTES	June 30, 2018	December 31, 2017
		RMB'000 (Unaudited)	RMB'000 (Audited)
Non-current liabilities			
Deferred revenue	26	65,106	19,711
Deferred tax liabilities		3,923	6,817
		69,029	26,528
Net assets		7,519,556	4,024,360
Capital and Reserves			
Share capital	27	201	192
Reserves		7,519,355	4,024,168
Total equity		7,519,556	4,024,360

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2018

	Share capital	Share premium	Statutory reserve	Equity-settled share-based reserve	Group reorganization reserve	Foreign currency translation reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000 (Note i)	RMB'000 (Note ii)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017 (Audited)	158	—	28,016	81,396	(4,636)	—	165,533	270,467
Profit and total comprehensive income for the period	—	—	—	—	—	—	92,197	92,197
Recognition of equity-settled share-based compensation	—	—	—	30,658	—	—	—	30,658
Issue of shares at premium through initial public offerings	34	3,572,905	—	—	—	—	—	3,572,939
Transaction costs attribute to issue of new shares	—	(136,750)	—	—	—	—	—	(136,750)
At June 30, 2017 (Unaudited)	192	3,436,155	28,016	112,054	(4,636)	—	257,730	3,829,511
At December 31, 2017 (Audited)	192	3,436,155	51,939	146,472	(4,636)	—	394,238	4,024,360
Adjustments (see note 3)	—	—	—	—	—	—	(7,598)	(7,598)
At January 1, 2018 (Restated)	192	3,436,155	51,939	146,472	(4,636)	—	386,640	4,016,762
Profit for the period	—	—	—	—	—	—	249,570	249,570
Other comprehensive income for the period	—	—	—	—	—	(56)	—	(56)
Total comprehensive income for the period	—	—	—	—	—	(56)	249,570	249,514
Recognition of equity-settled share-based compensation	—	—	—	52,146	—	—	—	52,146
Exercise of pre-IPO share options	1	4,368	—	(4,368)	—	—	—	1
Issue of new shares (note 27)	8	3,201,125	—	—	—	—	—	3,201,133
At June 30, 2018 (Unaudited)	201	6,641,648	51,939	194,250	(4,636)	(56)	636,210	7,519,556

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2018

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 their 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:
 - a) 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 a group reorganization of the Company completed in 2015 (the "Group Reorganization"), granted by WuXi PharmaTech to certain directors and employees of the Company and its subsidiaries (collectively referred to as the "Group") for their service rendered to the Group;
 - b) 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").

The details are set out in note 33.

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2018

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH PROVIDED BY OPERATING ACTIVITIES	122,170	227,347
INVESTING ACTIVITIES		
Interest received	23,923	—
Proceeds on disposal of plant and equipment	—	50
Purchase of plant and equipment	(524,963)	(194,474)
Purchase of other intangible assets	(333,254)	—
Purchase of prepaid lease payments	(120,046)	—
Purchase of equity instruments at FVTOCI	(85,685)	—
Withdrawal of financial assets as at FVTPL	1,139,726	—
Placement of financial assets as at FVTPL	(493,000)	—
Government grants and subsidies received	47,140	6,022
Withdrawal of time deposits	890,087	—
Withdrawal of pledged bank deposits	23,169	36,109
Placement of pledged bank deposits	(23,475)	(43,196)
Settlement of derivative financial instruments	(10,043)	—
NET CASH PROVIDED BY (USED IN)		
INVESTING ACTIVITIES	533,579	(195,489)
FINANCING ACTIVITIES		
Proceeds from bank borrowings	—	343,158
Repayment of bank borrowings	—	(39,000)
Interest paid	—	(31,950)
Finance lease charges paid	—	(277)
Repayment of obligations under a finance lease to a related party	—	(5,944)
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	3,201,133	3,572,939
Payment of listing related expense	—	(135,091)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,201,133	3,436,621
Effects of exchange rate changes	10,385	(17,797)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,867,267	3,450,682
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	503,881	169,102
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,371,148	3,619,784

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

1. General Information

The Company was incorporated 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 (the “Stock Exchange”) since June 13, 2017. 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 condensed 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 condensed consolidated financial statements.

2. Basis of Preparation of Condensed Consolidated Financial Statements

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. Principal Accounting Policies

The condensed 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 appropriate.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2017.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after January 1, 2018 for the preparation of the Group's condensed consolidated financial statements:

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

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 "Revenue" and the related interpretations.

The Group recognizes revenue from provision of discovery, development and manufacturing of biologics services.

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 profits (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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 “Revenue from Contracts with Customers” (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognizing revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

A performance obligation represents a service (or a bundle of services) that is distinct or a series of distinct 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 service.

A contract asset represents the Group’s right to consideration in exchange for 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 services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 “Revenue from Contracts with Customers” (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

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

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 rate per employee. The customer therefore simultaneously receives and consumes benefits provided by the Group’s performances. In addition, FTE contracts require customer’s confirmation on the FTE billable amounts, which are calculated based on number of the Group’s employees assigned to the project and the time that the Group’s employees had worked under the project, and also specify that the Group has an enforceable right to payment for the FTE billable amounts. Therefore, under the FTE method, the Group has a right to consideration from its customer in an amount that corresponds directly with the value to the customers of the Group’s performance completed to date (i.e. FTE billable amounts). Under such arrangement, IFRS 15 provides a practical expedient whereby the Group may recognize revenue based on the amount it has a right to invoice to the customer. The Group elected to use the practical expedient and therefore recognized the FTE services revenue when it has right to invoice the customer, usually in the form of a monthly statement, and the customers confirmed the acceptance of the invoice or after the end of a confirmation period.

Some of the service contracts contain variable consideration in the form of bonus payment (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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 “Revenue from Contracts with Customers” (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

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.

When the sum of the stand-alone transaction prices of the promised services exceeds the promised consideration in a contract, the Group recognizes a discount on that particular contract. If the entity does not have observable evidence that the entire discount relates to one or more, but not all performance obligations under the specific contract, the Group allocates the discount proportionately to all performance obligations in the contract.

The Group incurs costs to fulfill a contract under FFS method. The Group first assesses whether these contract costs qualify for recognition as an asset in terms of other relevant IFRSs, 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 services to which the assets relate. The asset is also subject to impairment review.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 “Revenue from Contracts with Customers” (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognized in the condensed 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.

Notes:

- 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 an identified contract, and the costs incurred generate or enhance resources of the Group that will be used in satisfying performance obligations in the future and the cost are expected to be recovered. Thus, as at January 1, 2018, service work in progress were reclassified to contract costs.
- 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.
- 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.
- 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 “Revenue from Contracts with Customers” (Continued)

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

The following tables summarize the impacts of applying IFRS 15 on the Group’s condensed consolidated statement of financial position as at June 30, 2018. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Adjustments	Amounts without application of IFRS 15
	RMB’000	RMB’000	RMB’000
Current assets			
Service work in progress	—	233,673	233,673
Contract costs	233,673	(233,673)	—
Trade and other receivables	928,082	(88,519)	839,563
Contract assets	28,468	(28,468)	—
Current liabilities			
Trade and other payables	535,772	265,903	801,675
Contract liabilities	382,890	(382,890)	—

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, 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) 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 profits 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognized financial assets that are within the scope of IFRS 9 are subsequently measured at amortized cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset 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 fair value through profit or loss, 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 other comprehensive income ("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.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI and accumulated in the 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 investments, and will be transferred to retained profits.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

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 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.

The directors of the Company reviewed and assessed the Group's financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.2.2.

Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables and contract assets). 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. Assessments 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 without significant financing component. 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 current conditions and estimates of future economic conditions.

For other receivables and other financial assets that are subject to impairment, 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

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.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (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.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the aging of the instrument is over 30 days unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

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.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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 assets where the corresponding adjustment is recognized through a loss allowance account.

As at January 1, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets (trade and other receivables and contract assets) for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) 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	Financial assets at FVTPL	Amortized cost (previously classified as loans and receivables)	Contract assets	Deferred tax assets	Retained earnings
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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)

(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, the fair value of these investments of RMB641,333,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9 (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. To measure the ECL, contract assets and trade receivables have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortized cost mainly comprise of other receivables, pledged bank deposits, time deposits and bank balances, are measured on 12m ECL basis and 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 profits. 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 profits.

All loss allowances for financial assets including contract assets and trade and other receivables as at December 31, 2017 reconcile to the opening loss allowance as at January 1, 2018 is as follows:

	Contract assets	Trade and other receivables
	RMB'000	RMB'000
At December 31, 2017 - IAS 39	N/A	614,302
Reclassification and remeasurement	24,447	66,697
Impairment under ECL model through opening retained profits	(3,816)	(4,653)
At January 1, 2018	<u>20,631</u>	<u>676,346</u>

Except as described above, the application of amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

3. Principal Accounting Policies (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognized for each individual line item.

	December 31, 2017	IFRS 15	IFRS 9	January 1, 2018
	RMB'000	RMB'000	RMB'000	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	—	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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

4. Critical Accounting Judgement and Key Sources of Estimation Uncertainty

In the application of the Group's initially adopted accounting policies in current interim period, 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 and liabilities 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 judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), 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 condensed consolidated financial statements.

Judgements in determining the timing of satisfaction of performance obligations

Note 3 describes the revenue recognition basis to each of the Group's revenue stream. The recognition of each of the Group's revenue stream requires judgement by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgement, the directors of the Company considered the detailed criteria for recognition of revenue set out in IFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with its customers.

For the services on FFS basis, the directors of the Company has assessed that the Group has a present right to payment from the customers for the services performed 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.

For the services on FTE basis, the directors of the Company has assessed that the customers simultaneously receive and consume benefit provided by the Group's performances and the Group has an enforceable right to payment for performances completed to date. Therefore, the directors of the Company have satisfied that the performance obligation is satisfied over time and recognized FTE revenue over the service period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

4. Critical Accounting Judgement and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Estimated loss allowance of debt instruments measured at amortized cost

Management estimates the amount of loss allowance for ECL on debt instruments that are measured at amortized cost based on the credit risk of the respective financial instrument. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversed of impairment loss may arise, accordingly.

Useful lives and estimated impairment on other intangible assets

The Group determines the estimated useful lives and related amortization charges for its other intangible 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 other intangible assets 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 June 30, 2018, the carrying amount of other intangible assets (without impairment loss recognized) was RMB331,866,000 (December 31, 2017: nil).

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. When Level 1 inputs are not available, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 31 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various types of financial instruments.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

5. Revenue and Segment Information

Timing of revenue recognition

The following amounts represent revenue arising from providing research services at a point in time and over time:

	Six months ended June 30, 2018
	RMB'000 (Unaudited)
Revenue on FFS basis, recognized at a point in time	1,024,455
Revenue on FTE basis, recognized over time	29,930
	1,054,385

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. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is present.

Entity-wide disclosure

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:

	Six months ended June 30,	
	2018	2017
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue		
– United States of America	547,563	342,298
– PRC	370,380	255,581
– Europe	52,945	19,450
– Canada	48,884	3,678
– Rest of the world	34,613	33,033
	1,054,385	654,040

As at June 30, 2018, the Group's non-current assets located in Ireland amount to RMB331,866,000, the rest of the non-current assets are primarily located in the PRC.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

5. Revenue and Segment Information (Continued)

Entity-wide disclosure (Continued)

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	Six months ended June 30,	
	2018	2017
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Customer A	109,940	N/A*
Customer B	N/A*	89,772
Customer C	N/A*	74,578

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the period concerned.

6. OTHER INCOME

	Six months ended June 30,	
	2018	2017
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Interest income	26,264	732
Government grants and subsidies related to		
– Assets (i)	1,745	654
– Income (ii)	12,806	14,690
	40,815	16,076

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

6. Other Income (Continued)

- 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. Please refer to note 26 for details.
- 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

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net foreign exchange gain (loss)	44,356	(13,795)
Loss on changes in fair value of derivative financial instruments, net	(39,313)	—
Investment income from financial assets at FVTPL	6,194	—
Others	1,112	1,867
	<u>12,349</u>	<u>(11,928)</u>

8. Finance Cost

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense	—	31,950
Interest on finance lease	—	277
Less: amounts capitalized	—	(966)
	<u>—</u>	<u>31,261</u>

Borrowing costs capitalized during the six months ended June 30, 2017 arose on bank borrowings and were calculated by applying a capitalization rate of 4.75%. The bank borrowings were fully repaid by the Group by end of September 2017 and no finance cost incurred for the six months ended June 30, 2018.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

9. Profit Before Tax

Profit before tax has been arrived at after charging (crediting):

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation for plant and equipment	93,702	58,810
Less: capitalized in contract costs/service work in progress	(36,845)	(16,439)
	56,857	42,371
Staff cost (including directors' emoluments):		
– Salaries and other benefits	266,650	147,755
– Retirement benefit scheme contributions	42,297	22,452
– Share-based payment expenses	52,146	30,658
	361,093	200,865
Less: capitalized in contract costs/service work in progress	(51,343)	(21,943)
	309,750	178,922
Impairment losses, net of reversal		
– financial assets measured at amortized cost	23,220	3,993
– contract assets	(3,658)	—
	19,562	3,993
Amortization of other intangible assets	1,388	—
Amortization of prepaid lease payments	982	—
Minimum operating lease payment in respect of rented premises	21,960	13,186
Initial public offering expenses (included in other expenses)	—	16,143
Reversal of inventory provision (included in cost of services)	(14)	—
Loss on disposal of plant and equipment	408	440
Cost of inventories recognized as expense	198,917	129,773

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

10. Income Tax Expense

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprise Income Tax (“EIT”)	51,598	23,410
– Hong Kong profits tax	—	445
– the US Federal and State Income taxes	536	703
– the UK Income taxes	22	69
Over provision in prior years		
– EIT	(7,307)	(10)
Deferred tax:		
– current year	(9,344)	(621)
	<u>35,505</u>	<u>23,996</u>

The Company is registered as an exempted company and as such is not subject to Cayman Islands taxation.

Hong Kong profits tax for the Hong Kong subsidiaries is calculated at 16.5% of the estimated assessable profit for the periods presented in the condensed consolidated financial statements.

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 AppTec Biopharmaceuticals Co., Ltd. (“WuXi Biopharma”) and WuXi Biologics (Shanghai) Co., Ltd. (“Shanghai Biologics”).

WuXi Biopharma was accredited as a “High and New Technology Enterprise” on August 5, 2013. In 2016, WuXi Biopharma 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 beginning of 2016.

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 six months ended June 30, 2018 is 12.5% (six months ended June 30, 2017: 12.5%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

11. Earnings Per Share

The calculation of the basic and diluted earnings per share are based on the following data:

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	249,570	92,197

The calculation of the basic and diluted earnings per share are based on the following data:

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Number of Shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,195,738,888	983,636,597
Effect of dilutive potential ordinary shares:		
Share options	102,717,854	45,919,209
Restricted shares under the Restricted Share Award Scheme	1,041,461	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,299,498,203	1,029,555,806

The computation of diluted earnings per share for the six months ended June 30, 2017 did not assume the exercise of certain pre-IPO share options since their exercise prices plus fair value of services yet to be rendered were higher than the average share prices of the Company.

The computation of diluted earnings per share for the six months ended June 30, 2018 does not assume the vest of certain restricted shares granted since its fair value of services yet to be rendered are higher than the average share prices of the Company.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

12. Plant and Equipment

During the six months ended June 30, 2018, the Group acquired RMB480,139,000 (six months ended June 30, 2017: RMB200,634,000) of plant and equipment for the expansion of production facilities and distribution capacity.

13. Other Intangible Assets

During the six months ended June 30, 2018, the Group acquired US\$51,000,000 (equivalent to RMB333,254,000) (six months ended June 30, 2017: nil) of licenses to use certain animals in provision of discovery, development and manufacturing of biologics services.

14. Prepaid Lease Payments

Prepaid lease payments represent the land use rights which are released to profit or loss on a straight-line basis over the periods of the land use right certificate which is 50 years. The amount to be amortized within one year is presented as current portion of prepaid lease payments. During the current interim period, the Group acquired RMB137,174,000 (six months ended June 30, 2017: nil) of land use rights in the PRC. Prepaid lease payments released to profit or loss amounted to RMB982,000 for the current interim period.

15. Equity Instruments at FVTOCI

On May 10, 2018, the Group entered into an agreement to purchase 266,666 Series Mezzanine 2 Preferred Shares of Inhibrx, Inc. (“Inhibrx”), a Delaware corporation, for a cash consideration of US\$3,000,000 (equivalent to approximately RMB19,850,000).

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 RMB65,835,000).

The Group has no controlling power nor significant influence over the management and the operation of Inhibrx and Tysana. At the date of initial recognition, the Group made an irrevocable election to designate the investments in equity instruments as at FVTOCI. In the opinion of the directors of the Company, the fair value of the Group’s investments in Inhibrx and Tysana as at June 30, 2018 approximates to its carrying amount on that date.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

16. Other Long-Term Deposits and Prepayments

Other long-term deposits and prepayments represent rental deposits paid under operating leases and deposits paid to guarantee certain milestones of construction projects which are refundable after one year, and long-term prepayments of certain staff cost.

17. Inventories

	As at	
	June 30, 2018	December 31, 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Raw material and consumables	<u>243,336</u>	<u>135,547</u>

The inventories are net of a write-down of approximately RMB2,651,000 as at June 30, 2018 (December 31, 2017: RMB2,665,000).

18. Contract Costs

	As at June 30, 2018
	RMB'000 (Unaudited)
Costs to fulfill contracts	<u>233,673</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

19. Trade and Other Receivables

	As at	
	June 30, 2018	December 31, 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade receivables		
– related parties	5,291	6,425
– third parties	607,188	293,650
– loss allowance	(35,803)	(10,218)
Unbilled revenue		
– related parties	—	1,645
– third parties	—	29,948
– loss allowance	—	(7,146)
	576,676	314,304
Receivables for purchase of raw materials on behalf of customers	101,941	108,295
– loss allowance	(2,288)	—
	99,653	108,295
Other receivables	14,661	15,012
Advances to suppliers	10,328	12,256
Prepayments	8,219	927
Customer duty recoverable (Note)	1,694	30,285
Value added tax recoverable	208,913	127,626
Interest receivable	7,938	5,597
	251,753	191,703
Total trade and other receivables	928,082	614,302

Details of the trade and other receivables due from related parties are set out in note 32(2).

Note: WuXi Biopharma 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 Biopharma to PRC Customs which shall be refunded upon the application documents of the import tax refund have been validated by the PRC Customs.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

19. Trade and Other Receivables (Continued)

The Group allows a credit period ranging from 30 to 60 days to its customers. The following is an age analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice dates, at the end of the reporting period:

	As at	
	June 30, 2018	December 31, 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 60 days	395,216	217,573
61 to 180 days	122,172	68,570
181 days to 1 year	59,288	3,714
	576,676	289,857

The movement in the allowance for impairment in respect of trade receivables in accordance with the simplified approach set out in IFRS 9 during the current interim period was as follows:

	RMB'000
Balance at December 31, 2017 (audited)	(10,218)
Remeasurement of loss allowance under ECL	(3,635)
Adjusted balance at January 1, 2018 *	(13,853)
Net measurement of loss allowance	(21,950)
Balance at June 30, 2018 (unaudited)	(35,803)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

19. Trade and Other Receivables (Continued)

The movement in the allowance for impairment in respect of receivables for purchase of raw materials on behalf of customers in accordance with the general approach set out in IFRS 9 during the current interim period was as follows:

	RMB'000
Balance at December 31, 2017 (audited)	—
Remeasurement of loss allowance under ECL	(1,018)
Adjusted balance at January 1, 2018 *	(1,018)
Net measurement of loss allowance	(1,270)
Balance at June 30, 2018 (unaudited)	<u>(2,288)</u>

* The Group has initially applied IFRS 9 at January 1, 2018. Under the transition method chosen, comparative information is not restated.

Details of the impairment assessment are set out in Note 28.

20. Contract Assets

	As at June 30, 2018
	RMB'000 (Unaudited)
Contract assets	
– third parties	35,772
– loss allowance for contract assets	(7,304)
	<u>28,468</u>

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on biologics services.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

20. Contract Assets (Continued)

The movement in the allowance for impairment in respect of contract assets in accordance with the simplified approach set out in IFRS 9 during the current interim period was as follows:

	RMB'000
Balance at December 31, 2017 (audited)	(7,146)
Remeasurement of loss allowance under ECL	(3,816)
Adjusted balance at January 1, 2018 *	(10,962)
Net measurement in of loss allowance	3,658
Balance at June 30, 2018 (unaudited)	(7,304)

* The Group has initially applied IFRS 9 at January 1, 2018. Under the transition method chosen, comparative information is not restated.

Details of the impairment assessment are set out in Note 28.

21. Financial Assets at FVTPL

Since 2017, the Group entered into several contracts of funds (the "Funds") with a financial institution. The Funds invest primarily 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. During the current interim period, the Group withdrew most of the Funds along with its cash management strategy. As at June 30, 2018, the fair value of the Funds is US\$130,000 (December 31, 2017: US\$87,750,000) per the investment statement of the financial institution, equivalent to RMB801,000 (December 31, 2017: RMB573,378,000).

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 principle of the Financial Product is US\$10,400,000, equivalent to RMB 67,955,000 as at December 31, 2017; and the expected return rate stated in the contract is 2.45% per annum. In March 2018, the Group withdrew the Financial Product as it expired.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

22. 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 carried interest at market rates which ranged from 0.001% to 3.008% per annum as at June 30, 2018 (December 31, 2017: from 0.001% to 1.650% per annum).

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.

The time deposits as at December 31, 2017 carried fixed interests rate from 1.93% to 2.53% per annum.

23. Trade and Other Payables

	As at	
	June 30, 2018 RMB'000 (Unaudited)	December 31, 2017 RMB'000 (Audited)
Trade payables		
– third parties	142,236	137,293
Other payables		
– related parties	—	13,919
– third parties	108,313	50,927
	108,313	64,846
Advances from customers		
– related parties	—	11,064
– third parties	—	243,682
	—	254,746
Option fee received (Note)	26,467	26,136
Payable for purchase of plant and equipment	168,198	213,022
Salary and bonus payables	86,111	85,240
Other taxes payable	4,447	3,386
	535,772	784,669

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

23. Trade and Other Payables (Continued)

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 fulfill certain stipulated conditions including completing the transfer of the title of 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.

Details of the trade and other payables due to related parties are set out in note 32(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:

	As at	
	June 30, 2018	December 31, 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within three months	131,439	129,184
Over three months but within one year	8,931	6,660
Over one year but within two years	1,866	1,449
	142,236	137,293

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

24. Contract Liabilities

	As at June 30, 2018 RMB'000 (Unaudited)
Contract liabilities	
– related parties	113
– third parties	382,777
	382,890

25. Derivative Financial Assets and Liabilities

At the end of the reporting period, the Group held certain derivatives at fair value through profit or loss and not under hedge accounting as follows:

	Assets		Liabilities	
	June 30, 2018 RMB'000 (unaudited)	December 31, 2017 RMB'000 (audited)	June 30, 2018 RMB'000 (unaudited)	December 31, 2017 RMB'000 (audited)
Foreign currency forward contracts	684	—	29,954	—
Less: current portion	549	—	29,954	—
Non-current portion	135	—	—	—

During the six months ended June 30, 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

25. Derivative Financial Assets and Liabilities (Continued)

Except for above, the Group also entered into USD/RMB foreign currency forward contract of European Knockout with conditional payment structured forward with certain bank. 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 US dollar 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 details of foreign currency forward contracts from the respective contracts are as follow:

	Notional amount USD'000	Strike/forward rates	Ending Settlement Date June 30, 2018
Contract A	7,000	USD:RMB at 1:6.370	July 31, 2018
Contract B	7,000	USD:RMB at 1:6.378	August 31, 2018
Contract C	10,000	USD:RMB at 1:6.384	September 28, 2018
Contract D	5,000	USD:RMB at 1:6.393	October 31, 2018
Contract E	5,000	USD:RMB at 1:6.400	November 30, 2018
Contract F	7,000	USD:RMB at 1:6.407	December 31, 2018
Contract G	5,000	USD:RMB at 1:6.545	May 29, 2019
Contract H	35,000	USD:RMB at 1:6.380	December 28, 2018
Contract I	5,000	USD:RMB at 1:6.520	December 28, 2018
Contract J	25,000	USD:RMB at 1:6.460	December 28, 2018
Contract K	1,000	USD:RMB at 1:6.429	September 28, 2018
Contract L	1,000	USD:RMB at 1:6.437	October 31, 2018
Contract M	1,000	USD:RMB at 1:6.445	November 30, 2018
Contract N	1,000	USD:RMB at 1:6.452	December 28, 2018
Contract O	1,000	USD:RMB at 1:6.460	January 29, 2019
Contract P	1,000	USD:RMB at 1:6.466	February 26, 2019
Contract Q	1,000	USD:RMB at 1:6.473	March 27, 2019
Contract R	1,000	USD:RMB at 1:6.480	April 26, 2019
Contract S	1,000	USD:RMB at 1:6.488	May 29, 2019
Contract T	30,000	USD:RMB at 1:6.599	April 30, 2019
Contract U	15,000	USD:RMB at 1:6.674	October 10, 2019
Contract V	30,000	USD:RMB at 1:6.726	September 30, 2019

Notes to the Condensed Consolidated Financial Statements

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25. Derivative Financial Assets and Liabilities (Continued)

Each contract has a series of settlement dates. The Ending Settlement Dates stated as in the above table represents the last settlement date, specified within respective contracts.

The Group has entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements (“ISDA Agreements”) signed with a bank. These derivative instruments are not offset in the condensed consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognized amount.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

26. Deferred Revenue

	As at	
	June 30, 2018	December 31, 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Assets related government grants	65,106	19,711

Movements of assets related government grants:

	RMB'000
At January 1, 2017 (audited)	12,559
Government grants received	6,022
Credited to profit or loss	(654)
At June 30, 2017 (unaudited)	<u>17,927</u>
At January 1, 2018 (audited)	19,711
Government grants received	47,140
Credited to profit or loss	(1,745)
At June 30, 2018 (unaudited)	<u>65,106</u>

During the six months ended June 30, 2018, the Group received government grants of RMB 47,140,000 (six months ended June 30, 2017: RMB6,022,000) for its investment in laboratory equipment. The grants were recognized in profit or loss over the useful lives of the relevant assets.

Notes to the Condensed Consolidated Financial Statements

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27. Share Capital

	Number of shares	Amount US\$
ORDINARY SHARES OF US\$0.000025 EACH AUTHORIZED:		
At June 30, 2018, December 31, 2017 and January 1, 2017	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 (Audited)	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 (Audited)	1,163,065,057	29,077	192
Issue of new shares (note (a))	57,000,000	1,425	8
Exercise of pre-IPO share options	4,514,318	113	1
At June 30, 2018 (Unaudited)	1,224,579,375	30,615	201

Notes:

- (a) On March 29, 2018, the Company issued 57,000,000 primary placing shares placed to certain investors, independent third parties, at a price of HK\$70.00 per share.
- (b) All the shares issued by the Company ranked pari passu in all respects.

28. Overview of the Group's Exposure to 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 condensed consolidated statement of the financial position.

In order to minimize credit risk, the Group has tasked its finance team to develop and maintain 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

28. Overview of the Group's Exposure to Credit Risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past due amounts or aging within 180 days	12-months ECL
Doubtful	There has been a significant increase in credit risk since initial recognition (aging over 181 days but less than 1 year)	Lifetime ECL-not credit-impaired
In default	There is evidence indicating the asset is credit-impaired or aging over 1 year	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

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, 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 current conditions and estimates of future economic conditions.

The following table details the risk profile of trade receivables and contract assets as at June 30, 2018:

	Within 60 days	61 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Expected credit loss rate	0%	0%	15%	24%	80%	7%
Gross carrying amount (RMB'000)	405,744	79,239	65,131	80,390	17,747	648,251
Lifetime ECL (RMB'000)	—	—	(9,615)	(19,294)	(14,198)	(43,107)
	<u>405,744</u>	<u>79,239</u>	<u>55,516</u>	<u>61,096</u>	<u>3,549</u>	<u>605,144</u>

Notes to the Condensed Consolidated Financial Statements

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28. Overview of the Group's Exposure to Credit Risk (Continued)

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.

During the current interim period, the Group provided RMB19,562,000 impairment losses based on the provision matrix.

For the purposes of impairment assessment, other receivables and other current assets are considered to have low credit risk as the counterparties to these financial assets have a low credit rating. Accordingly, for the purpose of impairment assessment for these financial assets, the loss allowance is measured at an amount equal to 12m 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 lifetime ECL allowance is insignificant as at January 1, 2018 and June 30, 2018.

29. Operating Leases

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at	
	June 30, 2018	December 31, 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within one year	38,876	21,876
In the second to fifth years inclusive	105,087	75,254
Over five years	60,437	65,468
	204,400	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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

30. Capital Commitments

The Group had capital commitments for equipment purchase and building construction under non-cancellable contracts as follows:

	As at	
	June 30, 2018	December 31, 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contracted but not provided for	977,261	285,697

31. 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 each 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 those derived from 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).

Notes to the Condensed Consolidated Financial Statements

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31. Fair Value Measurements of Financial Instruments (Continued)

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	June 30, 2018	December 31, 2017		
Financial assets as at FVTPL	Funds: RMB801,000	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 as at FVTPL	Financial Product: nil	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
Equity investments at FVTOCI	Equity Investments: RMB85,685,000	—	Level 3	Discounted cash flows. Key unobservable inputs: (1) Long-term revenue growth rate (2) Long-term pre-tax operating margin (3) Weighted average cost of capital (4) Discount for lack of marketability
Foreign currency forward contracts classified as derivative financial assets and liabilities at FVTPL	Derivative financial assets: RMB684,000 Derivative financial liabilities: RMB29,954,000	—	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.

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 condensed consolidated financial statements approximate their fair values.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

31. Fair Value Measurements of Financial Instruments (Continued)

Reconciliation of Level 3 fair value measurements of financial assets

	Equity investments at FVTOCI	Financial assets at FVTPL
	RMB'000	RMB'000
At January 1, 2018 (audited)	—	641,333
Total gains - in profit or loss	—	6,194
Purchases	85,685	493,000
Disposals	—	(1,139,726)
At June 30, 2018 (unaudited)	<u>85,685</u>	<u>801</u>

32. Related Party Transactions

The Group had the following significant transactions and balances with related parties during the current interim period:

(1) Related party transactions:

(a) Provision of research and development service to related parties

	Six months ended June 30,	
	2018	2017
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
WuXi MedImmune Biopharmaceutical Co., Ltd. ("WX MedImmune")	5,027	9,589
Adagene (Suzhou) Limited ("Adagene")	—	6,144
Huahui Anjian (Beijing) Biologics Technology Co., Ltd ("Huahui Anjian")	—	2,836
JW Therapeutics (Shanghai) Co., Ltd. ("JW Therapeutics")	165	—
	<u>5,192</u>	<u>18,569</u>

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 is a joint venture held by WAHK.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

32. Related Party Transactions (Continued)

(1) Related party transactions: (Continued)

(b) Provision of premises sub-leasing services

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Abgent Biotechnology (Suzhou) Co, Ltd.	—	227
WuXi AppTec (Suzhou) Co., Ltd. ("AppTec Suzhou")	—	210
	—	437

(c) Testing services received

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
WuXi AppTec, Inc.	—	10,910
AppTec Suzhou	—	8
	—	10,918

(d) Purchase of materials, plant and equipment

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
WuXi AppTec Sales LLC ("AppTec Sales")	—	685
WXAT Shanghai	—	20,264
	—	20,949

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

32. Related Party Transactions (Continued)

(1) Related party transactions: (Continued)

(e) Labor secondment services received

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
WXAT Shanghai	—	711
WuXi AppTec UK Ltd.	—	611
	—	1,322

(f) Research and development services received

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
WXAT Shanghai	—	304

(g) Premises leasing services received

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
WXAT Shanghai	715	715

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

32. Related Party Transactions (Continued)

(1) Related party transactions: (Continued)

(h) Finance lease from a related party

On January 1, 2016, the Group entered into a finance lease arrangement with WXAT Shanghai in respect of machinery, equipment and leasehold improvement with a total capital value at the inception of the leases of RMB53,781,000. The finance lease charges under the arrangements is RMB277,000 for the six months ended June 30, 2017. 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.

The transactions above were carried out in accordance with the terms agreed with the counterparties.

(2) Related party balances:

	As at	
	June 30, 2018	December 31, 2017
	RMB'000	RMB'000
	Non-interest bearing (Unaudited)	Non-interest bearing (Audited)
Amounts due from related parties		
<u>Trade receivables</u>		
WX MedImmune	5,200	1,328
Adagene	—	2,099
Huahui Anjian	—	2,864
JW Therapeutics	91	134
	<u>5,291</u>	<u>6,425</u>
<u>Unbilled revenue</u>		
Huahui Anjian	—	1,645
	<u>—</u>	<u>1,645</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

32. Related Party Transactions (Continued)

(2) Related party balances: (Continued)

	As at	
	June 30, 2018	December 31, 2017
	RMB'000	RMB'000
	Non-interest bearing (Unaudited)	Non-interest bearing (Audited)
Amounts due to related parties		
<u>Advance from customers</u>		
Adagene	—	3,049
Huahui Anjian	—	8,015
	<u>—</u>	<u>11,064</u>
<u>Contract liabilities</u>		
JW Therapeutics	<u>113</u>	<u>—</u>
<u>Other payables</u>		
Huahui Anjian	<u>—</u>	<u>13,919</u>

All the above balances with related parties are unsecured, interest free and repayable on demand.

Except for WX MedImmune, Adagene, Huahui Anjian, JW Therapeutics, whose relationship with the Group have been disclosed previously, all of the other abovementioned 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

32. Related Party Transactions (Continued)

(3) Compensation of directors and key management personnel

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Directors' fee	569	—
Salaries and other benefits	5,489	4,267
Performance-based bonus	2,019	762
Retirement benefits scheme contributions	101	115
Share-based compensation	12,328	14,478
	20,506	19,622

The remuneration of key management is determined with reference to the performance of the individuals and market trends.

33. 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

33. Share-Based Compensation (Continued)

Equity instruments granted by WuXi PharmaTech to employees of the Group (Continued)

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 six months ended June 30, 2018, the Group recognized RMB1,526,000 (June 30, 2017: RMB3,715,000) of share-based compensation expense in relation to WuXi PharmaTech Stock Units and Options.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

33. Share-Based Compensation (Continued)

Pre-IPO Share Option Scheme (Continued)

- (1) As of June 30, 2018, pre-IPO share options granted to the employees of the Group and directors of the Company are as follows:

<u>Date of grant</u>	<u>Number of options</u>	<u>Exercise price per share</u>
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	<u>3,804,000</u>	<u>US\$1.80</u>

- (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"):

<u>Tranche</u>	<u>Vesting Date</u>
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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

33. 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 six months ended June 30, 2018:

Option batch	Outstanding as at January 1, 2018	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at June 30, 2018
January 7, 2016	81,281,882	—	4,417,843	173,640	76,690,399
March 28, 2016	1,414,750	—	96,475	36,000	1,282,275
August 10, 2016	5,570,313	—	—	—	5,570,313
November 11, 2016	5,575,000	—	—	56,000	5,519,000
March 15, 2017	20,048,000	—	—	170,500	19,877,500
May 12, 2017	3,758,000	—	—	20,000	3,738,000
	<u>117,647,945</u>	<u>—</u>	<u>4,514,318</u>	<u>456,140</u>	<u>112,677,487</u>
Exercisable at the end of the period	<u>—</u>				<u>77,972,674</u>
Weighted average exercise price (US\$)	<u>0.65</u>	<u>—</u>	<u>0.50</u>	<u>0.79</u>	<u>0.66</u>

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%

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

33. Share-Based Compensation (Continued)

Pre-IPO Share Option Scheme (Continued)

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 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 RMB24,780,000 for the six months ended June 30, 2018 (June 30, 2017: RMB26,943,000) in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

33. Share-Based Compensation (Continued)

Restricted Share Award Scheme (Continued)

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 June 30, 2018, the restricted share granted to the employees of the Group and directors of the Company are as follows:

<u>Date of grant</u>	<u>Number of restricted shares</u>	<u>Fair value per share</u>
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

- (2) Each restricted share granted under the New RSU 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"):

<u>Tranche</u>	<u>Vesting Date</u>
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

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2018

33. Share-Based Compensation (Continued)

Restricted Share Award Scheme (Continued)

(2) (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Share Option Scheme during the six months ended June 30, 2018:

Option batch	Outstanding as at January 1, 2018	Granted during the period	Vested during the period	Forfeited during the period	Outstanding as at June 30, 2018
January 15, 2018	—	3,122,240	—	196,130	2,926,110
March 20, 2018	—	1,846,677	—	66,377	1,780,300
June 13, 2018	—	784,946	—	—	784,946
	<u>—</u>	<u>5,753,863</u>	<u>—</u>	<u>262,507</u>	<u>5,491,356</u>
Weighted average fair value per share (HK\$)	<u>—</u>	<u>66.21</u>	<u>—</u>	<u>60.23</u>	<u>66.50</u>

The Group recognized total expense of approximately RMB25,840,000 for the six months ended June 30, 2018 (June 30, 2017: nil) in relation to restricted shares granted by the Company under the Restricted Share Award Scheme.

34. Event After The Reporting Period

The Group has the following event taken place subsequent to June 30, 2018:

On July 18, 2018, the Group entered into an agreement (the “Agreement”) with an independent third party in relation to the formation of a limited liability company (“Company A”) under the laws of the PRC. Company A shall primarily engage in human vaccine contract development and manufacturing organization business and provision of end-to-end integrated service and solution platform covering the discovery, development and manufacturing of human vaccine. Pursuant to the Agreement, Company A shall, upon its establishment, be owned by the Company and the other independent third party as to 70% and 30%, respectively, and Company A will become a non-wholly owned subsidiary of the Company. The total registered capital of Company A is proposed to be RMB500,000,000, of which the Company and the other independent third party will contribute in cash RMB350,000,000 and RMB150,000,000, respectively.

Definitions

“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” or “Board of Directors”	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 interim report, Hong Kong, Macau Special Administrative Region and Taiwan
“Company” or “the Company” or “our” or “our Company” or “we”	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
“Eligible Participant(s)”	any Director or employee of the Company or any of its subsidiaries
“European Union”	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

Definitions

“Group” or “the Group”	the Company and its subsidiaries
“H.K. dollar(s)” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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 Date”	June 13, 2017, being the date on which the Shares were listed on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“NYSE”	the New York Stock Exchange
“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
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by the Company with effect from January 5, 2016, and amended on August 10, 2016, the principal terms of which are summarised 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

Definitions

“Remuneration Committee”	the remuneration committee of the Board
“Reporting Period”	the six-month period from January 1, 2018 to June 30, 2018
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of China
“Restricted Share Award Scheme”	the restricted share award scheme adopted by the Company on January 15, 2018
“Selected Participant(s)”	any Eligible Participant(s) selected by the Board in accordance with the terms of the Restricted Share Award Scheme
“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
“Trustee”	the trustee corporation or trustee corporations (which is/are independent of and not connected with the Company) to be appointed by the Company for the administration of the Restricted Share Award Scheme or any additional or replacement trustee(s)
“U.S. dollar(s)” or “US\$” or “USD”	United States dollars, the lawful currency of the United States of America
“WAHK”	WuXi AppTec (Hong Kong) Limited, a company incorporated under the laws of Hong Kong on March 26, 2012 with limited liability and a wholly-owned subsidiary of WuXi AppTec
“Written Guidelines”	the Written Guidelines for Securities Transactions by Directors adopted by the Company
“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 (603259) in which the Founding Individuals own 34.48% and 65.52% of its voting power, respectively
“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, a joint venture established in Hong Kong and owned as to 50% by WAHK and 50% by MedImmune Limited, a subsidiary of MedImmune/AstraZeneca

Definitions

“WuXi PharmaTech”

WuXi PharmaTech (Cayman) Inc., a company incorporated under the laws of the Cayman Islands on March 16, 2007 with limited liability, which directly holds 77.39% issued share capital of Biologics Holdings. Its shares were listed on the NYSE (stock code: WX), and were delisted from the NYSE on December 10, 2015

In this interim 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.