WuXi Biologics
Global Solution Provider

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

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

2019 INTERIM REPORT

*For identification purpose only

Contents

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. Sham Ying Man

JOINT COMPANY SECRETARIES

Mr. Huang Yue
Ms. Sham Ying Man

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman KY1–1104
Cayman Islands

CORPORATE HEADQUARTERS

No. 108, Meiliang Road
Mashan
Wuxi
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1–1102
Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

HONG KONG LEGAL ADVISER

Fangda Partners
26/F Exchange Square
8 Connaught Place, Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

STOCK CODE

2269

COMPANY WEBSITE

www.wuxibiologics.com.cn

Financial Highlights

	Six months ended June 30,		
	2019 **RMB'000** **(Unaudited)**	2018 RMB'000 (Unaudited)	Change (%)
Operating results			
Revenue	**1,607,070**	1,054,385	52.4%
Gross profit	**671,011**	414,718	61.8%
Profit before tax	**512,047**	285,075	79.6%
Net profit	**449,484**	249,570	80.1%
Profit attributable to equity shareholders of the Company	**450,042**	249,570	80.3%
Adjusted net profit[1]	**521,535**	296,690	75.8%
Adjusted net profit attributable to equity shareholders of the Company	**522,093**	296,690	76.0%
Profitability			
Gross margin (%)	**41.8%**	39.3%	
Net Profit Margin (%)	**28.0%**	23.7%	
Adjusted net profit margin (%)	**32.4%**	28.1%	

	As at June 30, 2019 **RMB'000** **(Unaudited)**	As at December 31, 2018 RMB'000 (Audited)	Change (%)
Financial position			
Total assets	**10,208,168**	9,393,150	8.7%
Total liabilities	**1,667,694**	1,398,922	19.2%
Total equity	**8,540,474**	7,994,228	6.8%
Equity attributable to equity shareholders of the Company	**8,540,559**	7,993,755	6.8%
Bank balances and cash	**2,864,522**	4,084,395	(29.9)%

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

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

As a leading global biologics technology and enabling platform, the Group continues its effort in offering a single-source service platform to enable its partners to discover, develop and manufacture biologics from concept to commercial manufacturing through the "Follow-the-Molecule" strategy. The Group's unparalleled and ever-increasing capabilities and capacity, together with its improvement in operational efficiency, all contributed to its strong growth during the Reporting Period.

- The total number of integrated projects increased from 187 as at same period last year to 224 as at June 30, 2019.

- The total number of pre-clinical projects increased from 98 as at same period last year to 106 as at June 30, 2019.

- The total number of early-phase (phases I and II) projects increased by 31% from 78 as at same period last year to 102 as at June 30, 2019 (75 in phase I and 27 in phase II, respectively).

- The number of late-phase (phase III) projects increased by 50% from 10 as at same period last year to 15 as at June 30, 2019.

- The Group continued to successfully progress more projects from pre-IND stage to post-IND stage: 10 projects progressed from pre-clinical development stage to early- phase stage during the Reporting Period.

The Group's first commercial manufacturing project has commenced production in the Wuxi site Manufacturing 1 ("**MFG1**"), which is the first and only biologics manufacturing facility in China approved by both the U.S. FDA and the EU EMA. The dual-approval fully validates the Group's commitment in maintaining the highest global quality standards while providing powerful support for its unique manufacturing paradigm "Global Dual Sourcing within WuXi Bio".

The following table sets forth the status of the on-going integrated projects of the Group as at June 30, 2019:

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	106	2 years	US$4-6 mm
Post-IND			
— Early-phase (phases I & II) clinical development:	102	3 years	US$4-6 mm
— Phase I clinical development	(75)		
— Phase II clinical development	(27)		
— Late-phase (phase III) clinical development	15	3-5 years	US$20-50 mm
— Commercial manufacturing	1	Annually	US$50-100 mm[(3)]
Total	**224**		

Notes:

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

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

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

Management Discussion and Analysis

The Group's revenue for the six months ended June 30, 2019 reached RMB1,607.1 million, representing an increase of 52.4% as compared to the same period of 2018. The Group's total backlog, including service backlog and upcoming potential milestone fees, also substantially increased 159.8% from US$1,782 million as at June 30, 2018 to US$4,630 million as at June 30, 2019, of which service backlog increased 225.1% from US$534 million to US$1,736 million and upcoming potential milestone fees increased 131.9% from US$1,248 million to US$2,894 million respectively. The service backlog represents the amount which the Group has contracted but yet to perform. The total upcoming potential milestone fees represent the total amount for upcoming milestone fees, which the Group has contracted but has not yet performed nor received and will take a longer term to charge at various development stages, depending on the success rate and progress of the projects which may not be within the Group's control.

The Group continues to drive its capability and capacity growth in pursuit of the "Follow-the-Molecule" strategy. During the Reporting Period, the Group constantly innovated and iteratively improved proprietary technology platforms by exploiting cutting-edge technologies and industry best practice, including but not limited to:

- WuXiBody™, a bispecific antibody platform which can considerably expedite bispecific development at a much lower cost;

- WuXia, a cell line development platform that enables the Group to launch more than 60 IND-enabling projects per year, one of the largest capacities in the world; and

- WuXiUP, a continuous manufacturing platform that utilizes 2,000L disposable bioreactors to achieve comparable productivity as a traditional 20,000L stainless steel bioreactor while still providing similar or even better purification yield.

Backed by these industry leading technologies, new strategic collaboration agreements were signed and more biologics projects were introduced into the Group's pipeline under the "Follow-the-Molecule" strategy during the Reporting Period, such as the US$220 million expanded strategic collaboration with ABL Bio, a South Korean listed biotechnology company (Stock code: 298380:KS), by which the Group licensed technology platforms, including WuXiBody™, to ABL Bio for development of novel bispecific antibodies and immune-oncology program.

The Group also achieved important milestones at remarkable speed for its capacity expansion during the Reporting Period to implement its "Global Dual Sourcing within WuXi Bio" manufacturing paradigm, with which the Group's partners can manufacture from facilities within the Group's global supply network in China, EU and US to ensure their global supply and eliminate the risks associated with inter-company technology transfer.

Management Discussion and Analysis

The combination of the "Follow-the-Molecule" strategy and the "Global Dual Sourcing within WuXi Bio" paradigm offers powerful advantages to the Group's partners. The Group and Amicus Therapeutics ("**Amicus**"), a global, patient-dedicated biotechnology company listed on NASDAQ (Stock code: FOLD), entered into an exclusive commercial manufacturing partnership for Amicus' Pompe biologic ATB200. The Group will be the exclusive commercial drug substance (DS) manufacturing partner and key commercial drug product (DP) supplier of ATB200. The ATB200 program was initiated at the Group in 2012 at the initial drug concept stage and now the drug has progressed into a pivotal study. By leveraging cutting-edge technology, best timelines, excellent track record and unparalleled capabilities and capacity, the Group kept improving the core competencies to become the most comprehensive technology platform in the global biologics industry to benefit patients globally.

During the Reporting Period, the Group further diversified its customer base by working with 13 out of the 20 largest pharmaceutical companies in the world and 23 of the 50 largest pharmaceutical companies in China. The Group provided services to 194 customers for the six months ended June 30, 2019, compared with 168 customers for the same period last year. The average revenue per customer among the top ten customers grew 31.5% from approximately RMB60.7 million for the six months ended June 30, 2018 to approximately RMB79.8 million for the six months ended June 30, 2019 as a result of more projects progressing into later stages and more projects offered to the Group by customers. The Group believes that continuous capability and capacity expansion as well as cooperation with and commitment to its existing customers will enhance its value chain and continue to capture the opportunities in this growing market in the future.

Subsequent to the establishment of a joint venture engaging in vaccines CDMO business in July 2018, the Group took another firm step into the vaccines CDMO business by entering into a strategic partnership via a letter of intent (LOI) with a global vaccine leader. Pursuant to this LOI, the Group will, through a company to be established jointly by it and Shanghai Hile Bio-pharmaceutical Co., Ltd. (上海海利生物技術股份有限公司), a company listed on Shanghai Stock Exchange (Stock code: 603718), build an integrated vaccines manufacturing facility, including drug substance manufacturing, drug product manufacturing as well as quality control labs, and manufacture certain vaccine for the Group's vaccine partner. It is expected that the manufacturing contract will be for an initial term of twenty years with a total contract value of over US$3 billion. This partnership with a global vaccine leader to manufacture vaccines for the global market showcases the Group's technical strengths and premier quality standard. Once this project is initiated, the vaccine business will contribute substantially to the Group's business growth.

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.

Wuxi Site

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

The Group's MFG1, the first and only biologics manufacturing facility in China approved by both the U.S. FDA and the EU EMA, has been manufacturing commercial products for customer since 2018. MFG1 maintained cGMP run for customer orders and kept high capacity utilization rate during the Reporting Period.

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

The Group's Manufacturing 4 ("**MFG4**") has completed its construction and further achieved GMP release in July 2019. MFG4 is the fourth GMP released drug substance facility of the Group and the first facility in China to use a 4,000L-capacity bioreactor, which is the industry's largest disposable bioreactor. In addition, the facility has installed two 2,000L-capacity and two 1,000L-capacity single-use bioreactors for flexible production options for the Group's customers. The facility can support fed-batch, concentrated fed-batch (CFB) and other new types of cell culture processes.

The Group's state-of-the-art integrated biologics conjugate solution center in the New District of Wuxi city also completed its initial construction phase. The first facility at the center, the Group's Drug Product Facility 3 ("**DP3**"), is 6,000 square meters and provides integrated solutions from concept to commercialization for biological conjugates, including ADCs and other protein conjugates, in accordance with global quality standards. During the Reporting Period, the Group further planned to expand the center with an additional facility to enable cGMP commercial manufacturing for ADCs drug substance and drug product. The center is expected to initiate GMP manufacturing later this year.

In July 2019, the Group's Drug Product Facility 4 ("**DP4**") in the Wuxi site was GMP released for GMP manufacturing and successfully completed the first product engineering run under GMP conditions. DP4 is the first robotic aseptic isolator filling line for biologics in China and the second GMP released sterile filling DP facility of the Group. With its key advantages of vacuum stoppering and nitrogen protection, process flexibility, container flexibility and aseptic assurance, DP4 is capable of manufacturing both pre-filled syringe (PFS) and vial products for early stage clinical supplies with the scale-out strategy.

Shanghai Site

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

During the Reporting Period, the R&D team at the Shanghai site endeavored to innovate and improve various technology platforms. The Group's proprietary cell line development platform, WuXia, is one of the world's highly utilized cell line development platforms and has provided more than 259 cell lines for pre-clinical development and beyond. With the proprietary expression vector system, top 3 clones with high titers can be obtained and utilized for process development and cGMP manufacturing. Combined with cGMP cell banking and cell line characterization services, the WuXia platform is ideal for the production of a variety of therapeutic proteins including monoclonal antibodies, bispecific antibodies, fusion proteins and recombinant proteins. WuXiUP, the Group's proprietary biologics continuous manufacturing platform with ultra-high productivity, accelerates biologics development and manufacturing as well as improves affordability of biologics. The intensified and continuous cell culture process can be rapidly developed or converted from traditional fed-batch process while maintaining excellent scalability and robustness. Coupled with continuous product capture column chromatography, the WuXiUP platform enables continuous direct product capture with a similar or better purification yield to traditional purification process for almost any biologics. During the Reporting Period, this continuous direct product capture platform was established and successfully scaled up in the Shanghai site for production of clinical supplies with consistent process performance and product quality profiles. WuXiUP has been implemented in more than 15 projects for production of mAbs, bispecific antibodies and fusion proteins at ultra-high productivity. Boosted by these state-of-the-art technology platforms, the Group enables its partners in the fast-growing biologics field. Additionally, more than 20 ADCs have been or are being developed at the Group and 11 ADCs projects have been successfully advanced by the Group to IND filing stage.

With the 7,000L capacity of the Group's Manufacturing 3 ("**MFG3**"), the Shanghai site now offers complete one-stop biologics development and manufacturing service in one central location thus streamlining clinical CMC (Chemistry, Manufacturing and Control) activities even further to enable the Group's customers to reach their clinical manufacturing goals within the shortest time possible.

The Group's global innovation center in the Fengxian district of Shanghai has made fast progress in its initial construction phase during the Reporting Period. Once put into operation, this new state-of-the-art biologics center with 150,000 square meters area for biologics discovery, development, clinical and commercial manufacturing facilities will be one of the largest facilities of its kind globally.

Suzhou Site

The Suzhou site houses the biosafety testing facilities, providing services such as viral clearance, cell bank testing and cell line characterization studies. The Suzhou site has built state-of-the-art biosafety testing facilities that can support all biosafety testing requirements for biologics manufacturing. The quality system and testing capability of Suzhou site stepped up further by obtaining certifications from both China Metrology Accreditation ("**CMA**") and China National Accreditation Service for Conformity Assessment ("**CNAS**"), which validated the Group's high level of quality commitment to its global customers.

During the Reporting Period, the Suzhou site continued to improve its operational efficiency, which significantly shortened the turnaround times for all the biosafety tests and viral clearance validation studies. Various awards were received at the Suzhou site from its key customers during the Reporting Period, thus rewarding the team for its accomplishments. The Suzhou site also signed several strategic cooperation agreements with a number of key customers for late-phase and commercial projects, including those for commercial product bulk release and Biologics License Application (BLA) viral clearance services. These agreements strengthened the long term relationships between the Group's partners and the Suzhou site. With the further growth of business, the Suzhou site is actively building new laboratories to enlarge the current capacity as well as increasing its investment in R&D for providing more diversified services in the future.

Research and Development

During the Reporting Period, the Group's R&D team continuously focused on (i) enhancing innovative biologics generation capabilities and optimizing several existing technological platforms including traditional hybridoma technology, premium humanization and antibody optimization platforms, phage display technology, fully human antibodies, bispecifics, nanobodies and antibody fragments to expedite the discovery of novel therapeutic biologics; (ii) supporting the Group's global partners in using the proprietary bispecific antibody platform WuXiBody™, so as to enable them to considerably accelerate the development process of new bispecific biologics; (iii) enhancing the Group's in vitro and particularly in vivo biology capabilities and capacity to enable screen, identification and characterization of desired biologics as drug development candidates; (iv) continuously identifying and prioritizing new areas of biologic innovation and developing proprietary technologies to enable the Group's customers to discover and develop differentiated novel biologic drugs; and (v) refining system and team building for more efficient business operation and optimized cost control to ensure the provision of quality and efficient technical solutions to customers. Through R&D activities, the Group developed various proprietary technologies, which enable it to receive milestone and royalty fees from customers utilizing such technologies.

As the Group's proprietary bispecific antibody technology platform, WuXiBody™ has been more adopted in the industry. The Group's scientists have also been invited to present WuXiBody™ at various world renown antibody conferences including but not limited to PEGS (Protein Engineering Summit) and the Antibody Engineering and Therapeutics Conference. During the Reporting Period, the Group has signed eight WuXiBody™ licensing agreements with five partners. Relevant businesses based on WuXiBody™ have delivered strong growth for the results of the Group.

For the six months ended June 30, 2019, the R&D expenditure was RMB109.1 million, which accounted for 6.8% of the revenue. The R&D team of the Company has approximately 250 scientists, many of whom have multiple years of biologics drug discovery experiences at multinational pharmaceutical companies.

The Group strives to advance and innovate its technologies to optimize the entire spectrum of services offered to the global biologics industry and to provide the best new biologics R&D solutions to our customers and thereby ultimately benefiting patients worldwide.

Sales and Marketing

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

The multichannel marketing approach involves both technical and sales presence at various global industry trade conferences. Through the first half of 2019, 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 Philadelphia. 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 existing key accounts and potential clients how the Group can help them in their critical biologics development efforts. The Group also attended events held in more regional venues like BioEurope, BioKorea and CPhI Japan to further discuss with senior level executives on the advantages and competitiveness of the Group's one-stop biologics development platform. The Group also attended or presented its various platform technologies at technology-centric conferences dedicated to biologics discovery, development and manufacturing. Multiple presentations on the Group's disruptive WuXiBody™ bispecific antibody platform were presented at events like the PEGS (Protein Engineering Summit) Conference in Boston, Next Generation Protein Therapeutics Summit in San Francisco and Antibody Engineering and Therapeutics Conference in Amsterdam.

During the Reporting Period, the Group used various marketing and promotional strategies that include company press releases, advertisements and social media to promote its exciting WuXiBody™ bispecific platform, WuXia cell line development platform and WuXiUP continuous manufacturing platform. Through the global multichannel marketing approach to highlight its differentiated competitive strengths, the Group once again established itself as a premier supplier and partner in the biologics industry.

Quality Assurance

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

The Quality Department is responsible for implementing the Group's global quality system and supervising the quality operations to ensure GMP compliance within the Group's manufacturing environment. Subsequent to the 2018 U.S. FDA approval of the Group's DS and DP manufacturing facilities in the Wuxi site MFG1, these facilities together with the cell banking facility in the Shanghai site have further received GMP certificates from the EU EMA in March 2019 following the pre-approval inspections conducted in January 2019. The U.S. FDA and the EU EMA approvals distinguished the Group as the first and only biologics manufacturing company in China approved by both regulatory agencies. This also fully evidenced that DS and DP operations, as well as the cell banking facility of the Group are in compliance with the applicable regulations and that the Quality Department has established a global quality system in line with international standards.

In April 2019, the DS and DP manufacturing facilities in the Wuxi site MFG1 successfully completed the U.S. FDA's routine post-approval GMP inspection. The outcome of this inspection again reinforces that the quality system at the Group strictly adheres to the U.S. FDA GMP regulations.

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

Capacity Expansion Plan

During the Reporting Period, the Group continued its investments into the capacity expansion plan to keep pace with growing global demand for biologics manufacturing. The capacity expansion also will help the Group to provide manufacturing capacity for the increasing number of late-phase projects and maintain alignment with the Group's long-term globalization paradigm of "Global Dual Sourcing within WuXi Bio". The total planned capacity of the Group's capacity expansion plan across the world has reached 280,000 liters as of June 30, 2019.

Facility	Designed Capacity	Location	Comments
MFG4	10,000L fed-batch/CFB	Wuxi	Clinical/Commercial
MFG5	60,000L fed-batch	Wuxi	Commercial
MFG6	6,000L perfusion	Ireland	Commercial
MFG7	48,000L fed-batch	Ireland	Commercial
MFG8	48,000L fed-batch	Shijiazhuang	Commercial
MFG9	6,000L fed-batch/CFB	Wuxi	Clinical/Commercial
MFG10	4,500L fed-batch/perfusion	Singapore	Clinical/Commercial
MFG11	4,500L fed-batch/perfusion	Worcester, US	Clinical/Commercial
MFG12	48,000L fed-batch	Chengdu	Commercial

In May 2019, the Group launched the construction of a new 120,000 square meters integrated manufacturing center for innovative biologics (Manufacturing 12, "**MFG12**") in Chengdu, one of the largest cities in Southwest China. This new integrated manufacturing center will include biologics development and commercial manufacturing facilities with initial bioreactor capacity of 48,000L.

The Ireland site, which will be the Group's first overseas site, has been progressing well in its construction during the Reporting Period. As at June 2019, the site has commenced steel framework construction. Once completed, the facility will become one of the world's largest facilities using single-use bioreactors with a next generation continuous manufacturing process technology.

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

Future and Outlook

The global biologics industry keeps growing and shows no signs of abating. In 2019, biologics is forecast to represent 27 percent of the global drug market, and by 2024, 31 percent. The U.S. FDA also set an all-time records of new drug approvals with approximately 17 new biologics molecular entities approved in 2018. The number of annual approvals is very likely to increase based on industry clinical trial and drug pipeline data. Driven by the rapid pace of innovation with legions of biologics in the drug pipeline, increasing investment, advantageous regulatory environment and increasing demand across the world, the biologics market is expected to continue its meteoric rise in the coming years. Such industry-related indicators and trends are laying a solid foundation for increased demand for biologics outsourcing.

Biologics is the fastest-growing sector of the pharmaceutical industry as eight biologics appeared in the top ten selling drugs as of the end of 2018. On the other hand, backed with intense investments and R&D activities, the competition in biologics industry becomes more and more fierce. Outsourcing is being viewed increasingly as a desired option by both large pharmaceutical companies and small and medium-sized biotechnology companies to maintain competitiveness and bridge the gap between performance and opportunity.

Management Discussion and Analysis

Along with the biologics market growth, extremely high costs, extensive expertise and experience are needed for the growing trend of complex specialized biologics and immunotherapies for smaller populations, as well as for rare diseases. More and more biologics companies are choosing to outsource to one full-service CDMO from proof-of-concept to commercialization rather than several niche providers, as this not only simplifies the supply chain and can reduce time to market but also takes advantage of CDMOs' advanced technologies and expertise. The Group has been a pioneer in providing comprehensive one-stop shop service from concept to commercialization, expediting global biologics development. The CDMO industry is now following suit. A shift to a more cost-effective, efficient and professional integrated outsourcing paradigm is more attractive to biopharma.

China is now one of the most exciting place for biologics innovation. Under the influence of policy reform, economic and external environmental changes, the Chinese biologics industry has entered into a new era of adjustment and adaptation, with innovation being highlighted as the main theme and long-term trend. China has promulgated a series of policies and regulations to expedite the review and approval process for innovative biologics. In addition, the new Vaccine Administration Law, which will take into effect on December 1, 2019, officially recognized vaccine CMO (Contract manufacturing organization) model. Supported by favorable policies, together with the returnees of biologics scientists and new financing channels established in both Hong Kong and Shanghai stock markets, China is growing as an indispensable role in global biologics research and development. It is very likely that China biologics can make transition from being fast followers to true innovators in the near future. The biologics outsourcing industry, which has developed along with innovative drug development, is also experiencing a long-term upward trend.

Riding on the thriving global and China biologics outsourcing market, the Group will continue to maintain its strong growth in the coming years. The Group offers end-to-end solutions empowering anyone and any company to discover, develop and manufacture biologics from concept to commercial manufacturing in a cost-effective and time-sensitive manner. With constant investments in its capabilities and capacity, the Group will capture more development opportunities in the biologics industry and boost its milestones and royalty revenue streams by attracting more potential customers and introducing more biologics into the combination of the "Follow-the-Molecule" strategy and "Global Dual Sourcing within WuXi Bio" paradigm.

2019 will be a year full of opportunities. We will continue to enhance our capabilities and capacity, build our technology platforms, and enable our partners. We believe in our efforts and dedication 100% and we envisage that grand future — where "every drug can be made and every disease can be treated". We will see it, and hopefully, sooner than we expect!

Financial Review

Revenue

The revenue of the Group increased by 52.4% from approximately RMB1,054.4 million for the six months ended June 30, 2018 to approximately RMB1,607.1 million for the six months ended June 30, 2019. The increase was mainly attributed to (i) leading technology platforms, competitive timeline and strong execution track record contributing to more market share and new integrated projects being added to our pipeline; (ii) the Group's innovative proprietary technology platforms, including but not limited to the bispecific antibody technology platform WuXiBody™, have been more adopted in the industry; and (iii) strong growth in revenue, as a result of the success of the Group's "Follow-the-Molecule" strategy.

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 North America and the PRC. The table below shows the revenue distribution by countries/regions:

	Six months ended June 30,			
	2019		2018	
Revenue	**RMB million**	**%**	RMB million	%
— North America	**846.7**	**52.7%**	596.4	56.6%
— PRC	**569.2**	**35.4%**	370.4	35.1%
— Europe	**112.3**	**7.0%**	52.9	5.0%
— Rest of the world *(Note)*	**78.9**	**4.9%**	34.7	3.3%
Total	**1,607.1**	**100.0%**	1,054.4	100.0%

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

For the six months ended June 30, 2019, the pre-IND services revenue of the Group increased by 24.2% to approximately RMB815.2 million, accounting for 50.7% of the total revenue. On the other hand, the post-IND services revenue of the Group showed a rapid increase of 98.9% to approximately RMB791.9 million, accounting for 49.3% of the total revenue, as a result of more projects progressing from pre-IND to subsequent stages such as early-phase and late-phase stages by implementing the "Follow-the-Molecule" strategy.

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

	Six months ended June 30,			
	2019		2018	
	RMB million	**%**	RMB million	%
Pre-IND services	**815.2**	**50.7%**	656.3	62.2%
Post-IND services	**791.9**	**49.3%**	398.1	37.8%
Total	**1,607.1**	**100.0%**	1,054.4	100.0%

Cost of Services

The cost of services of the Group increased by 46.3% from approximately RMB639.7 million for the six months ended June 30, 2018 to approximately RMB936.1 million for the six months ended June 30, 2019. The increase of the cost of services was in line with the business growth.

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

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 61.8% from approximately RMB414.7 million for the six months ended June 30, 2018 to approximately RMB671.0 million for the six months ended June 30, 2019. The Group's gross profit margin increased from 39.3% for the six months ended June 30, 2018 to 41.8% for the six months ended June 30, 2019. The increase in the gross profit margin was primarily attributed to (i) the Group's strong business growth, along with the rapid increase in its number of integrated projects; (ii) significant improvement on capacity utilization of MFG3 which commenced production from the second half year of 2018; and (iii) more milestone revenue with relatively high gross margin was received for the six months ended June 30, 2019.

Other Income

The other income of the Group increased by 169.6% from approximately RMB40.8 million for the six months ended June 30, 2018 to approximately RMB110.0 million for the six months ended June 30, 2019, primarily due to the increase in government grants.

Other Gains and Losses

The net other gains of the Group increased by 144.7% from approximately RMB12.3 million for the six months ended June 30, 2018 to approximately RMB30.1 million for the six months ended June 30, 2019, primarily due to (i) the appreciation of U.S. dollar from the second half year of 2018, leading to more foreign exchange gain was recognized for the six months ended June 30, 2019, as compared with the same period of 2018; (ii) the Group acknowledged receipt of termination notice to an option to purchase certain of its biologics manufacturing facilities from an independent third party, and accordingly US$2.0 million (equivalent to approximately RMB13.8 million) was recognized as a gain on non-refundable option fee.

Impairment Losses, Net of Reversal

Impairment losses, net of reversal of the Group, decreased by 51.0% from approximately RMB19.6 million for the six months ended June 30, 2018 to approximately RMB9.6 million for the six months ended June 30, 2019. Impairment losses, net of reversal, represent loss allowances on the Group's financial assets and other items (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. Management of the Group considers that the impairment losses under ECL model have been of a more conservative view in credit risk control. Management has been continuously managing the credit risk through periodic review and monitoring on the doubtful debts.

Selling and Marketing Expenses

The selling and marketing expenses of the Group increased by 32.2% from approximately RMB19.9 million for the six months ended June 30, 2018 to approximately RMB26.3 million for the six months ended June 30, 2019, which demonstrated our continuous efforts in the capability enhancement in business development to capture more opportunities in the growing market. The proportion of the selling and marketing expenses to the Group's total revenue was 1.6% for the six months ended June 30, 2019, representing a slight decrease from 1.9% for the six months ended June 30, 2018.

Administrative Expenses

The Group's administrative expenses increased by 71.9% from approximately RMB87.1 million for the six months ended June 30, 2018 to approximately RMB149.7 million for the six months ended June 30, 2019, primarily due to (i) workforce expansion to facilitate the smooth operation and support the Group's rapid growing business and its long term development; and (ii) an increase in depreciation, office administration cost, etc., which are in line with the Group's business and headcount growth.

Research and Development Expenses

The research and development expenses of the Group increased by 94.1% from approximately RMB56.2 million for the six months ended June 30, 2018 to approximately RMB109.1 million for the six months ended June 30, 2019, as a result of our enhanced investment in innovation and technologies to enhance the Group's core competitiveness in the evolving industry.

Finance Cost

Upon application of IFRS 16 Leases, lease payments in relation to the interest portion is presented in the finance cost, started January 1, 2019. For the six months ended June 30, 2019, the interest expense on lease liabilities amounted to approximately RMB4.6 million (for the six months ended June 30, 2018: nil).

Income Tax Expense

The income tax expense of the Group increased by 76.3% from approximately RMB35.5 million for the six months ended June 30, 2018 to approximately RMB62.6 million for the six months ended June 30, 2019, as a result of the Group's business growth. The effective income tax rate has been stable (12.2% for the six months ended June 30, 2019, as compared to 12.5% for the six months ended June 30, 2018).

Net Profit and Net Profit Margin

As a result of the foregoings, the net profit of the Group increased by 80.1% from approximately RMB249.6 million for the six months ended June 30, 2018 to approximately RMB449.5 million for the six months ended June 30, 2019. The net profit margin of the Group for the six months ended June 30, 2019 was 28.0%, as compared to 23.7% for the six months ended June 30, 2018. The significant increase in the net profit margin was primarily due to (i) the Group's steady increase in the number of integrated projects and as a result, strong growth in revenue; (ii) solid cost control and business operation efficiency enhancement; and (iii) other non-operating income recorded; partially offset by (iv) increase of administrative expenses and research and development expenses in line with the Group's business growth.

The adjusted net profit[1] of the Group increased by 75.8% from approximately RMB296.7 million for the six months ended June 30, 2018 to approximately RMB521.5 million for the six months ended June 30, 2019. The adjusted net profit margin of the Group for the six months ended June 30, 2019 was 32.4%, compared to 28.1% for the six months ended June 30, 2018. The expansion of adjusted net profit margin follows the same set of reasons as in the above discussion.

EBITDA

The EBITDA[2] of the Group increased by 77.2% from approximately RMB381.1 million for the six months ended June 30, 2018 to approximately RMB675.4 million for the six months ended June 30, 2019. The EBITDA margin of the Group for the six months ended June 30, 2019 was 42.0%, compared to 36.1% for the six months ended June 30, 2018. The higher EBITDA margin of the Group for the six months ended June 30, 2019 was primarily due to a higher net profit margin as discussed above.

The adjusted EBITDA[3] of the Group increased by 74.5% from approximately RMB428.3 million for the six months ended June 30, 2018 to approximately RMB747.4 million for the six months ended June 30, 2019. The adjusted EBITDA margin of the Group for the six months ended June 30, 2019 was 46.5%, compared to 40.6% for the six months ended June 30, 2018. The expansion of adjusted EBITDA margin follows the same set of reasons as discussed above.

Basic and Diluted Earnings Per Share

The basic earnings per share of the Group increased by 76.2% from RMB0.21 for the six months ended June 30, 2018 to RMB0.37 for the six months ended June 30, 2019. The diluted earnings per share of the Group increased by 78.9% from RMB0.19 for the six months ended June 30, 2018 to RMB0.34 for the six months ended June 30, 2019. The increase in the basic and diluted earnings per share was primarily due to the increase in the net profit resulted from the strong business growth of the Group.

The adjusted basic earnings per share for the six months ended June 30, 2019 amounted to RMB0.42, representing an increase of 68.0% as compared with that of RMB0.25 for the six months ended June 30, 2018. The adjusted diluted earnings per share of the Group for the six months ended June 30, 2019 amounted to RMB0.39, representing an increase of 69.6% as compared with that of RMB0.23 for the six months ended June 30, 2018. The increase in the adjusted basic and diluted earnings per share was primarily due to the increase in the adjusted net profit as discussed above.

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

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

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

Plant and Equipment

The plant and equipment balance of the Group increased by 24.5% from approximately RMB2,903.9 million as at December 31, 2018 to approximately RMB3,615.8 million as at June 30, 2019. During the six months ended June 30, 2019, the Group acquired approximately RMB847.5 million (during the six months ended June 30, 2018: approximately RMB480.1 million) of plant and equipment for the continuous investment in its capacity expansion of research, development and manufacturing.

Right-of-Use Assets/Prepaid Lease Payments

As a result of the application of IFRS 16 Leases, distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets. The right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Upfront payments for leasehold lands were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to approximately RMB2.9 million and RMB168.6 million respectively were reclassified to right-of-use assets.

Intangible Assets

The intangible assets of the Group mainly include a license to use certain animals for the purpose of researching, developing and making antibodies. No new acquisition or addition of the intangible assets was recorded during the Reporting Period (during the six months ended June 30, 2018: US$51.0 million (equivalent to approximately RMB333.3 million)).

Investment in an Associate/Share of Profit of an Associate

On April 28, 2019, the Group subscribed 9.32% of the equity interest of Shanghai Duoning Biotechnology Co., Ltd. ("**Duoning**"), a PRC corporation, with a cash consideration of US$5.0 million (equivalent to approximately RMB33.8 million). Duoning focuses on the sales of serum-free media and disposable products, formulation production and services.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those decisions. The results and assets and liabilities of associates are incorporated into the Group's consolidated financial statements using the equity method of accounting.

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

Equity instruments at FVTOCI include 19.9% of the equity interests of Tysana Pte. Ltd. ("**Tysana**") and Privus Biologics, LLC ("**Privus**") respectively, which were subscribed by the Group in 2018.

During the Reporting Period, the Group managed and evaluated the unlisted investments performance of ordinary shares purchased on a fair value basis in accordance with the Group's investment strategy. As at June 30, 2019, the directors of the Company are of the opinion that there was no significant fair value change occurred in these FVTOCI investments.

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

In May 2018 and January 2019, the Group entered into agreements to purchase 429,799 and 1,719,197 Series Mezzanine 2 Preferred Shares of Inhibrx, Inc. ("**Inhibrx**") for cash consideration of US$3.0 million (equivalent to approximately RMB20.6 million as at June 30, 2019) and US$12.0 million (equivalent to approximately RMB82.5 million as at June 30, 2019) respectively. Inhibrx is a Delaware corporation and focuses on the business of delivering optimized, biologic therapeutics to people with life-threatening conditions and building a large and diverse pipeline with the potential to impact cancer, infectious disease and orphan diseases.

In September 2018 and January 2019, the Group entered into agreements to purchase 481,454 Series C-1 and 481,454 Series C-3 Preferred Shares of Canbridge Pharmaceuticals Inc. ("**Canbridge**") for a cash consideration of US$5.0 million (equivalent to approximately RMB34.4 million as at June 30, 2019) and US$5.0 million (equivalent to approximately RMB34.4 million as at June 30, 2019) respectively. Canbridge is an exempted company incorporated with limited liability under the laws of Cayman Islands and focuses on the business of developing, selling, or marketing the pharmaceuticals for treatment or prevention of oncology or rare disease indications.

In March 2019, the Group entered into an agreement to purchase 2,856,055 Series A Preferred Shares of Virtuoso Therapeutics, Inc. ("**Virtuoso**") for a cash consideration of approximately US$1.9 million (equivalent to approximately RMB12.9 million as at June 30, 2019). Virtuoso is an exempted company duly incorporated and validly existing under the laws of Cayman Islands and focuses on the business of researching and developing antibodies and the therapeutics on oncology.

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

During the Reporting Period, the Group managed and evaluated the unlisted investment performance of preferred shares purchased on a fair value basis in accordance with the Group's investment strategy.

Inventories

The inventories of the Group increased by 40.4% from approximately RMB227.2 million as at December 31, 2018 to approximately RMB318.9 million as at June 30, 2019, primarily as a result of the Group's business growth. Along with the Group's increased number of on-going integrated projects, the Group is required to reserve a higher inventory level for safe service provision.

Contract Costs

The contract costs of the Group increased by 29.2% from approximately RMB294.6 million as at December 31, 2018 to approximately RMB380.7 million as at June 30, 2019, primarily as a result of the Group's business growth. By implementing the "Follow-the-Molecule" strategy, the Group has achieved more projects progressing from pre-IND stage into next stages such as early-phase (phase I and II) and late-phase (phase III), which have carried higher records of contract costs.

Trade and Other Receivables

The trade and other receivables of the Group increased by 15.9% from approximately RMB1,067.2 million as at December 31, 2018 to approximately RMB1,237.1 million as at June 30, 2019, primarily due to the increases in trade receivables and value added tax recoverable, as a result of the Group's business growth.

Contract Assets

The contract assets of the Group decreased by 63.3% from approximately RMB36.0 million as at December 31, 2018 to approximately RMB13.2 million as at June 30, 2019, primarily due to that more projects have achieved the milestones as stipulated in the contract and the related contract assets have been reclassified to trade receivables during the Reporting Period.

Trade and Other Payables

The trade and other payables of the Group increased by 11.4% from approximately RMB711.8 million as at December 31, 2018 to approximately RMB792.6 million as at June 30, 2019, primarily due to (i) an increase in trade payables along with the Group's business growth; and (ii) an increase in payable for purchase of plant and equipment along with the Group's continuous investment in its laboratory and manufacturing capacities; partially offset by (iii) a decrease in salary and bonus payables since the annual bonus accrued by the end of 2018 was settled in the early 2019.

Contract Liabilities

The contract liabilities of the Group decreased by 16.7% from approximately RMB499.7 million as at December 31, 2018 to approximately RMB416.2 million as at June 30, 2019, primarily due to more projects have been carried forward along with the contracts during the Reporting Period.

Lease Liabilities (Current Portion & Non-current Portion)

As a result of the application of IFRS 16 Leases, the lease liability is initially measured at the present value of lease payments that are unpaid at that date. After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Liquidity and Capital Resources

The Group's bank balances and cash and time deposits amounted to approximately RMB3,029.5 million in total as at June 30, 2019, as compared to approximately RMB4,084.4 million in total as at December 31, 2018. The decrease was mainly due to the funding of working capital and other capital requirements. The cash and cash equivalents held by the Group are composed of RMB and U.S. dollar. Currently, the Group follows a set of funding and treasury policies to manage its capital resources and prevent risks involved.

Significant Investments, Material Acquisitions and Disposals

On April 28, 2019, the Group subscribed 9.32% of the equity interest of Duoning, with a cash consideration of US$5.0 million (equivalent to approximately RMB33.8 million). Duoning focuses on the sales of serum-free media and disposable products, formulation production and services.

On June 13, 2019, the Group entered into agreements to subscribe 50.1% of the equity interests of Pinghu Youpu Biotechnology Co., Ltd. ("**Youpu**") and Bogelong (Shanghai) Biotechnology Co., Ltd. ("**Bogelong**"), two affiliated companies registered under the laws of the PRC, with a cash consideration of approximately RMB300.6 million. Youpu and Bogelong primarily engage in production and sale of biological separation medium and related equipment. Pursuant to the agreements, these two companies will become non-wholly owned subsidiaries of the Company. As of June 30, 2019, the acquisition has not yet been completed.

Indebtedness

Borrowings

There was no bank borrowing drawn by the Group as at June 30, 2019 and December 31, 2018.

Contingent Liabilities and Guarantees

As at June 30, 2019, the Group did not have any material contingent liabilities or guarantees.

Exposure to Fluctuations in Exchange Rates

For the potential exposure to fluctuations in exchange rates of the Group, please refer to the section headed "Currency Risk" on page 33 of this interim report.

Charges of Assets

As at June 30, 2019, the Group pledged bank deposits with an amount of approximately RMB440.9 million in total, which increased by 1,649.6% from approximately RMB25.2 million as at December 31, 2018, primarily due to more deposits have been pledged to banks as collaterals for the issue of standby letters of credit in connection with the Group's imported raw materials, plant and equipment, along with the Group's business growth.

Gearing Ratio

Gearing ratio is calculated using interest-bearing borrowings less cash and cash equivalents, divided by total equity and multiplied by 100%. Both as at June 30, 2019 and December 31, 2018, the Group had no borrowing and thus, gearing ratio is not applicable.

Employees and Remuneration Policies

As at June 30, 2019, the Group had a total of 4,512 employees, of whom 2,059 were located in Shanghai, 2,193 were located in Wuxi, Jiangsu Province, 196 were located in Suzhou, Jiangsu Province, 7 were located in Shijiazhuang, Hebei Province and 57 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 RMB462.2 million for the six months ended June 30, 2019, as compared to approximately RMB266.7 million for the six months ended June 30, 2018. The remuneration package of employees generally includes salary and bonus elements. In general, the Group determines the remuneration package based on the qualifications, position and performance of its employees. The Group also makes contributions to social insurance fund, including basic pension insurance, medical insurance, unemployment insurance, childbirth insurance, work-related injury insurance funds, and housing reserve fund as applicable to the countries where the Group operates.

The Group has adopted the Pre-IPO Share Option Scheme and the Restricted Share Award Scheme to provide incentive or reward to eligible participants for their contribution or potential contribution to the Group.

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 the applicable laws and regulations.

Interim Dividend

The Board resolved not to declare any interim dividend for the six months ended June 30, 2019.

Other Information

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 January 1, 2019 as follows:

- Mr. Yanling Cao, non-executive director of the Company, was appointed as a non-executive director of CStone Pharmaceuticals, the shares of which are listed on the Stock Exchange (stock code: 2616), with effect from May 15, 2019.

- The director's fee of Mr. Edward Hu, non-executive director of the Company, under the service agreement was changed to HK$450,000 per annum as determined by the Board at the recommendation of the Remuneration Committee of the Company with reference to his performance, time commitment and responsibility with the Company with effect from March 19, 2019.

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, 2019. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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. Save for the dealings of 5,500 Shares by Mr. William Robert Keller, an independent non-executive Director, during the black-out period out of an inadvertent oversight, which has been disclosed under the section headed "Compliance with the Model Code for Securities Transactions" in the Company's interim results announcement dated August 19, 2019, 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 Reporting Period. No incident of non-compliance of the Guidelines for Securities Transactions by Employees (員工證券交易管理辦法) 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 independent auditors of the Company, namely Deloitte Touche Tohmatsu, have carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. 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 jointly reviewed with the management and the independent auditors of the Company, the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the unaudited interim results and the interim report of the Group for the Reporting Period), and they are 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.

Risk Management

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

Regulatory Risk

The biologics industry, being a division of the pharmaceutical and healthcare industry has experienced drastic changes in recent years. On the one hand, the National Medical Products Administration (NMPA) has introduced certain measures to improve the standards of the approval of pharmaceutical research and development and the efficiency of the approval of drug applications, i.e., the "NMPA Notice No. 126 (2017)" which is the Opinion on Implementing Priority Review and Approval to Encourage Drug Innovation and the "Notice No. 23 (2018)" which is the Announcement on Optimizing the Review and Approval of Drug Registration. On the other hand, while government policies toward the pharmaceutical industry are expected to remain stable and the government is expected to remain committed to increasing innovation as well as overall healthcare spending which is in line with the "Healthy China 2030" goals set by the State Council of the PRC, it is also observed that the companies of this industry are to comply with more stringent regulations which is more close to international standards, the punishment becomes much stricter and supervision and inspection from government will become more frequent. In response to this, the Group sticks to the strategies of "Innovation" and "Globalization" to handle the constantly changing regulations. The Group has formed a dedicated Regulatory Affairs team which comprises professionals with years of experiences and diversified backgrounds in both domestic and overseas markets. The team members are responsible for actively following new laws, regulations and guidelines published by regulatory agencies and promoting improvements in compliance with such laws, regulations and guidelines.

Global Politics and Economy Uncertainty Risk

Despite the continuous global economic growth, there are still a number of uncertainties and risks affecting the global economy, such as trade tensions between the U.S. and certain major nations, the turmoil in certain areas and the continuing threats of terrorism. A slowdown in global economic growth may lead to commercial and consumer delinquencies, weakened consumer confidence and increased market volatility. The Group has taken actions to realize its globalization strategy, by making investments in different countries around the world to set up development and manufacturing facilities to offer customers with the new manufacturing paradigm of "Global Dual Sourcing Within WuXi Bio", which in turn will mitigate such global uncertainty risk.

Credit Risk

During the Reporting Period, the Group's maximum exposure to credit risk which will cause financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognized financial assets as stated in the 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 Board considers that the impairment losses under ECL (Expected Credit Loss) model have been of a more conservative view in credit risk control. The management has been continuously managing the credit risk through periodic review and monitoring on the doubtful debts.

The Board is of the view that the credit risk on time deposits, pledged bank 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 time deposits, pledged bank deposits and bank balances has been significantly reduced.

Liquidity Risk

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

As at June 30, 2019, 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.

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 most entities. The Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognized revenue and expenses, assets and liabilities and net investments in foreign operations. The Group's entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the U.S. dollars.

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

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

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, 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

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

Name of Director	Capacity/ Nature of interest	Number of Shares(1)	Number of underlying Shares(1)	Aggregate Interests(1)	Approximate percentage of shareholding interest
Dr. Ge Li	Interests of controlled corporations; Interests of parties acting in concert	616,600,597 (L)(2) (3)	—	616,600,597 (L)	49.79%
Mr. Edward Hu	Beneficial owner	1,441,500 (L)	5,655 restricted shares (L)(4)	1,447,155 (L)	0.12%
Dr. Zhisheng Chen	Beneficial owner	711,418 (L)	986,500 restricted shares (L)(4) 40,844,000 share options (L)(5)	42,541,918 (L)	3.44%
Dr. Weichang Zhou	Beneficial owner	—	157,840 restricted shares (L)(4) 5,931,000 share options (L)(5)	6,088,840 (L)	0.49%
Mr. William Robert Keller	Beneficial owner	—	2,828 restricted shares (L)(4)	2,828 (L)	0.00%
Mr. Wo Felix Fong	Beneficial owner	—	5,655 restricted shares (L)(4)	5,655 (L)	0.00%

Notes:

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

(2) Dr. Ge Li controlled, (i) 22.61% of the issued share capital of Biologics Holdings and 59.37% of the voting power at its general meetings; and (ii) 100% of the voting power at general meetings of G&C VII Limited. Hence, Dr. Ge Li is deemed to be interested in 569,380,917 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 1,160,544 Shares and 1,456,775 Shares interested by Mr. Zhaohui Zhang and Mr. Xiaozhong Liu, respectively.

(4) Interests in restricted shares granted pursuant to the Restricted Share Award Scheme.

(5) 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 22.61% of the issued share capital of Biologics Holdings and 59.37% of the voting power at its general meetings.

(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, 2019, so far as it was known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations as recorded in the register required to be kept, pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at June 30, 2019, 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	616,600,597 (L)[3] [4]	49.79%
Dr. Ning Zhao	Interests of spouse; Interests of parties acting in concert	616,600,597 (L)[2] [4]	49.79%
Mr. Zhaohui Zhang	Interests of controlled corporations; Interests of parties acting in concert	616,600,597 (L)[4] [5]	49.79%
Mr. Xiaozhong Liu	Interests of controlled corporations; Interests of parties acting in concert	616,600,597 (L)[4] [6]	49.79%
Life Science Holdings	Interests of controlled corporations	569,380,917 (L)[7]	45.97%
Life Science Limited	Interests of controlled corporations	569,380,917 (L)[7]	45.97%
WuXi PharmaTech	Interests of controlled corporations	569,380,917 (L)[7]	45.97%
Biologics Holdings	Beneficial owner	569,380,917 (L)[7]	45.97%
JPMorgan Chase & Co.	Interests of controlled corporations	62,290,709 (L)[8] 3,118,648 (S)[8] 10,272,158 (LP)[8]	5.03% 0.25% 0.83%

Notes:

(1) The letter "L" denotes the person's long position in the Shares; the letter "S" denotes the person's short position in the Shares; and the letter "LP" denotes the person's lending pool in 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, (i) 22.61% of the issued share capital of Biologics Holdings and 59.37% of the voting power at its general meetings; and (ii) 100% of the voting power at general meetings of G&C VII Limited. Hence, Dr. Ge Li is deemed to be interested in 569,380,917 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 1,160,544 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 1,456,775 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 569,380,917 Shares. Life Science Holdings, Life Science Limited and WuXi PharmaTech are deemed to be interested in the Shares held by Biologics Holdings.

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

No. of Shares[1]	Capacity
6,636,726 (L)	Interests of controlled corporations
3,118,648 (S)	
41,316,500 (L)	Investment manager
4,062,825 (L)	Person having a security interest in shares
2,500 (L)	Trustee
10,272,158 (L)	Approved lending agent

Other Information

Pre-IPO Share Option Scheme

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

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

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

			Number of options					
Category of participants	Date of Grant	Exercise Price	Outstanding as at January 1, 2019	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at June 30, 2019
Directors								
Dr. Zhisheng Chen	January 7, 2016	USD0.50	35,000,000	–	–	–	–	35,000,000
	March 15, 2017	USD1.02	5,844,000	–	–	–	–	5,844,000
			40,844,000	–	–	–	–	40,844,000
Dr. Weichang Zhou	January 7, 2016	USD0.50	5,100,000	–	–	–	–	5,100,000
	March 15, 2017	USD1.02	831,000	–	–	–	–	831,000
			5,931,000	–	–	–	–	5,931,000
Sub-total			46,775,000	–	–	–	–	46,775,000

Category of participants	Date of Grant	Exercise Price	Number of options: Outstanding as at January 1, 2019	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at June 30, 2019
Employees in aggregate								
230 employees	January 7, 2016	USD0.50	36,012,259	—	2,755,104	—	108,000	33,149,155
24 employees	March 28, 2016	USD0.50	1,276,275	—	76,575	—	—	1,199,700
102 employees	August 10, 2016	USD0.66	5,006,438	—	195,600	—	32,000	4,778,838
92 employees	November 11, 2016	USD0.79	5,032,000	—	452,200	—	—	4,579,800
321 employees	March 15, 2017	USD1.02	13,172,500	—	835,930	—	94,400	12,242,170
74 employees	May 12, 2017	USD1.80	3,718,000	—	32,910	—	8,000	3,677,090
Sub-total			64,217,472	—	4,348,319	—	242,400	59,626,753
Total			110,992,472	—	4,348,319	—	242,400	106,401,753

In respect of the share options exercised during the Reporting Period, the weighted average closing price at the date of exercise was HK$76.16 and the weighted average closing price at the date immediately before the exercise was HK$75.25.

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

The options granted under the Pre-IPO Share Option Scheme shall be exercisable during a period from the vesting date of the option until the expiry of ten years from the date of the grant of the option. Details of the terms and movement of the options granted during the Reporting Period and the impact of options granted under the Pre-IPO Share Option Scheme on the financial statements are set out in the Prospectus and under note 31 to the condensed consolidated financial statements in this interim report.

Restricted Share Award Scheme

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

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

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

		Number of restricted shares					
Category of participants	Date of Grant	Outstanding as at January 1, 2019	Granted during the Reporting Period	Vested during the Reporting Period	Forfeited during the Reporting Period	Outstanding as at June 30, 2019	Vesting period
Directors							
Dr. Zhisheng Chen	June 5, 2019	—	986,500	—	—	986,500	5 years
Dr. Weichang Zhou	June 5, 2019	—	157,840	—	—	157,840	5 years
Mr. Edward Hu	June 5, 2019	—	5,655	—	—	5,655	1 year
Mr. William Robert Keller	June 5, 2019	—	2,828	—	—	2,828	1 year
Mr. Wo Felix Fong	June 5, 2019	—	5,655	—	—	5,655	1 year
Sub-total		—	1,158,478	—	—	1,158,478	
Employees in aggregate							
259 employees	January 15, 2018	2,778,660	—	—	177,420	2,601,240	5 years
540 employees	March 20, 2018	1,750,883	—	—	76,331	1,674,552	5 years
170 employees	June 13, 2018	741,702	—	—	7,899	733,803	5 years
202 employees	August 21, 2018	1,326,060	—	—	61,914	1,264,146	5 years
124 employees	November 20, 2018	1,021,371	—	—	63,531	957,840	5 years
6 employees	March 19, 2019	—	64,986	—	—	64,986	5 years
846 employees	June 5, 2019	—	3,306,712	—	12,079	3,294,633	5 years
Sub-total		7,618,676	3,371,698	—	399,174	10,591,200	
Total		7,618,676	4,530,176	—	399,174	11,749,678	

Details of the purpose and terms of the Restricted Shares granted during the Reporting Period are set out in the Company's announcements dated January 15, 2018 and January 18, 2018 and under note 31 to the condensed consolidated financial statements in this interim report.

USE OF NET PROCEEDS

Use of Proceeds from Listing

The total proceeds from the issue of new Shares by the Company in its Listing (after deducting the underwriting fees and related expenses) amounted to approximately RMB3,437.8 million[(1)], and the balance of unutilized net proceeds of approximately RMB330.6 million was kept at the bank accounts of the Group as at June 30, 2019.

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, 2019:

Use of proceeds	Planned applications (RMB million)	Percentage of total net proceeds	Actual usage up to June 30, 2019 (RMB million)	Net proceeds brought forward for the Reporting Period (RMB million)	Unutilized net proceeds as at June 30, 2019 (RMB million)	Expected timeframe for utilizing the remaining unutilized net proceeds[(2)]
To repay all of the Group's outstanding bank facilities	1,238.6	37%	1,238.6	—	—	—
To construct new facilities and existing facility improvement and maintenance	1,739.7	52%	1,590.0	561.0	149.7	by the end of 2020
For the Group's working capital and other general corporate purposes	275.9	8%	95.0	180.9	180.9	by the end of 2020
To improve and maintain the Group's existing facilities	113.7	3%	113.7	—	—	—
Total	3,367.9[(1)]	100%	3,037.3	741.9	330.6	

Notes:

(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.

(2) The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

Use of Proceeds from Placing

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

The net proceeds from the Placing were approximately RMB3,186.7 million, which have been and will be used for the future expansion of the Group, including the capital requirements to increase its laboratory and manufacturing capacity, as disclosed in the announcement of the Company dated March 22, 2018. During the Reporting Period, the proceeds used to construct new facilities was approximately RMB327.2 million (for the six months ended June 30, 2018: approximately RMB93.7 million). The balance of the unutilized net proceeds as at June 30, 2019 was approximately RMB2,449.7 million and is expected to be fully utilized by the Group by the end of 2020. The Group will continue to identify any further potential investment opportunities. Detailed schedule depends on the overall economic conditions, the development of the Company and market situation. The amount of net proceeds brought forward for the Reporting Period was approximately RMB2,776.9 million.

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

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

KEY EVENTS AFTER THE REPORTING PERIOD

The Group has the following key events taken place subsequent to June 30, 2019:

- In July 2019, the Group's DP4 in the Wuxi site was GMP released for GMP manufacturing and further successfully completed the first product engineering run under GMP conditions. DP4 is the first robotic aseptic isolator filling line in China for biologics and the second GMP released sterile filling DP facility of the Group.

- In July 2019, the Group's MFG4 in the Wuxi site has completed its construction and further achieved GMP release. MFG4 is the fourth GMP released drug substance facility of the Group and the first facility in China to use a 4,000L-capacity bioreactor, which is the industry's largest disposable bioreactor.

- In August 2019, the Group's DP3 at its integrated biologics conjugate solution center was granted GMP release and is currently preparing for the first lot of GMP production of ADC lyophilization. DP3 is the Group's third GMP released sterile DP filling facility including DS production of conjugates with the annual production capacity of 100 kg conjugation and 500,000 vials filling/lyophilization.

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 44 to 99, which comprise the condensed consolidated statement of financial position as of June 30, 2019 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 19, 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2019

	NOTES	Six months ended June 30, 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	4	**1,607,070**	1,054,385
Cost of services		**(936,059)**	(639,667)
Gross profit		**671,011**	414,718
Other income	5	**109,992**	40,815
Other gains and losses	6	**30,075**	12,349
Impairment losses, net of reversal	8	**(9,555)**	(19,562)
Selling and marketing expenses		**(26,345)**	(19,943)
Administrative expenses		**(149,709)**	(87,083)
Research and development expenses		**(109,120)**	(56,219)
Share of profit of an associate	14	**309**	—
Finance cost	7	**(4,611)**	—
Profit before tax	8	**512,047**	285,075
Income tax expense	9	**(62,563)**	(35,505)
Profit for the period		**449,484**	249,570
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(1,240)**	(56)
Fair value gain on hedging instruments designated in cash flow hedges, net of related income tax		**294**	—
Other comprehensive expense for the period		**(946)**	(56)
Total comprehensive income for the period		**448,538**	249,514

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2019

	NOTES	Six months ended June 30, 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		**450,042**	249,570
Non-controlling interests		**(558)**	—
		449,484	249,570
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**449,096**	249,514
Non-controlling interests		**(558)**	—
		448,538	249,514
		RMB	RMB
Earnings per share — Basic	11	**0.37**	0.21
— Diluted	11	**0.34**	0.19

Condensed Consolidated Statement of Financial Position

As at June 30, 2019

	NOTES	June 30, 2019 RMB'000 (Unaudited)	December 31, 2018 RMB'000 (Audited)
Non-current assets			
Plant and equipment	12	**3,615,770**	2,903,900
Right-of-use assets	12	**419,955**	—
Deferred tax assets		**32,312**	22,481
Intangible assets	13	**322,020**	331,813
Investment in an associate	14	**34,107**	—
Prepaid lease payments		**—**	168,623
Equity instruments at fair value through other comprehensive income ("FVTOCI")	15	**136,807**	136,578
Financial assets at fair value through profit or loss ("FVTPL")	21	**185,552**	55,699
Other long-term deposits	16	**24,330**	19,021
Pledged bank deposits	22	**431,640**	—
Derivative financial assets	25	**953**	9,847
		5,203,446	3,647,962
Current assets			
Inventories	17	**318,947**	227,189
Contract costs	18	**380,677**	294,569
Trade and other receivables	19	**1,237,078**	1,067,235
Contract assets	20	**13,169**	36,026
Prepaid lease payments		**—**	2,910
Tax recoverable		**145**	793
Pledged bank deposits	22	**9,247**	25,197
Time deposits	22	**164,993**	—
Bank balances and cash	22	**2,864,522**	4,084,395
Derivative financial assets	25	**15,944**	6,874
		5,004,722	5,745,188

Condensed Consolidated Statement of Financial Position

As at June 30, 2019

	NOTES	June 30, 2019 RMB'000 (Unaudited)	December 31, 2018 RMB'000 (Audited)
Current liabilities			
Trade and other payables	23	**792,624**	711,779
Contract liabilities	24	**416,185**	499,743
Income tax payable		**101,143**	88,244
Derivative financial liabilities	25	**7,115**	18,991
Lease liabilities		**31,497**	—
		1,348,564	1,318,757
Net current assets		**3,656,158**	4,426,431
Total assets less current liabilities		**8,859,604**	8,074,393
Non-current liabilities			
Deferred revenue	26	**102,507**	77,408
Derivative financial liabilities	25	**68**	77
Lease liabilities		**216,555**	—
Deferred tax liabilities		**—**	2,680
		319,130	80,165
Net assets		**8,540,474**	7,994,228
Capital and Reserves			
Share capital	27	**204**	202
Reserves		**8,540,355**	7,993,553
Equity attributable to owners of the Company		**8,540,559**	7,993,755
Non-controlling interests		**(85)**	473
Total equity		**8,540,474**	7,994,228

The condensed consolidated financial statements on pages 44 to 99 were approved and authorized for issue by the Board of Directors on August 19, 2019 and are signed on its behalf by:

Zhisheng Chen	**Weichang Zhou**
DIRECTOR	*DIRECTOR*

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2019

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note i)	Equity-settled share-based compensation reserve RMB'000 (Note ii)	Cash flow hedging reserve RMB'000	Group reorganization reserve RMB'000 (Note iii)	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2018 (Audited)	192	3,436,155	51,939	146,472	–	(4,636)	–	386,640	4,016,762	–	4,016,762
Profit for the period	–	–	–	–	–	–	–	249,570	249,570	–	249,570
Other comprehensive income for the period	–	–	–	–	–	–	(56)	–	(56)	–	(56)
Total comprehensive income for the period	–	–	–	–	–	–	(56)	249,570	249,514	–	249,514
Recognition of equity-settled share-based compensation	–	–	–	52,146	–	–	–	–	52,146	–	52,146
Exercise of pre-IPO share options	1	4,368	–	(4,368)	–	–	–	–	1	–	1
Issue of new shares	8	3,201,125	–	–	–	–	–	–	3,201,133	–	3,201,133
At June 30, 2018 (Unaudited)	201	6,641,648	51,939	194,250	–	(4,636)	(56)	636,210	7,519,556	–	7,519,556
At December 31, 2018 (Audited)	202	6,650,211	106,945	267,004	11,701	(4,636)	102	962,226	7,993,755	473	7,994,228
Adjustments (see Note 3)	–	–	–	–	–	–	–	(2,899)	(2,899)	–	(2,899)
At January 1, 2019 (restated)	202	6,650,211	106,945	267,004	11,701	(4,636)	102	959,327	7,990,856	473	7,991,329
Profit for the period	–	–	–	–	–	–	–	450,042	450,042	(558)	449,484
Other comprehensive income for the period											
– Fair value adjustments on foreign currency forward contracts designated as cash flow hedges	–	–	–	–	12,846	–	–	–	12,846	–	12,846
– Recycling from cash flow hedging reserve to profits or loss arising from foreign currency forward contracts	–	–	–	–	(12,552)	–	–	–	(12,552)	–	(12,552)
– Exchange difference arising from translation of foreign operations	–	–	–	–	–	–	(1,240)	–	(1,240)	–	(1,240)
Total comprehensive income for the period	202	6,650,211	106,945	267,004	11,995	(4,636)	(1,138)	1,409,369	8,439,952	(85)	8,439,867
Recognition of equity-settled share-based compensation	–	–	–	81,899	–	–	–	–	81,899	–	81,899
Exercise of pre-IPO share options	1	25,284	–	(6,320)	–	–	–	–	18,965	–	18,965
Issue of new shares (Note 27)	1	(1)	–	–	–	–	–	–	–	–	–
Transaction costs attributable to issue of new shares	–	(257)	–	–	–	–	–	–	(257)	–	(257)
At June 30, 2019 (Unaudited)	204	6,675,237	106,945	342,583	11,995	(4,636)	(1,138)	1,409,369	8,540,559	(85)	8,540,474

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 the equity-settled share-based compensation in respect of share options for shares of WuXi PharmaTech (Cayman) Inc. ("WuXi PharmaTech"), the then ultimate holding company of the Company before the completion of a group reorganization of the Company (see Note iii below), for the equity instruments granted by WuXi PharmaTech to certain directors of the Company and employees of the Company and its subsidiaries (collectively referred to as the "Group") for their service rendered to the Group, and the equity-settled share-based compensation under the Company's pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and the Company's restricted share award scheme (the "Restricted Share Award Scheme") as disclosed in Note 31.

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

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2019

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**221,879**	122,170
INVESTING ACTIVITIES		
Interest received	**32,358**	23,923
Proceeds on disposal of plant and equipment	**2**	—
Purchase of plant and equipment	**(753,685)**	(524,963)
Purchase of intangible assets	**—**	(333,254)
Purchase of prepaid lease payments	**—**	(120,046)
Upfront payments for right-of-use assets	**(22,881)**	—
Purchase of equity instruments at FVTOCI	**—**	(85,685)
Withdrawal of financial assets as at FVTPL	**2,577,021**	1,139,726
Placement of financial assets as at FVTPL	**(2,699,023)**	(493,000)
Government grants received	**28,491**	47,140
Placement of time deposits	**(164,993)**	—
Withdrawal of time deposits	**—**	890,087
Withdrawal of pledged bank deposits	**26,242**	23,169
Placement of pledged bank deposits	**(441,932)**	(23,475)
Acquisition of an associate	**(33,798)**	—
Payments for rental deposits	**(668)**	—
Settlement of derivative financial instruments	**5,679**	(10,043)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(1,447,187)**	533,579
FINANCING ACTIVITIES		
Interest paid on lease liabilities	**(5,708)**	—
Repayment of lease liabilities	**(8,853)**	—
Proceeds from issue of ordinary shares	**—**	3,201,133
Payment of issue cost	**(257)**	—
Proceeds from exercise of pre-IPO share options	**18,965**	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	**4,147**	3,201,133
Effects of exchange rate changes	**1,288**	10,385
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1,219,873)**	3,867,267
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**4,084,395**	503,881
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,864,522**	4,371,148

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2019

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 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 of Hong Kong Limited (the "Listing Rules").

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") and the accounting policy adopted by the Group during the current interim period as set out below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2019 are the same as those presented in the Group's annual financial statements for the year ended December 31, 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, 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IFRSs	*Annual Improvements to IFRSs 2015–2017 Cycle*

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

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee

<u>Allocation of consideration to components of a contract</u>

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

<u>Short-term leases</u>

The Group applies the short-term lease recognition exemption to leases of that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term lease are recognized as expense on a straight-line basis over the lease term.

<u>Right-of-use assets</u>

Except for short-term leases, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets (Continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transaction in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

3.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognized in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

At January 1, 2019, the Group recognized lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition.

The Group recognized lease liabilities of RMB229,090,000 (unaudited) and right-of-use assets of RMB384,354,000 (unaudited) as at January 1, 2019.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.86% per annum.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

	Note	As at January 1, 2019
		RMB'000
Operating lease commitments disclosed as at December 31, 2018		239,229
Less: Value added tax included in operating lease commitments		(20,935)
		218,294
Lease liabilities discounted at relevant incremental borrowing rates		188,153
Add: Extension options reasonably certain to be exercised	#	50,385
Less: Recognition exemption — short-term leases		(165)
Early termination of a lease contract		(9,283)
Lease liabilities as at January 1, 2019		229,090
Analyzed as		
Current		26,524
Non-current		202,566
		229,090

\# The amount represents the lease liabilities arising from a lease contract with extension option that the Group is reasonably certain to exercise. The lease contract is a ten-year lease of a plant with an extension option which allows the Group to choose to extend the lease for an additional ten years at a rate pre-determined specified in the lease contract. The Group determines that it is reasonably certain to exercise the extension option based on facts and circumstances as at January 1, 2019. The rental of the lease contract shall remain unchanged for five years from the commencement date of the lease contract, and will increase every five years based on negotiation according to the market price while with a 10% increase cap. The rental for the extension period shall follow this arrangement.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at January 1, 2019 comprises the following:

	Notes	Right-of use assets
		RMB'000
Right-of-use assets relating to operating leases recognized upon application of IFRS 16	(a)	212,821
Reclassified from prepaid lease payments	(b)	171,533
		384,354
By class:		
Leasehold lands		171,533
Buildings		212,821
		384,354

(a) As at January 1, 2019, the Group measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since the commencement dates of the leases by applying IFRS 16.C8(b)(i) transition. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. As at January 1, 2019, the right-of-use assets measured under the application of IFRS 16.C8(b)(i) transition amounted to RMB212,821,000.

(b) Upfront payments for leasehold lands in the PRC and Ireland were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB2,910,000 and RMB168,623,000 respectively were reclassified to right-of-use assets.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The following table summarizes the impact of transition to IFRS 16 on retained earnings as at January 1, 2019.

	Note	Impact of adopting IFRS 16 as at January 1, 2019
		RMB'000
Retained earnings		
Net additional expenses incurred when measuring right-of-use assets since lease commencement date under IFRS 16	*	5,645
Tax effects		(2,746)
Impact as at January 1, 2019		2,899

* As at January 1, 2019, the Group recognized right-of-use assets at the carrying amounts as if IFRS 16 had been applied since the commencement dates of the leases, but discounted using the incremental borrowing rates of relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Lease liabilities are measured at the present value of remaining lease payments that are unpaid at January 1, 2019. The difference between the carrying amounts of the right-of-use assets and lease liabilities at January 1, 2019 is charged to opening retained earnings as at January 1, 2019.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognized in the condensed consolidated statement of financial position as at January 1, 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported as at December 31, 2018	Adjustments	Carrying amounts under IFRS 16 as at January 1, 2019
		RMB'000	RMB'000	RMB'000
Non-current Assets				
Prepaid lease payments	(b)	168,623	(168,623)	—
Right-of-use assets		—	384,354	384,354
Other long-term deposits	(c)	19,021	(2,392)	16,629
Plant and equipment	(c)	2,903,900	267	2,904,167
Deferred tax assets		22,481	2,746	25,227
Current Assets				
Prepaid lease payments	(b)	2,910	(2,910)	—
Contract costs	(c)	294,569	(704)	293,865
Capital and Reserves				
Reserves		7,993,553	(2,899)	7,990,654
Current Liabilities				
Trade and other payables	(c)	711,779	(13,453)	698,326
Lease liabilities		—	26,524	26,524
Non-current liabilities				
Lease liabilities		—	202,566	202,566

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

(c) As at January 1, 2019, the Group recognized right-of-use assets at the carrying amounts as if IFRS 16 had been applied since the commencement dates of the leases, but discounted using the incremental borrowing rates of relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Lease liabilities are measured at the present value of remaining lease payments that are unpaid at January 1, 2019. The difference between the carrying amounts of the right-of-use assets and lease liabilities at January 1, 2019 is charged to opening retained earnings as at January 1, 2019. As at January 1, 2019, the application of IFRS 16.C8(b)(i) transition resulted in corresponding adjustments to refundable rental deposits (included in other long-term deposits), construction in progress (included in plant and equipment), contract costs and accrued lease liabilities (included in trade and other payables).

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended June 30, 2019, movements in working capital have been computed based on opening statement of financial position as at January 1, 2019 as disclosed above.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Accounting policy adopted by the Group during the current interim period

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these condensed consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognized in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Judgements in determining lease term of contracts with renewal options

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized. In determining the lease term of contracts with renewal options, the management of the Company assesses whether the Group is reasonably certain to exercise an option to extend the lease by considering all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. Examples of factors to consider include significant leasehold improvements undertaken over the term of the contract, relocation costs, costs of identifying another underlying asset suitable for the Group's needs and the importance of that underlying asset to the Group's operations.

4. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

The Group derives its revenue from the transfer of goods and services at a point in time and over time in the following major service lines:

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Type of goods or services		
Research services		
— Revenue on fee-for-service basis	**1,501,216**	1,024,455
— Revenue on full-time-equivalent basis	**44,371**	29,930
	1,545,587	1,054,385
Sales of goods		
— Revenue on commercial manufacturing contracts	**61,483**	—
Total	**1,607,070**	1,054,385

4. REVENUE AND SEGMENT INFORMATION (Continued)

(i) Disaggregation of revenue from contracts with customers (Continued)

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Timing of revenue recognition		
A point in time	**1,562,699**	1,024,455
Over time	**44,371**	29,930
	1,607,070	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 presented.

(ii) 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,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
— North America	**846,749**	596,447
— PRC	**569,172**	370,380
— Europe	**112,260**	52,945
— Rest of the world	**78,889**	34,613
	1,607,070	1,054,385

As at June 30, 2019, the Group's non-current assets (excluding financial instruments and deferred tax assets) are located in Ireland which amounted to RMB817,684,000 (December 31,2018: RMB549,426,000), the remaining of the non-current assets (excluding financial instruments and deferred tax assets) are primarily located in the PRC.

4. REVENUE AND SEGMENT INFORMATION (Continued)

(ii) 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,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	**174,348**	N/A*
Customer B	**N/A***	109,940

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

5. OTHER INCOME

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	**29,632**	26,264
Government grants related to		
— Assets (i)	**3,392**	1,745
— Income (ii)	**76,968**	12,806
	109,992	40,815

i. The Group has received certain government grants to invest in laboratory equipment. The grants were recognized in profit or loss over the useful lives of the relevant assets. Details of the grants are set out in Note 26.

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.

6. OTHER GAINS AND LOSSES

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net foreign exchange (loss) gain	**(2,607)**	44,356
Gain (loss) on derivative financial instruments	**11,885**	(39,313)
Investment income from financial assets at FVTPL	**6,301**	6,194
Gain on non-refundable option fee (Note 23)	**13,764**	—
Others	**732**	1,112
	30,075	12,349

7. FINANCE COST

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities	**5,708**	—
Less: amounts capitalized	**(1,097)**	—
	4,611	—

8. PROFIT BEFORE TAX

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

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation for plant and equipment	**135,052**	93,702
Less: capitalized in contract costs	**(56,771)**	(36,845)
	78,281	56,857
Depreciation for right-of-use assets	**15,176**	—
Less: capitalized in contract costs	**(504)**	—
capitalized in plant and equipment	**(3,046)**	—
	11,626	—
Staff cost (including directors' emoluments):		
— Salaries and other benefits	**462,165**	266,650
— Retirement benefit scheme contributions	**45,042**	42,297
— Share-based payment expenses	**81,899**	52,146
	589,106	361,093
Less: capitalized in contract costs	**(172,193)**	(51,343)
capitalized in plant and equipment	**(26,873)**	(9,366)
	390,040	300,384
Impairment losses, net of reversal		
— financial assets measured at amortized cost	**4,784**	23,220
— contract assets	**4,771**	(3,658)
	9,555	19,562
Amortization of intangible assets	**8,512**	1,388
Amortization of prepaid lease payments	**—**	982
Write-down (reversals) of inventories (included in cost of services)	**1,638**	(14)
Loss on disposal of plant and equipment	**610**	408
Cost of inventories recognized as expense	**288,625**	198,917

9. INCOME TAX EXPENSE

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
— PRC Enterprise Income Tax ("EIT")	**89,745**	51,598
— Hong Kong profits tax	**5,012**	—
— the US Federal and State Income taxes	**523**	536
— the UK Income taxes	**73**	22
Over provision in prior years		
— EIT	**(23,025)**	(7,307)
	72,328	44,849
Deferred tax:		
— current year	**(9,765)**	(9,344)
	62,563	35,505

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

On March 21, 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of the group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiaries is 25%, with the exception of WuXi Biologics Co., Ltd. ("WuXi Co."), WuXi Biologics (Shanghai) Co., Ltd. ("Shanghai Biologics") and WuXi Biologics (Suzhou) Co., Ltd. ("Suzhou Biologics").

9. INCOME TAX EXPENSE (Continued)

WuXi Co. was accredited as a "High and New Technology Enterprise" on August 5, 2013. In 2016, WuXi Co. applied for renewal of 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. During the six months ended June 30, 2019, WuXi Co. applied for renewal of its High and New Technology Enterprise status and the relevant government authority is still in the process to assess the High and New Technology Enterprise status. The directors of the Company is of a view that it is very probable that WuXi Co. can get the High and New Technology Enterprise accreditation by end of 2019 based on Company's assessment and historical practice. Accordingly, the estimated tax rate for WuXi Co. for current interim period is 15% (six months ended June 30, 2018: 15%).

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, 2019 is 12.5% (six months ended June 30, 2018: 12.5%).

Suzhou Biologics was accredited as a "High and New Technology Enterprise" on December 12, 2018 and it is entitled to a preferential tax rate of 15% for a three-year period commencing from the year of 2018. Accordingly, the applicable EIT rate of Suzhou Biologics for the six months ended June 30, 2019 is 15% (six months ended June 30, 2018: 25%).

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

10. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period. The directors of the Company resolved not to declare any interim dividend in respect of the interim period.

11. EARNINGS PER SHARE

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

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**450,042**	249,570

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Number of Shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,228,412,653**	1,195,738,888
Effect of dilutive potential ordinary shares:		
Share options	**97,967,005**	102,717,854
Restricted shares	**2,946,501**	1,041,461
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,329,326,159**	1,299,498,203

The computation of diluted earnings per share for the six months ended June 30, 2019 and 2018 does not assume the vesting 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.

12. MOVEMENTS IN PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB612,000 for cash proceeds of RMB2,000 resulting a loss on disposal of RMB610,000.

In addition, during the current interim period, the Group acquired RMB847,533,000 (six months ended June 30, 2018: RMB480,139,000) of plant and equipment for the expansion of production facilities and distribution capacity.

During the current interim period, the Group entered into three new lease agreements for the use of premises for 10, 10 and 3 years, respectively. On lease commencement, the Group recognized RMB28,005,000 right-of-use assets and RMB27,695,000 lease liability. During the current interim period, the Group also acquired RMB22,881,000 right-of-use assets for upfront payments for leasehold lands in the PRC.

13. INTANGIBLE ASSETS

On June 25, 2018, the Group entered into a platform license agreement with Open Monoclonal Technology, Inc. ("OMT"), an independent third party not connected to the Group, under which OMT has granted the Group a non-exclusive, non-transferable, non-sublicensable license to use certain animals, namely, OmniRat, OmniMouse and OmniFlic, for the purpose of researching, developing, and making antibodies, for a cash consideration of US$51 million. The Group has estimated the useful life of this license is 18 years and therefore the license payment is amortized over 18 years on a straight-line basis.

14. INVESTMENT IN AN ASSOCIATE

	As at	
	June 30, 2019	December 31, 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Cost of unlisted investment in an associate	**33,798**	—
Share of post-acquisition profit and other comprehensive income	**309**	—
	34,107	—

14. INVESTMENT IN AN ASSOCIATE (Continued)

As at June 30, 2019, the Group has interests in the following associate:

Name of entity	Country of registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			June 30,		June 30,		
			2019	2018	**2019**	2018	
Shanghai Duoning Biotechnology Co., Ltd. ("Duoning")	PRC	PRC	**9.32%**	—	**20%**	—	Sales of serum-free media and disposable products, formulation production and services

In April 2019, the Group acquired 9.32% of the equity interest in Duoning from independent third parties for a total purchase price of US$5,000,000 (equivalent to RMB33,798,000). The Group is able to exercise significant influence over Duoning because it has the power to appoint one out of the five directors of Duoning under the Articles of Association of Duoning.

Summarized historical financial information in respect of the Group's associate for the current interim period is set out below. The revenue and profit represent the revenue and profit of Duoning (before elimination of the Group's share of unrealized profit) from the acquisition date to June 30, 2019.

	RMB'000
Net assets as at June 30, 2019	139,894
Revenue for the period	16,964
Profit for the period	3,065
The Group's share of profit for the period	309

15. EQUITY INSTRUMENTS AT FVTOCI

On June 25, 2018, the Group subscribed 19.9% of the equity interest of Tysana Pte. Ltd. ("Tysana"), a Singapore corporation, for a cash consideration of US$9,950,000 (equivalent to approximately RMB68,403,500 as at June 30, 2019). Tysana focuses on the business of infectious diseases drug research, development and commercialization in respect of the monoclonal antibodies.

On July 16, 2018, the Group subscribed 19.9% of the equity interest of Privus Biologics, LLC ("Privus"), a limited liability company organized under the law of the State of Delaware, U.S.A., with a consideration of US$9,950,000 (equivalent to approximately RMB68,403,500 as at June 30, 2019). Privus focuses on the business of optimizing, manufacturing and developing pharmaceuticals intended for use in the field containing one or more subject antibodies as an active ingredient.

15. EQUITY INSTRUMENTS AT FVTOCI (Continued)

The Group has no controlling power nor significant influence over the management and the operations of Tysana and Privus. At the date of initial recognition, the Group made an irrevocable election to designate these equity instruments as at FVTOCI as the management of the Company believes that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

During the six months ended June 30, 2019, the Group managed and evaluated the above unlisted investments purchased on a fair value basis in accordance with the Group's investment strategy. As at June 30, 2019, the directors of the Company are of the opinion that there was no significant fair value change in the FVTOCI investments during the interim period ended June 30, 2019.

Movement of equity instruments at FVTOCI are as follows:

	RMB'000
As at January 1, 2019 (audited)	136,578
Exchange adjustments	229
As at June 30, 2019 (unaudited)	136,807

Details of the fair value measurement of the equity instruments at FVTOCI are set out in Note 29.

16. OTHER LONG-TERM DEPOSITS

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

17. INVENTORIES

	As at	
	June 30, 2019	December 31, 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Raw material and consumables	**318,947**	227,189

The inventories are net of a write-down of approximately RMB8,344,000 as at June 30, 2019 (December 31, 2018: RMB6,706,000).

18. CONTRACT COSTS

	As at	
	June 30, 2019	December 31, 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Costs to fulfill contracts	**380,677**	294,569

No impairment allowance (six months ended June 30, 2018: nil) is charged to the carrying amount of contract costs.

19. TRADE AND OTHER RECEIVABLES

	As at	
	June 30, 2019	December 31, 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade receivables		
— related parties	**2,045**	8,791
Less: Allowance for credit losses	**(1)**	(3)
— third parties	**931,002**	810,365
Less: Allowance for credit losses	**(61,010)**	(56,295)
	872,036	762,858
Receivables for purchase of raw materials on behalf of customers		
— a related party	**818**	—
— third parties	**98,290**	87,980
Less: Allowance for credit losses	**(957)**	(1,014)
	98,151	86,966
Other receivables	**29,869**	24,604
Advances to suppliers	**15,042**	18,647
Prepayments	**7,227**	3,153
Customer duty recoverable	**—**	1,669
Value added tax recoverable	**214,753**	169,338
	266,891	217,411
Total trade and other receivables	**1,237,078**	1,067,235

19. TRADE AND OTHER RECEIVABLES (Continued)

Details of the trade and other receivables due from related parties are set out in note 30(2).

The Group allows a credit period ranging from 10 to 90 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, 2019	December 31, 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within 90 days	**765,786**	698,060
91 days to 1 year	**99,501**	60,556
Over 1 year	**6,749**	4,242
	872,036	762,858

The movement in the allowance for expected credit losses ("ECL") in respect of trade receivables in accordance with the simplified approach set out in IFRS 9 during the current interim period was as follows:

	Lifetime ECL
	RMB'000
As at January 1, 2018 (audited)	13,853
— Impairment losses recognized	21,976
— Impairment losses reversed	(26)
As at June 30, 2018 (unaudited)	35,803
— Impairment losses recognized	42,530
— Impairment losses reversed	(4,206)
— Write-offs	(17,829)
As at December 31, 2018 and January 1, 2019 (audited)	**56,298**
— Impairment losses recognized	**9,122**
— Impairment losses reversed	**(4,281)**
— Write-offs	**(253)**
— Exchange adjustments	**125**
As at June 30, 2019 (unaudited)	**61,011**

The basis of determining the inputs and assumptions and the estimation techniques used in the assessment of ECL in the condensed consolidated financial statements for the six months ended June 30, 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2018.

20. CONTRACT ASSETS

	As at June 30, 2019 RMB'000 (Unaudited)	As at December 31, 2018 RMB'000 (Audited)
Contract assets		
— third parties	**24,571**	42,657
— loss allowance for contract assets	**(11,402)**	(6,631)
	13,169	36,026

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 as stipulated in the contract.

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

	Lifetime ECL RMB'000
As at January 1, 2018 (audited)	10,962
— Impairment losses recognized	464
— Impairment losses reversed	(4,122)
As at June 30, 2018 (unaudited)	7,304
— Impairment losses recognized	2,367
— Impairment losses reversed	(3,040)
As at December 31, 2018 and January 1, 2019 (audited)	**6,631**
— Impairment losses recognized	**4,785**
— Impairment losses reversed	**(14)**
As at June 30, 2019 (unaudited)	**11,402**

21. FINANCIAL ASSETS AT FVTPL

	As at	
	June 30, 2019	December 31, 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Unlisted equity investments	**185,552**	55,699

In May 2018 and January 2019, the Group entered into agreements to purchase 429,799 and 1,719,197 Series Mezzanine 2 Preferred Shares of Inhibrx, Inc. ("Inhibrx") respectively for cash consideration of US$3,000,000 (equivalent to approximately RMB20,624,000 as at June 30, 2019) and US$12,000,000 (equivalent to approximately RMB82,497,000 as at June 30, 2019) respectively. Inhibrx is a Delaware corporation and focuses on the business of delivering optimized, biologic therapeutics to people with life-threatening conditions and building a large and diverse pipeline with the potential to impact cancer, infectious disease and orphan diseases.

In September 2018 and January 2019, the Group entered into agreements to purchase 481,454 Series C-1 and 481,454 Series C-3 Preferred Shares of Canbridge Pharmaceuticals Inc. ("Canbridge") respectively for a cash consideration of US$5,000,000 (equivalent to approximately RMB34,373,000 as at June 30, 2019) and US$5,000,000 (equivalent to approximately RMB34,373,000 as at June 30, 2019) respectively. Gain on fair value change of RMB796,000 was recognized for the equity instrument in Canbridge for the year ended December 31, 2018. Canbridge is an exempted company incorporated with limited liability under the laws of Cayman Islands and focuses on the business of developing, selling, or marketing the pharmaceuticals for treatment or prevention of oncology or rare disease indications.

In March 2019, the Group entered into an agreement to purchase 2,856,055 Series A Preferred Shares of Virtuoso Therapeutics, Inc. ("Virtuoso") for a cash consideration of US$1,875,000 (equivalent to approximately RMB12,889,000 as at June 30, 2019). Virtuoso is an exempted company duly incorporated and validly existing under the laws of Cayman Islands and focuses on the business of researching and developing antibodies and the therapeutics on oncology.

During the current interim period, the Group managed and evaluated the unlisted investment performance of preferred shares purchased on a fair value basis in accordance with the Group's investment strategy.

21. FINANCIAL ASSETS AT FVTPL (Continued)

Movement of financial assets at FVTPL are as follows:

	Inhibrx	Canbridge	Virtuoso	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2018 (audited)	—	—	—	—
Addition	19,130	—	—	19,130
Exchange adjustments	720	—	—	720
As at June 30, 2018 (unaudited)	19,850	—	—	19,850
Addition	—	34,195	—	34,195
Fair Value change	—	796	—	796
Exchange adjustments	740	118	—	858
As at December 31, 2018 and January 1, 2019 (audited)	**20,590**	**35,109**	**—**	**55,699**
Addition	**82,178**	**33,672**	**12,572**	**128,422**
Exchange adjustments	**353**	**761**	**317**	**1,431**
As at June 30, 2019 (unaudited)	**103,121**	**69,542**	**12,889**	**185,552**

Details of the fair value measurement of the financial assets at FVTPL are set out in Note 29.

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 3.55% per annum as at June 30, 2019 (December 31, 2018: from 0.001% to 3.55% per annum).

Certain deposits are pledged to banks as collateral for the issue of standby letter of credit by the banks in connection with the purchase of raw materials, and plant and equipment by the Group.

The time deposits as at June 30, 2019 carried fixed interests rate from 3.06% to 3.46% per annum and have maturity over three months.

23. TRADE AND OTHER PAYABLES

	As at	
	June 30, 2019	December 31, 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade payables		
— related parties	**4,339**	9,143
— third parties	**246,363**	211,840
	250,702	220,983
Other payables		
— a related party	**474**	—
— third parties	**108,623**	107,855
	109,097	107,855
Option fee received (Note)	**—**	27,453
Advance from a customer (Note)	**13,749**	—
Payable for purchase of plant and equipment	**299,015**	210,052
Salary and bonus payables	**116,197**	142,161
Other taxes payable	**3,864**	3,275
	792,624	711,779

Note:

The balance of December 31, 2018 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, and the remaining 50% will become forfeited payment to the Group.

23. TRADE AND OTHER PAYABLES (Continued)

During the current interim period, the Group acknowledged receipt of termination notice to the Option to Purchase Agreement from the independent third party, and accordingly US$2 million (equivalent to RMB13,749,000) is reclassified to "advance from a customer" and the remaining US$2 million (equivalent to RMB13,764,000) is recognized as "other gains and losses".

Details of the trade and other payables due to related parties are set out in Note 30(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, 2019	December 31, 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Within three months	**235,688**	192,189
Over three months but within one year	**11,412**	27,721
Over one year but within two years	**3,602**	1,073
	250,702	220,983

24. CONTRACT LIABILITIES

	As at	
	June 30, 2019	December 31, 2018
	RMB'000 (Unaudited)	RMB'000 (Audited)
Contract liabilities		
— third parties	**416,185**	499,743

The Group classifies these contract liabilities as current because the Group expects to realize them in their normal operating cycle.

25. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Assets		Liabilities	
	June 30, 2019	December 31, 2018	**June 30, 2019**	December 31, 2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Derivatives not under hedge accounting				
Foreign currency forward contracts — current	**—**	—	**2,267**	14,010

	Assets		Liabilities	
	June 30, 2019	December 31, 2018	**June 30, 2019**	December 31, 2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Derivatives under hedge accounting				
Foreign currency forward contracts				
— Cash flow hedges	**16,897**	16,721	**4,916**	5,058
Less: current portion	**(15,944)**	(6,874)	**(4,848)**	(4,981)
Non-current portion	**953**	9,847	**68**	77

Derivatives not under hedge accounting

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.

25. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

Derivatives not under hedge accounting (Continued)

Extracts of major terms of foreign currency forward contracts on a net settlement basis from the respective contracts as at June 30, 2019 are as follows:

	Average strike/ forward rate	Foreign currency	Total outstanding notional value	Fair value liabilities
		USD'000	RMB'000	RMB'000
Sell USD				
Less than 3 months	6.7260	15,000	100,890	2,267

The Group did not elect to adopt hedge accounting for these contracts and therefore, for the six months ended June 30, 2019, gains for unsettled foreign currency forward contracts of RMB11,885,000 was recognized as "gain on derivative financial instruments" in other gains and losses, and losses for settled foreign currency forward contracts of RMB6,873,000 was recognized as "net foreign exchange loss" in other gains and losses.

Derivatives under hedge accounting

The Group entered into foreign currency forward contracts with banks to manage its foreign exchange rate risk arising from anticipated future foreign currency sales transactions up to 18 months, in particular, the exchange rate between USD and RMB, which are designated as cash flow hedges. The major terms of these contracts on a net settlement basis as at June 30, 2019 are as follows:

	Average strike/ forward rate	Foreign currency	Total outstanding notional value	Fair value assets
		USD'000	RMB'000	RMB'000
Sell USD				
Less than 3 months	6.8820–6.9445	53,000	366,206	1,973
4 to 6 months	6.8820–7.0410	86,600	599,454	3,612
7 to 12 months	6.9090–7.0067	182,000	1,265,764	10,359
13 to 18 months	6.9703–7.0033	14,000	97,756	953

25. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (Continued)

Derivatives under hedge accounting (Continued)

	Average strike/ forward rate	Foreign currency	Total outstanding notional value	Fair value liabilities
		USD'000	RMB'000	RMB'000
Sell USD				
Less than 3 months	6.7750–6.8630	38,000	259,388	1,791
4 to 6 months	6.7750–6.8820	19,000	129,153	1,612
7 to 12 months	6.7540–6.9103	29,000	198,698	1,445
13 to 18 months	6.8820	2,000	13,764	68

As at June 30, 2019, the aggregate amount of gains after tax under foreign currency forward contracts recognized in other comprehensive income and accumulated in the cash flow hedging reserve relating to the exposure on anticipated future sales transactions denominated in USD is RMB11,995,000. It is anticipated that the sales will take place within next 18 months at which time the amount deferred in equity will be recycled to profit or loss.

During the current interim period, gains relating to the ineffective portion of RMB4,478,000 is recognized immediately in profit or loss, and is included as "net foreign exchange gain" in other gains and losses.

During the current interim period, amounts previously recognized in other comprehensive income and accumulated in equity of RMB8,074,000 are reclassified to revenue when the hedged item affects profit or loss.

26. DEFERRED REVENUE

	As at	
	June 30, 2019	December 31, 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Assets related government grants	**102,507**	77,408

Movements of assets related government grants:

	RMB'000
At January 1, 2018 (audited)	19,711
Government grants received	47,140
Credited to profit or loss	(1,745)
At June 30, 2018 (unaudited)	65,106
At January 1, 2019 (audited)	**77,408**
Government grants received	**28,491**
Credited to profit or loss	**(3,392)**
At June 30, 2019 (unaudited)	**102,507**

During the six months ended June 30, 2019, the Group received government grants of RMB28,491,000 (six months ended June 30, 2018: RMB47,140,000) for its investment in laboratory equipment. The grants were recognized in profit or loss over the useful lives of the relevant assets.

27. SHARE CAPITAL

	Number of shares	Amount
		US$
ORDINARY SHARES OF US$0.000025 EACH AUTHORIZED:		
At June 30, 2019, December 31, 2018 and January 1, 2018	2,000,000,000	50,000

Issued and fully paid:

	Number of shares	Amount	Shown in the financial statements as
		US$	RMB'000
At January 1, 2018 (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
Exercise of pre-IPO share options	1,362,015	34	1
As at December 31, 2018 and January 1, 2019 (audited)	**1,225,941,390**	**30,649**	**202**
Issue of new shares (note (b)	**8,184,866**	**205**	**1**
Exercise of pre-IPO share options	**4,348,319**	**109**	**1**
At June 30, 2019 (unaudited)	**1,238,474,575**	**30,963**	**204**

Notes:

(a) On March 29, 2018, the Company issued 57,000,000 new ordinary shares of US$0.000025 each through placement to certain independent third parties, at a price of HK$70.00 per share.

(b) On May 30, 2019, the Company issued and allotted 8,184,866 new ordinary shares at nil consideration to Trustee under the Restricted Share Award Scheme. Details of the Restricted Share Award Scheme are set out in Note 31.

(c) All the shares issued by the Company ranked pari passu in all respects.

28. COMMITMENTS

The Group had commitments under non-cancellable contracts as follows:

	As at	
	June 30, 2019	December 31, 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Contracted but not provided for		
— equity instruments	**322,083**	—
— plant and equipment	**1,866,070**	1,366,689
	2,188,153	1,366,689

29. 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 based on 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).

29. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/ financial liabilities	Fair value as at June 30, 2019	Fair value as at December 31, 2018	Fair value hierarchy	Valuation technique and key inputs
Financial assets at FVTPL	Equity Instruments: RMB150,383,000	Equity Instruments: RMB20,590,000	Level 2	Most recent transaction price (Note i)
Financial assets at FVTPL	Equity Instruments: RMB35,169,000	Equity Instruments: RMB35,109,000	Level 3	Backsolve from most recent transaction price
Equity instruments at FVTOCI	Equity Instruments: RMB136,807,000	Equity Instruments: RMB136,578,000	Level 2	Most recent transaction price (Note ii)
Foreign currency forward contracts classified as derivative financial assets and liabilities at FVTPL	Derivative financial liabilities: RMB2,267,000	Derivative financial liabilities: RMB14,010,000	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.
Foreign currency forward contracts classified as derivative financial assets and liabilities at FVTOCI	Derivative financial assets: RMB16,897,000 Derivative financial liabilities: RMB4,916,000	Derivative financial assets: RMB16,721,000 Derivative financial liabilities: RMB5,058,000	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.

Note:

(i) The Group acquired the investments in Inhibrx in May 2018 and further acquired additional investments in Inhibrx in January 2019. The investments in Canbridge and Virtuoso were newly acquired from January to March 2019. Based on the due diligence the Group has conducted, it is concluded that no significant milestone was achieved in Inhibrx, Canbridge and Virtuoso since the acquisition. Hence, the most recent transaction price, which is the cost of acquisition, is used as the best estimate of the fair value.

(ii) The Group owns investments in Tysana and Privus that are designated as equity instruments at FVTOCI. The investments in Tysana and Privus were acquired in June and July 2018, respectively. Based on the due diligence the Group has conducted, it is concluded that no significant milestone was achieved in Tysana and Privus since the acquisition. Hence, the most recent transaction price, which is the cost of acquisition, is used as the best estimate of the fair value.

There is no transfer between level 2 and level 3 during the period. The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair values.

29. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL
	RMB'000
At January 1, 2019 (audited)	35,109
Total gains — in profit or loss	6,301
Purchases	2,570,720
Disposals	(2,577,021)
Exchange adjustment	60
At June 30, 2019 (unaudited)	35,169

30. 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,	
	2019	2018
	RMB'000 **(Unaudited)**	RMB'000 (Unaudited)
WuXi MedImmune Biopharmaceutical Co., Ltd. ("WX MedImmune")	**1,929**	5,027
JW Therapeutics (Shanghai) Co., Ltd. ("JW Therapeutics")	**499**	165
	2,428	5,192

Note: WX MedImmune is a joint venture held by WuXi AppTec (Hong Kong) Limited ("WAHK"), an indirect wholly-owned subsidiary of WuXi PharmaTech, a company controlled by the Controlling Shareholders.

JW Therapeutics is a joint venture held by WAHK.

30. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions: (Continued)

(b) Testing services received

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
WuXi AppTec, Inc.	**2,661**	—
WuXi NextCode Genomics (Shanghai) Co., Ltd.	**132**	—
Wuxi AppTec HDB LLC ("HDB")	**443**	—
	3,236	—

(c) Premises leasing services received

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Wuxi AppTec (Shanghai) Co., Ltd. ("WXAT Shanghai")	**—**	715
Wuxi AppTec Sales LLC	**153**	—
	153	715

30. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions: (Continued)

(d) Purchase of raw materials, plant and equipment

	Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Duoning	**3,837**	—

Note: As disclosed in Note 13, the Group acquired 9.32% of the equity interests in Duoning in April 2019 and thereafter Duoning became an associate of the Group.

(e) Lease under IFRS 16 from related parties

On January 1, 2018, the Group entered into a three-year lease arrangement with WXAT Shanghai in respect of premises. During the current interim period, the lease payment paid to WXAT Shanghai is RMB652,000.

On February 1, 2019, the Group entered into a three-year lease arrangement with WXAT Incubator in respect of premises. During the current interim period, the lease payment paid to WXAT Incubator is RMB977,000.

30. RELATED PARTY TRANSACTIONS (Continued)

(2) Related party balances:

	As at	
	June 30, 2019	December 31, 2018
	RMB'000 Non-interest bearing (Unaudited)	RMB'000 Non-interest bearing (Audited)
Amounts due from related parties		
Trade receivables		
WX MedImmune	**2,045**	8,791
Less: Allowance for credit losses	**(1)**	(3)
	2,044	8,788
Other receivables		
WX MedImmune	**818**	—
Amounts due to related parties		
Trade payables		
Duoning	**3,870**	—
HDB	**469**	—
WXAT Shanghai	**—**	8,894
JW Therapeutics	**—**	249
	4,339	9,143
Amounts due to related parties		
Other payables		
Duoning	**474**	—

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

Except for WX MedImmune, JW Therapeutics and Duoning, whose relationship with the Group have been disclosed above, 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.

30. RELATED PARTY TRANSACTIONS (Continued)

(3) Compensation of directors and key management personnel

	Six months ended June 30,	
	2019	2018
	RMB'000 **(Unaudited)**	RMB'000 (Unaudited)
Directors' fee	**594**	569
Salaries and other benefits	**6,233**	5,489
Performance-based bonus	**2,658**	2,019
Retirement benefits scheme contributions	**158**	101
Share-based compensation	**10,317**	12,328
	19,960	20,506

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

31. SHARE-BASED COMPENSATION

Equity instruments granted by WuXi PharmaTech to employees of the Group

WuXi PharmaTech was once listed on the New York Stock Exchange and used to have an employee stock incentive plan ("WuXi PharmaTech Stock Units and Options"). Pursuant to the WuXi PharmaTech Stock Units and Options, certain directors of the Company and employees of the Group were issued shares of WuXi PharmaTech which are restricted in that these shares are subject to vesting term of one to five years ("WX RSUs"). The share restriction will be released when vested.

WuXi PharmaTech was privatized and delisted from the New York Stock Exchange on December 10, 2015, and was taken control by New WuXi Life Science Holdings Limited ("Life Science Holdings") which is a company controlled by the Controlling Shareholders. As part of the privatization process, the terms and conditions of WuXi PharmaTech Stock Units and Options were modified.

Under the modified WuXi PharmaTech Stock Units and Options, the total number of the outstanding WX RSUs remained unchanged, but all outstanding WX RSUs as at December 10, 2015 would be settled by a cash consideration based on the closing price of WuXi PharmaTech on December 10, 2015 (US$5.75 per share). Part of the cash consideration was paid out immediately to some of the designated employees ("Designated Employees") of the Group holding outstanding WX RSUs as their WX RSUs were deemed to be immediately vested. For the other remaining employees of the Group ("Non-designated Employees") holding outstanding WX RSUs, an escrow arrangement was made by Life Science Holdings to put aside the cash consideration in an escrow account and the cash consideration would be paid out to the Non-designated Employees when the original vesting conditions of the WX RSUs are met.

31. SHARE-BASED COMPENSATION (Continued)

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

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, 2019, the Group recognized RMB509,000 (June 30, 2018: RMB1,526,000) 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.

31. SHARE-BASED COMPENSATION (Continued)

Pre-IPO Share Option Scheme (Continued)

(1) As of June 30, 2019, pre-IPO share options granted to the employees of the Group and directors of the Company are as follows:

Date of grant	Number of options	Exercise price per share
January 7, 2016	89,364,668	US$0.50
March 28, 2016	2,412,750	US$0.50
August 10, 2016	5,729,313	US$0.66
November 11, 2016	6,321,000	US$0.79
March 15, 2017	20,970,000	US$1.02
May 12, 2017	3,804,000	US$1.80

(2) Each option granted under the Pre-IPO Share Option Scheme can only be exercised in the following manners (each date on which any portion of option granted shall be vested is hereinafter referred to as a "Vesting Date" and each tranche on which any portion of option granted shall be vested is hereinafter referred to as a "Tranche"):

Tranche	Vesting Date
twenty percent (20%) of the shares subject to an option so granted	second (2nd) anniversary of the offer date for an Option
twenty percent (20%) of the shares subject to an option so granted	third (3rd) anniversary of the offer date for an Option
twenty percent (20%) of the shares subject to an option so granted	fourth (4th) anniversary of the offer date for an Option
forty percent (40%) of the shares subject to an option so granted	fifth (5th) anniversary of the offer date for an Option

31. 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, 2019:

Option batch	Outstanding as at January 1, 2019	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding as at June 30, 2019
January 7, 2016	76,112,259	—	2,755,104	108,000	73,249,155
March 28, 2016	1,276,275	—	76,575	—	1,199,700
August 10, 2016	5,006,438	—	195,600	32,000	4,778,838
November 11, 2016	5,032,000	—	452,200	—	4,579,800
March 15, 2017	19,847,500	—	835,930	94,400	18,917,170
May 12, 2017	3,718,000	—	32,910	8,000	3,677,090
	110,992,472	—	4,348,319	242,400	106,401,753
Exercisable at the end of the period	12,353,416				29,202,912
Weighted average exercise price (US$)	0.66	—	0.65	0.77	0.66

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%

31. SHARE-BASED COMPENSATION (Continued)

Pre-IPO Share Option Scheme (Continued)

The Group recognized total expense of approximately RMB19,173,000 for the six months ended June 30, 2019 (June 30, 2018: RMB24,780,000) in relation to share options granted by the Company under the Pre-IPO Share Option Scheme.

In respect of the share options exercised during the period, the weighted average share price at the dates of exercise was HK$76.16 (June 30, 2018: HK$66.23).

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 employees of the Group and directors of the Company (the "Selected Participants"); (ii) encourage, motivate and retain the Selected Participants, whose contributions are beneficial to the continual operation, development and long-term growth of the Group; and (iii) provide additional incentive for the Selected Participants to achieve performance goals, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the Selected Participants to the shareholders of the Company through ownership of Shares. The total number of the restricted shares underlying all grants made pursuant to the Restricted Share Award Scheme shall not exceed three percent (i.e. 34,953,032 shares) of the issued share capital of the Company as at the adoption date.

The Company will issue and allot to Trustee new shares under the general mandate granted by the shareholders of the Company from time to time. The new shares so issued will be held on trust until the end of each vesting period and will be transferred to the Selected Participants upon satisfaction of the relevant original vesting conditions.

The fair value of the restricted shares awarded was determined based on the market value of the Company's shares at the grant date.

(1) As of June 30, 2019, the restricted share granted to the employees of the Group and directors of the Company are as follows:

Date of grant	Number of restricted shares	Fair value per share
January 15, 2018	3,122,240	HK$55.00
March 20, 2018	1,846,677	HK$75.70
June 13, 2018	784,946	HK$88.50
August 21, 2018	1,339,787	HK$70.50
November 20, 2018	1,026,230	HK$65.55
March 19, 2019	64,986	HK$83.35
June 5, 2019	4,465,190	HK$71.70

31. SHARE-BASED COMPENSATION (Continued)

Restricted Share Award Scheme (Continued)

(2) Except for 14,138 restricted shares granted on June 5, 2019 with vesting period of one year, each other restricted share granted under the Restricted Share Award Scheme can only be vested in the following manners (each date on which any portion of restricted share granted shall be vested is hereinafter referred to as a "Vesting Date" and each tranche on which any portion of restricted share granted shall be vested is hereinafter referred to as a "Batch"):

Batch	Vesting Date
twenty percent (20%) of the restricted shares so granted	second (2nd) anniversary of the grant date for an restricted share
twenty percent (20%) of the restricted shares so granted	third (3rd) anniversary of the grant date for an restricted share
twenty percent (20%) of the restricted shares so granted	fourth (4th) anniversary of the grant date for an restricted share
forty percent (40%) of the restricted shares so granted	fifth (5th) anniversary of the grant date for an restricted share

Set out below are details of the movements of the outstanding restricted shares granted under the Restricted Share Award Scheme during the six months ended June 30, 2019:

Batch	Outstanding as at January 1, 2019	Granted during the period	Vested during the period	Forfeited during the period	Outstanding as at June 30, 2019
January 15, 2018	2,778,660	—	—	177,420	2,601,240
March 20, 2018	1,750,883	—	—	76,331	1,674,552
June 13, 2018	741,702	—	—	7,899	733,803
August 21, 2018	1,326,060	—	—	61,914	1,264,146
November 20, 2018	1,021,371	—	—	63,531	957,840
March 19, 2019	—	64,986	—	—	64,986
June 5, 2019	—	4,465,190	—	12,079	4,453,111
	7,618,676	4,530,176	—	399,174	11,749,678
Weighted average fair value per share (HK$)	67.13	71.87	—	64.21	69.06

The Group recognized total expense of approximately RMB62,217,000 for the six months ended June 30, 2019 (June 30, 2018: RMB25,840,000) in relation to restricted shares granted by the Company under the Restricted Share Award Scheme.

32. EVENT AFTER THE REPORTING PERIOD

The Group has the following events taken place subsequent to June 30, 2019:

On July 25, 2019, the Group entered into an agreement to purchase 1,428,571 Series C-1 Preferred Shares of I-MAB, an exempted company duly with limited liability established and validly existing under the laws of the Cayman Islands, for a cash consideration of US$10,000,000. I-MAB is mainly engaged in the business of research, development of pharmaceutical products; the commercialization, production and sale of pharmaceutical products.

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
"CDMO"	Contract development and manufacturing organization
"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"	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
"Director(s)"	the director(s) of the Company
"Eligible Participant(s)"	any Director or employee of the Company or any of its subsidiaries
"EU"	a politico-economic union of 28 member states that are located primarily in Europe
"EU EMA"	European Medicines Agency
"GMP"	Good Manufacturing Practice
"Group" or "we" or "our"	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 of Hong Kong Limited, as amended or supplemented from time to time
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"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
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of China
"Reporting Period"	the six-month period from January 1, 2019 to June 30, 2019
"Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on January 15, 2018

Definitions

"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
"U.S. FDA"	The Food and Drug Administration of the United States of America
"Written Guidelines"	the Written Guidelines for Securities Transactions by Directors adopted by the Company
"WuXi PharmaTech"	WuXi PharmaTech (Cayman) Inc., a company incorporated under the laws of the Cayman Islands on March 16, 2007 with limited liability, 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.

* *for identification purpose only*