药明康德
WuXi AppTec

無錫藥明康德新藥開發股份有限公司
WuXi AppTec Co., Ltd.*

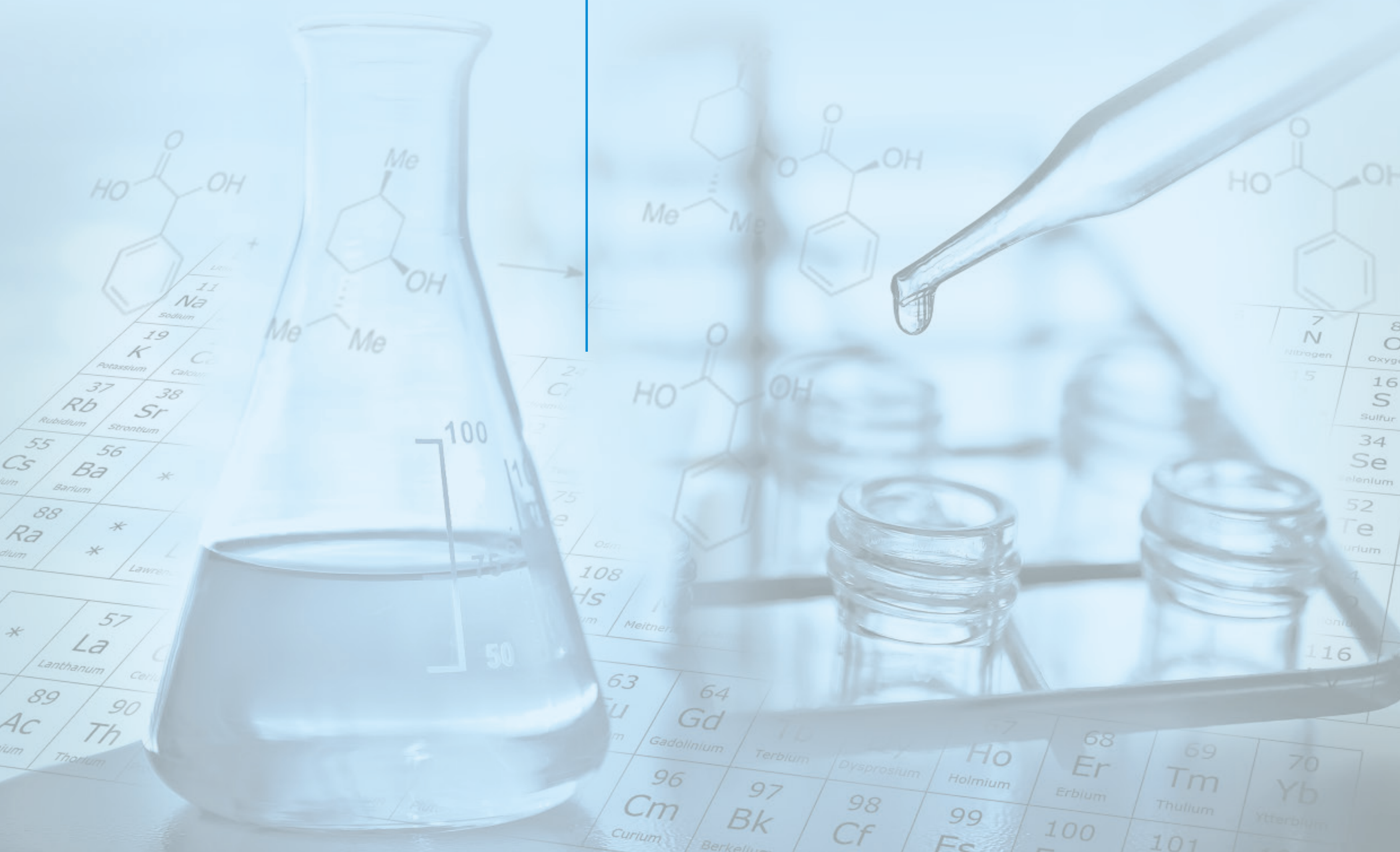
(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code：2359

2018
Annual Report

* *For identification purposes only*

Contents



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Ge Li (李革) *(Chairman and Chief Executive Officer)*
Mr. Edward Hu (胡正國) *(Co-Chief Executive Officer)*
Mr. Xiaozhong Liu (劉曉鐘)
Mr. Zhaohui Zhang (張朝暉)
Dr. Ning Zhao (趙寧)

Non-executive Directors

Mr. Xiaomeng Tong (童小幪)
Dr. Yibing Wu (吳亦兵)

Independent Non-executive Directors

Dr. Jiangnan Cai (蔡江南)
Ms. Yan Liu (劉艷)
Mr. Dai Feng (馮岱)
Dr. Hetong Lou (婁賀統)
Mr. Xiaotong Zhang (張曉彤)

JOINT COMPANY SECRETARIES

Mr. Chi Yao (姚馳)
Ms. Yuen Wing Yan Winnie (袁頴欣)

AUTHORISED REPRESENTATIVES

Mr. Edward Hu (胡正國)
Mr. Chi Yao (姚馳)

STRATEGY COMMITTEE

Dr. Ge Li (李革) *(Chairperson)*
Mr. Edward Hu (胡正國)
Mr. Xiaomeng Tong (童小幪)
Dr. Yibing Wu (吳亦兵)
Dr. Jiangnan Cai (蔡江南)

AUDIT COMMITTEE

Dr. Hetong Lou (婁賀統) *(Chairperson)*
Mr. Xiaotong Zhang (張曉彤)
Ms. Yan Liu (劉艷)

REMUNERATION AND APPRAISAL COMMITTEE

Ms. Yan Liu (劉艷) *(Chairperson)*
Dr. Hetong Lou (婁賀統)
Dr. Ning Zhao (趙寧)

NOMINATION COMMITTEE

Dr. Jiangnan Cai (蔡江南) *(Chairperson)*
Ms. Yan Liu (劉艷)
Dr. Ge Li (李革)

AUDITOR

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

REGISTERED OFFICE IN THE PRC

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL BANKERS

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Jinshan District
Shanghai
PRC

China Merchants Bank (Waigaoqiao Branch)
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Pudong District
Shanghai
PRC

JPMorgan Chase Bank (China) Company Limited
41st Floor, Park Place
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Jing'an District
Shanghai
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Citi Tower
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Lu Jia Zui Finance and Trade Zone
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PRC

COMPLIANCE ADVISER

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Hong Kong

PRC LEGAL ADVISER

Fangda Partners
24/F, HKRI Centre Two
HKRI Taikoo Hui 288
Shi Men Yi Road
Shanghai
PRC

A SHARE REGISTRAR AND TRANSFER OFFICE IN THE PRC

China Securities Depository &
Clearing Corporation Limited
(CSDCC) Shanghai Branch
China Insurance Building
166 East Lujiazui Road
Pudong District, Shanghai
PRC

H SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

A Share: 603259
H Share: 02359

COMPANY'S WEBSITE

www.wuxiapptec.com.cn

Chairman's Statement

Dear Shareholders,

2018 was an extraordinary year for the global healthcare industry as well as for our Company. Innovative drugs, including those of our customers, are achieving remarkable results. In addition, regulatory approval timelines have accelerated and the number of new drugs coming to market in the U.S. and in China has reached a record high. We continued to strengthen our capabilities and capacities and provide quality services to our customers in this exciting, rapidly-evolving environment. We were proud to see that 39 out of the 59 new drugs approved by the U.S. Food and Drug Administration ("FDA") came from our customers in 2018.

In the past year, we continued to invest in new technologies and expand our service offering across all segments. By leveraging the strengths of our "integrated end-to-end" research and development ("R&D") services platform, we were able to create multiple synergies amongst our different businesses. In May 2018, we were successfully listed on the Shanghai Stock Exchange and, in December 2018, we were selected as a foundation stock for four separate indices: SSE 50 Index, SSE 180 Index, CSI 300 Index, and the CSI 100 Index. Also in December, we were successfully listed on the Main Board of the Hong Kong Stock Exchange and were accepted by the Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect in January and February 2019, respectively. We are grateful to our investors who continue to believe in our vision. The capital you provide drives our growth, reinforcing the confidence you have in our management team and our business model.

To name just a few of our key 2018 highlights:

WE GREATLY ENABLED OUR PARTNERS TO ACHIEVE PHARMACEUTICAL INNOVATION

Since our establishment in 2000, WuXi AppTec has strived to achieve our vision that "every drug can be made and every disease can be treated." This is our goal. We believe that with an idea, a piece of paper, a pen and a credit card, anyone can be empowered to do new drug R&D through the WuXi AppTec platform. We are delighted to see that our platform facilitated the development and launch of various drugs in 2018 for patients all over the world. Increasingly more partners have cooperated with us to improve the health and well-being of patients.

- We acquired 1,400+ new customers, and our active customer count reached 3,500+ in 2018. All the top 20 global pharmaceutical companies are our customers.

- For our success-based drug discovery services, we filed 27 new-chemical-entity Investigational New Drug ("IND") for our customers with the National Medical Products Administration ("NMPA") and obtained 17 clinical trial authorization ("CTA"). As of December 31, 2018, we have cumulatively submitted 55 new-chemical-entity IND filings with the NMPA for our customers and obtained 34 CTAs.

- Our small molecule CDMO/CMO segment provided services to 650+ projects, including 40 in Phase III clinical trials and 16 that have been commercialized.

- We became the first CMO services provider under China's newly implemented Market Authorization Holder ("MAH") policy and began commercial manufacturing services for two products, including: Ganovo®, developed by Ascletis Pharma for treatment of Hepatitis C and Elunate®, developed by Hutchison MediPharma for treatment of colorectal cancer.

- In the highly-specialized field of cell and gene therapy, we provided CDMO services for 30 clinical stage cell and gene therapies projects; 25 in phase I and 5 in phase II/III.

- Our fast growing clinical research services business helped one multinational company's PD-1 antibody obtain market approval in China. We also helped a domestic company's break-through drug obtain market approval for the treatment of colorectal cancer. In addition, we assisted in the BLA submission of the first CD20 biosimilar product in China.

STRENGTHENED OUR CAPABILITIES AND CAPACITIES TO FACILITATE PHARMACEUTICAL R&D

We continuously strengthen the capabilities and capacities of our platform to lower entry barriers for pharmaceutical R&D. We have established laboratories and manufacturing facilities worldwide, and made significant investment in big data, artificial intelligence ("AI") and other advanced technologies to facilitate the success of our business partners.

- We had 27 operation sites and branch offices globally with approximately 14,000 scientists and research technicians, enabling pharmaceutical innovation worldwide.

- Our manufacturing facility in Changzhou successfully passed its first inspection by the U.S. FDA with no Form 483 issued, and our manufacturing facility in Jinshan has successfully passed its fourth inspection by the U.S. FDA with no Form 483 issued.

- We initiated oligonucleotide and peptide API process development in 2018 and will build affiliated research manufacturing and commercial manufacturing capabilities in 2019.

- In July 2018, we acquired an Austin, Texas-based clinical research CRO WuXi Clinical Development, Inc. (formerly doing business as ResearchPoint Global). This acquisition has allowed us to expand our global clinical trial service offering to both China-based companies and US-based companies for their global clinical requirements.

- To support future growth, we are significantly expanding capacities including: chemistry laboratory expansion in our Tianjin site and new Qidong site; new cell and gene therapy GMP facilities in our Philadelphia site and Wuxi Jiangsu site; API GMP manufacturing facilities in our Changzhou site; a new medical device testing laboratory in Suzhou, and a new biology research laboratory in San Diego, U.S..

- We strengthened our capabilities in big data and AI, transforming conventional business models and breaking-down barriers of healthcare data analytics through data-driven solutions. We established our internal AI team and cooperated with global leading AI companies and universities to jointly explore the possibility of further improving our service and data efficiency. We have invested in and co-founded PICA, a mobile application education platform company reaching more than 1 million community doctors. We also established CW Data Co., Ltd, a joint venture with China Electronics Corporation to develop healthcare data products and services.

ESTABLISHED A GLOBAL R&D NETWORK TO AUGMENT OUR INNOVATIVE HEALTHCARE ECOSYSTEM

We have been actively developing a new healthcare ecosystem to attract more participants to join the pharmaceutical R&D industry. We are committed to enabling more start-ups, research organizations, scientists, venture capitalists, hospitals and doctors, transform their ideas into reality for better patient treatment.

- We organized the WuXi Global Forum in San Francisco, U.S. to promote communication and sharing among entrepreneurs, industry participants and investors in search of new direction and opportunity within the industry.

- We organized the 12th WuXi AppTec Life Science and Chemistry Awards ceremony to honor outstanding scientists in the industry, encouraging the transformation from scientific research into life-changing healthcare products.

- In March 2019, we conducted our inaugural WuXi AppTec Healthcare Industry Forum in Shanghai. As a result, our presence in the global healthcare industry has been further consolidated.

Looking forward, we are now entering an unprecedented golden age with the healthcare ecosystem emerging and an ever-increasing number of participants able to play a role at different stages of innovation. WuXi AppTec is committed to enabling innovation worldwide whilst catalyzing and benefiting from the continuous transformation of the healthcare ecosystem. As our platform gains further scale and depth, the impact of our long tail customers will be truly dramatic. More institutions, scientists, hospitals, and doctors will realize their dreams of drug R&D innovation, and WuXi AppTec will undoubtedly help bring more vital medicines to patients faster.

Dr. Ge Li
Chairman and Chief Executive Officer
Hong Kong, March 22, 2019

Financial Highlights

Revenue for the Reporting Period amounted to approximately RMB9,613.68 million, representing an increase of 23.80% from approximately RMB7,765.26 million recorded in 2017.

Gross profit for the Reporting Period amounted to approximately RMB3,776.92 million, representing an increase of 16.57% from approximately RMB3,239.92 million recorded in 2017.

Profit attributable to owners of the Company for the Reporting Period amounted to approximately RMB2,260.52 million, representing an increase of 84.22% from approximately RMB1,227.09 million in 2017.

Non-IFRS net profit attributable to owners of the Company for the Reporting Period amounted to approximately RMB2,463.66 million, representing an increase of 75.46% as compared with approximately RMB1,404.15 million in 2017.

Adjusted Non-IFRS net profit attributable to owners of the Company for the Reporting Period amounted to approximately RMB1,741.60 million, representing an increase of 23.28% as compared with approximately RMB1,412.74 million in 2017.

The Board proposes the profit distribution plan for the year ended December 31, 2018 (the "2018 Profit Distribution Plan") as follows: (1) a dividend in an aggregate amount of RMB678,636,125.88 (inclusive of tax) to be paid to Shareholders of the Company on the record date for determining the Shareholders' entitlement to the 2018 Profit Distribution Plan (which amounts to a dividend of RMB5.80 (inclusive of tax) for every 10 Shares of the Company based on the total issued Shares of the Company as of the date of this annual report), and (2) 4 new Shares for every 10 existing Shares of the Company to be issued out of reserve to all Shareholders. The 2018 Profit Distribution Plan is subject to, amongst others, approval by Shareholders of the Company at the forthcoming AGM and application be made to and approved by the Hong Kong Stock Exchange for the listing of and permission to deal in the new H Shares (in respect of the capitalization issue).

Financial Summary

	For the Year Ended December 31,			
	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Operating results				
Revenue	4,883,349	6,116,131	7,765,260	**9,613,684**
Gross profit	1,678,631	2,482,491	3,239,920	**3,776,919**
Operating profit	858,867	1,441,018	1,689,807	**2,596,400**
Profit for the year	683,779	1,120,973	1,296,720	**2,333,681**
Profit attributable to owners of the Company	348,968	974,980	1,227,093	**2,260,523**
Profitability				
Gross margin	34.37%	40.59%	41.72%	**39.29%**
Operating profit margin	17.59%	23.56%	21.76%	**27.01%**
Profit margin for the year	14.00%	18.33%	16.70%	**24.27%**
Earnings per share (RMB)				
Earnings per share — Basic	0.39	1.08	1.31	**2.23**
Earnings per share — Diluted	0.39	1.07	1.30	**2.21**

	As at December 31,			
	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	9,686,431	10,590,683	12,580,447	**22,667,202**
Equity attributable to owners of the Company	3,367,667	5,569,173	6,342,380	**17,688,021**
Total liabilities	3,256,308	4,528,278	5,842,436	**4,501,971**
Bank balances and cash	1,002,065	2,507,299	2,466,144	**5,757,691**
Gearing ratio	33.62%	42.76%	46.44%	**19.86%**

Management Discussion and Analysis

1. MANAGEMENT'S DISCUSSION AND ANALYSIS ON OPERATIONS OF THE GROUP FOR THE REPORTING PERIOD

A. Analysis on Principal Operations

In 2018, we continued to enhance our capabilities and capacities across all segments, strengthening our technologies and expanding our services. Contemporaneously, by leveraging the strengths of our integrated end-to-end R&D services platform fully, we were able to create further synergies among our different segments and continuously expand our scope of services through our "follow the project" to "follow the molecule" strategies.

For the Reporting Period, we realized revenue of RMB9,613.68 million, representing a year-over-year ("YoY") growth of 23.80%. During the Reporting Period, we realized net profit attributable to the owners of the Company of RMB2,260.52 million, representing a YoY growth of 84.22%.

Revenue

During the Reporting Period, we added over 1,400 new customers and the number of our active customers exceeded 3,500. Attributable to the increased revenue generated from our existing customers and business arising from new customers, we realized revenue of RMB9,613.68 million, representing a YoY growth of 23.80%. We experienced growth across all business segments. Our China-based laboratory services realized revenue of RMB5,113.40 million, representing a YoY growth of 24.09%, our CDMO/CMO services realized revenue of RMB2,698.89 million, representing a YoY growth of 28.00%, our U.S.-based laboratory services realized revenue of RMB1,204.15 million, representing a YoY growth of 6.10%, while our clinical research and other CRO services realized revenue of RMB584.63 million, representing a YoY growth of 64.17%.

(1) China-based laboratory services

Our China-based laboratory services encompass an array of services provided as part of the drug discovery, pre-clinical development and clinical processes research. Our services offered to our global customers include synthetic chemistry, biology, medicinal chemistry, analytical chemistry, DMPK/ADME, toxicology, bioanalysis and testing services. We have one of the largest and most experienced small molecule chemical drug R&D teams globally and performed over 7,000 chemical reactions daily. We believe that we are in possession of world-leading research services and technologies. In addition, we continue to improve our technologies and capabilities, including gene editing, immuno-oncology, DNA encoded library, bio-catalysis, flow chemistry, spray drying, hot melt extrusion and nano suspension, etc.

During the Reporting Period, our China-based laboratory services realized revenue of RMB5,113.40 million, representing a YoY growth of 24.09%. On one hand, we assisted our global customers in pushing forward R&D progress of innovative pharmaceutical products. Many of our customers were granted by the U.S. FDA designations of breakthrough therapy, orphan drug and fast track for their new products. On the other hand, we continued to enable our domestic customers with our globally leading expertise. We provided integrated drug discovery and R&D services to more than 30 Chinese customers which spans from early stage of drug discovery to completion of IND filings with the NMPA. These projects have success-based agreements that provide us with a milestone and/or royalty fee. These agreements focus on well-known targets, which allow us to reduce the risks associated with such arrangements and maximize any potential upside. In 2018, we have assisted Chinese customers in making 27 IND filings with NMPA for new-chemical entities and have assisted our customers in obtaining 17 CTAs from NMPA. As of the end of 2018, we have in total assisted Chinese customers in submitting 55 new-chemical entities IND filings with NMPA and have assisted our customers in obtaining 34 CTAs from NMPA. In particular, we assisted Chia Tai Tianqing Pharmaceutical ("CTTQ") with discovering an anti-HBV small-molecule drug candidate. In 2016, CTTQ granted a global pharmaceutical company exclusive rights to develop, manufacture and sell this drug outside of China. CTTQ is expected to receive a licensing fee of up to US$253 million, and we will receive from CTTQ a portion of the licensing fee as milestone payment for our services rendered. In 2018, we received the second instalment milestone fee of RMB16.8 million under this project.

While catering to the needs for R&D services from multinational pharmaceutical companies, we have also been proactively executing our "long-tail" strategy by enabling small and medium-sized biotechnology companies, virtual companies without in-house laboratories. Leveraging our R&D service platform, with cutting-edge scientific capabilities and large-scale capacities, these customers would be able to carry out new drug discovery and development projects without the need to invest in their own laboratories or other fixed assets. Furthermore, these customers have continuously demonstrated strong demands of outsourcing services including new drug discovery, chemical synthesis, testing of drug properties, and research of pharmacology and toxicology, etc. which brought new growth potential to our business. As our customers' projects progress and develop, their new demands are also rapidly emerging, which in turn enable our business to grow in parallel with our customers' projects establishing a mutually beneficial partnership.

In 2018, we continued to expand our capabilities and capacities, and maintain our globally leading position while enabling pharmaceutical innovation worldwide. Our headquarters and analytical laboratory have begun operation. The expansion of Suzhou drug safety assessment facility has commenced, and the first batch of laboratories under the Tianjin chemistry laboratory upgrade program have commenced operation. We have also signed a strategic agreement with the Qidong government and will establish a R&D center there. We expect the first batch of laboratories in Qidong to begin operation in the second half of 2019.

(2) CDMO/CMO services

We provide R&D and manufacturing services of small molecule new drugs (i.e. the CDMO/CMO services) to customers globally through our controlling subsidiary, Shanghai SynTheAll Pharmaceutical Co., Ltd.* (上海合全藥業股份有限公司) ("STA"). STA has one of the largest and the most robust R&D teams in terms of R&D capability in China. STA is the first CMC platform (including both APIs and drug product) in China to have passed the U.S. FDA inspection for new chemical entities. It is also the first CDMO in China that is approved to supply APIs and GMP intermediates for branded commercial drugs by regulatory agencies in the U.S., China, EU, Canada, Switzerland, Australia, and New Zealand. STA has been approved by drug administrations in the U.S., China, EU, Canada, Switzerland, Australia and New Zealand to provide commercial manufacturing of APIs and GMP intermediates of branded drugs for the above countries and regions.

By fully taking advantage of its competitiveness in R&D, the Company has persisted on its strategy of "expanding services along with the development of drugs" and offered integrated services of chemical and innovative APIs and finished dosages, which cover the entire life cycle from early process development, trial manufacturing, process certification to commercial manufacturing.

During the Reporting Period, the revenue of our CDMO/CMO services amounted to RMB2,698.89 million, representing a YoY growth of 28.00%. In respect of quality control, during the Reporting Period, our API R&D and manufacturing facility located in Changzhou has secured Pre-Approval Inspection ("PAI") for two APIs from the U.S. FDA — with no Forms 483 issued. This is the first time that our Changzhou facility has been inspected by the U.S. FDA. Our API manufacturing facility located in Jinshan has successfully passed its fourth inspection from the U.S. FDA — with no Forms 483 issued. In respect of customer service, we have continued to implement our strategy of "expanding services along with the development of drugs". By establishing close cooperation relationship with our customers during the pre-clinical stage, we are able to seek opportunities for new projects from clinical stage and commercialization stage, facilitating a sustainable and rapid growth of the revenue from our CDMO/CMO services as demand for our services increases as our customers projects advanced through different stages of drug development. In 2018, we have ongoing CDMO/CMO projects in relation to more than 650 molecules in different R&D stages, of which 40 were molecules at Phase III of clinical trial stage and 16 have been commercialized. In China, we assisted our customers in obtaining new drug approvals for Ganovo® developed by Ascletis Pharma for treatment of Hepatitis C and Elunate® developed by Hutchison MediPharma for treatment of colorectal cancer. With the approval of Ganovo®, we became the first CDMO/CMO partner to support the launch of innovative drugs in China since the implementation of MAH pilot program.

In addition, in 2018, STA established commercial spray drying process for drug substance and had two new drug product commercial manufacturing facilities in full operation with spray drying, nano, liquid fill capsule cGMP manufacture capabilities. STA also enhanced bio-catalysis platform, established a new metal catalysis center, and initiated oligonucleotide and peptide API process development and manufacturing in 2018. In 2019, STA will continue to strengthen the overall development and manufacture capabilities and capacity across the entire CMC supply chain, to meet the strong growth of our customers' demand.

(3) U.S.-based laboratory services

Our U.S.-based laboratory services segment comprises our cell and gene therapies CDMO services and medical device testing services. As we follow closely with the latest development trend of the therapeutic technology, we have proactively and strategically established cell and gene therapies services capabilities, which we believe will be a growth driver of the industry. We seek to accelerate and transform the development and manufacturing of cell and gene therapies through our comprehensive integrated CDMO services by establishing new and more cell and vector platforms to expand our scale and capabilities. Our services include development, testing and cGMP manufacturing of such therapies. Our capabilities are currently offered in the cGMP facilities in Pennsylvania, U.S., which covers an area of approximately 15,000 square meters.

We also offer consulting, testing and manufacturing services in connection with medical devices testing. Our medical device testing services cover preclinical safety consulting to support the overall safety of medical devices, a wide range of testing programs to support medical device product manufacturers from concept to commercialization and cGMP manufacturing services for medical devices. These services include materials selection and evaluation, product efficacy and materials performance, materials characterization, risk assessment, biocompatibility, toxicology, sterilization/inactivation validation, package integrity validation, controlled environment testing, raw material verification and lot release testing. Our capabilities are currently offered in the cGMP and GLP facilities in Minnesota, U.S..

During the Reporting Period, our U.S.-based laboratory services realized revenue of RMB1,204.15 million, representing a YoY growth of 6.10%. This is mainly driven by our business expansion in the second half of 2018. The growth rate of cell and gene therapies services and medical device testing services has improved significantly compared with the first half of the year.

Cell and gene therapies CDMO services is an emerging business and we are still in the process of building capabilities and capacities in this field. As the utilization rate goes up, we expect the revenue growth to accelerate. In the first half of 2018, our cell and gene therapies CDMO service revenue increased by 7.46% compared with the same period in 2017, and in the second half, revenue increased by 28.41% compared with the same period in 2017. By the end of 2018, we have provided CDMO services for 30 clinical stage cell and gene therapies projects.

During the Reporting Period, we experienced a decrease in sales of medical device testing services as a result of an adjustment of outsourcing strategy made by one customer after it was acquired and the completion of a one-off large short-term project in the same period of 2017. In the second half of 2018, through the integration and strengthening of the management and sales team, we were able to actively develop new customers and improve our medical chemist testing service business. The European Union Medical Devices Regulation (REGULATION (EU) 2017/745), which came into force in May 2017, has greatly enhanced the standards and restrictions on the certification of medical devices. We expect this policy will bring more business opportunities for our medical device testing services.

(4) Clinical research and other CRO services

Our clinical research services include clinical development services ("CDS") and site management organization ("SMO") services, CDS includes project planning, clinical operation, monitoring and management of phase I-IV clinical trials, outcomes research and medical device trials; embedded outsourcing; and clinical informatics, respectively. SMO services include project management and clinical site management services. During the Reporting Period, we continued to build our global clinical research network. Our Chengdu phase I clinical center with 117 inpatient beds began operation, which can provide high quality and efficient clinical research services for our customers. By the end of the Reporting Period, our CDS team has more than 750 employees distributed in more than 60 cities across the world. Our SMO team has more than 1,800 clinical research coordinators distributed in more than 110 cities throughout China and provide SMO services in more than 760 hospitals.

During the Reporting Period, our clinical research and other CRO services realized revenue of RMB584.63 million, representing a YoY growth of 64.17%. The revenue growth is mainly driven by the rapid development of domestic new drug clinical trial market and significant improvement of our clinical CRO and SMO services in terms of quality, scale and capabilities.

In July 2018, we acquired WuXi Clinical Development, Inc. (carrying on business as ResearchPoint Global), a clinical CRO in Texas, U.S., which has allowed us to expand our clinical trial services to the U.S., and serve China-based pharmaceutical companies that seek to perform clinical trials in the U.S.. Since the NMPA released its announcement on self-checking and inspection of clinical trial data of drugs on

July 22, 2015, 20 projects undertaken by our clinical research services were inspected and all of which passed inspections. Among which, 18 new drugs were approved, fully demonstrating the high-quality standard of our clinical research services.

Gross Profit

During the Reporting Period, we realized comprehensive gross profit of RMB3,776.92 million, representing a YoY growth of 16.57%. The gross profit of our core business was RMB3,773.46 million, representing a YoY growth of 17.00%. The gross profit of China-based laboratory services was RMB2,201.79 million, representing a YoY growth of 19.52%. The gross profit of our CDMO/CMO services was RMB1,113.99 million, representing a YoY growth of 21.29%. The gross profit of our U.S.-based laboratory services was RMB289.26 million, down by 20.07% YoY. The gross profit of our clinical research and other CRO services was RMB168.41 million, representing a YoY growth of 64.32%. The gross profit margin of our core business decreased by 2.47 percentage points compared with the same period of last year, mainly because: (1) the gross profit margin of U.S.-based laboratory services decreased by 7.87 percentage points, and (2) the adverse effect of RMB/US$ exchange rate appreciation in the first half year of 2018.

(1) China-based Laboratory Services

During the Reporting Period, our China-based laboratory services realized gross profit of RMB2,201.79 million, representing a YoY growth of 19.52%. This is because RMB's exchange rate against US$ rose sharply in the first half of 2018, as the revenue of China-based laboratory services revenue was mostly recorded in US$ while costs were mostly paid in RMB. In addition, we paid more incentives, including share-based compensation, to our employees, which led to higher costs.

(2) CDMO/CMO services

During the Reporting Period, our CDMO/CMO services realized gross profit of RMB1,113.99 million, representing a YoY growth of 21.29%. Gross profit growth was slightly lower than revenue growth. The main reasons were as follows: (1) the average exchange rate of US$ in 2018 was lower than that of 2017, and (2) part of the forward contracts purchased by us were accounted for under the hedge accounting method, and the loss of RMB19.05 million was recognised as operating cost in the fourth quarter of 2018.

(3) *U.S.-based Laboratory Services*

During the Reporting Period, our U.S.-based laboratory services realized gross profit of RMB289.26 million, down by 20.07% YoY. In 2018, we continued to increase the investment in cell and gene therapies services capabilities and capacities. As we increased fixed assets investment and recruited more scientists and technicians, the gross profit of cell and gene therapies CDMO services in the Reporting Period has declined by 13% compared with last year. As the utilization rate went up, the gross profit of cell and gene therapies CDMO services of the second half of 2018 has increased by 29% compared with the first half of 2018, and the gross margin improved as well. Our medical device testing services decreased as a result of an adjustment of outsourcing strategy made by one customer after it was acquired and completion of a one-off large short-term project in the same period in 2017. These led to the decline in medical device testing services gross profit by 31% and caused the decline in its gross margin. In the second half of 2018, through the integration and strengthening of the management and sales team, we actively developed new customers. Our medical device testing services' gross margin increased by 5.7 percentage points for the second half of 2018, compared with the first half of 2018.

(4) *Clinical Research and Other CRO Services*

During the Reporting Period, our clinical research and other CRO services realized gross profit of RMB168.41 million, representing a YoY growth of 64.32%. The gross profit growth was slightly higher than revenue growth, mainly due to an increase in the number of customers, business coverage, service quality and operational efficiency.

Other Income

Our other income mainly consists of interest income from financial institutions, government grants and subsidies and dividend income. Our other income decreased from RMB255.00 million for the year 2017 to RMB156.42 million for the year 2018 primarily attributable to RMB106.46 million government grants and subsidies received in the year 2017 for the Company seeking to be listed on the Shanghai Stock Exchange.

Other Gains and (Losses)

Our other gains and (losses) increased from RMB(81.21) million for the year 2017 to RMB600.59 million for the year 2018. The increase mainly resulted from: (1) fair value gain on equity and fund investments of RMB615.63 million, and (2) investment income on monetary fund and wealth management products of RMB79.25 million.

Selling and Marketing Expenses

Our selling and marketing expenses increased from RMB291.51 million for the year 2017 to RMB337.88 million for the year 2018, which mainly resulted from increased staff expense for expansion of business.

Administrative Expenses

Our administrative expenses increased from RMB986.54 million for the year 2017 to RMB1,152.59 million for the year 2018. The increase mainly resulted from: (1) increase in staff expense for expansion of business, (2) increase in depreciation and amortization expense for lease improvement, and (3) increase in consulting fees to improve operation efficiency.

Finance Costs

Our finance costs primarily consist of interest expense on bank loans, interest expense on loans from related parties and imputed interest expense on payables for acquisition of a property. For the years ended December 31, 2017 and 2018, our finance costs were RMB48.55 million and RMB92.41 million respectively. The increase in the year 2018 was due primarily to the increase in average balance of bank borrowings during the year.

Research and Development

	Unit: RMB in million
R&D expenses for the current period	436.53
Percentage of total R&D expenses in revenue (%)	4.54
Number of R&D staff of the Company	13,940
Percentage of R&D staff in the total number of staff of the Company (%)	78.62

During the Reporting Period, the R&D expenses of the Company was RMB436.53 million, representing a YoY growth of 42.82% due to the increased efforts to improve the R&D capabilities of the Company. The expenses mainly incurred in the establishment of DNA-encoded chemical library ("DEL"), synthetic chemical AI/machine learning, research on mechanism of new drugs, establishment of animal models, R&D activities such as the research on new synthesis process and R&D projects of new products and new technology platforms (including oligonucleotides, peptides and asymmetric synthesis catalytic enzymes).

Share of Profits (Losses) of Associates

Our share of profits (losses) of associates increased from RMB(21.59) million for the year 2017 to RMB104.60 million for the year 2018. The increase mainly resulted from net equity income picked up from our associate WuXi Healthcare Ventures II L.P. due to its favorable fair value change from investment profiles, amounting to RMB153.92 million.

Share of Losses of Joint Ventures

Our share of losses of joint ventures increased from RMB27.05 million for the year 2017 to RMB27.77 million for the year 2018, which mainly resulted from our joint ventures' increasing cost devotion to research projects.

Income Tax Expenses

Our income tax expenses decreased from RMB295.90 million for the year 2017 to RMB247.14 million for the year 2018, due primarily to the U.S. federal corporate tax rate decreased from 35% to 21% effective from January 1, 2018. The effective income tax rate decreased from 18.58% for the year 2017 to 9.58% for the year 2018, mainly resulted from: (1) the decreased U.S. federal corporate tax rate as stated above, (2) a decrease in profit before tax of our U.S.-based laboratory services, and (3) effect of different tax rates applicable to subsidiaries operating in different jurisdictions, such as the U.S., the Cayman Islands and the BVI.

Profit for the Year

Due to the above factors, profit for the year increased from RMB1,296.72 million in 2017 to RMB2,333.68 million in the year 2018, representing an increase of 79.97%. Net profit margin increased from 16.70% for the year 2017 to 24.27% for the year 2018 due primarily to: (1) growth of our business enabled us to achieve greater economies of scale, (2) increased utilization rate of our capacity, and (3) increase in fair value of our invested companies, such as Unity Biotechnology Inc. and Hua Medicine etc..

Cash Flows

Unit: RMB in million

	Year ended 31/12/2018	Year ended 31/12/2017
Net cash from operating activities	**1,525.78**	1,795.65
Net cash used in investing activities	**(5,162.02)**	(1,132.34)
Net cash from (used in) financing activities	**6,984.16**	(668.18)
Net increase (decrease) in cash and cash equivalents	**3,347.93**	(4.87)
Cash and cash equivalents at the beginning of year	**2,466.14**	2,507.30
Cash and cash equivalents at the end of year	**5,757.69**	2,466.14

In 2018, net cash flows from operating activities of the Group amounted to RMB1,525.78 million, representing a decrease of RMB269.87 million over 2017. The decrease was due primarily to: (1) settlement of certain taxes in 2018 of RMB125.22 million arising from the intragroup asset transfer of the Pharmaceutical Development Service Department in 2017, and (2) receipt of government grants of RMB106.46 million in 2017 for the Company seeking to be listed on the Shanghai Stock Exchange. By netting off the effect of the one-off tax and government grants, cash flows from operating activities decreased by 2.13% as compared with the same period last year. The decrease was mainly due to the increase in production and operation, purchase of goods, receipt of labor services and cash payment to employees.

In 2018, net cash flows used in investing activities of the Group amounted to RMB5,162.02 million, representing an increase of RMB4,029.68 million over 2017. The increase was mainly due to the cash payment for the increasing purchases of fixed assets, intangible assets and other long-term assets, as well as the wealth management products for the needs of its business development.

In 2018, net cash flows from financing activities of the Group amounted to RMB6,984.16 million representing an increase of RMB7,652.34 million over 2017. The increase was mainly due to receipt of proceeds from the offering of A Shares on the Shanghai Stock Exchange and H Shares on the Main Board of the Hong Kong Stock Exchange.

Gearing Ratio

As at December 31, 2018, the gearing ratio, calculated as total liabilities over total assets, was 19.86%, as compared with 46.44% as at December 31, 2017. The decrease resulted from the increased total assets in 2018 as the Group listed A Shares on the Shanghai Stock Exchange and H Shares on the Main Board of The Hong Kong Stock Exchange.

Contingent Liabilities

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

Borrowings

As at December 31, 2018, the Group had total borrowings of RMB135.00 million denominated in RMB with floating interest rate, among which, RMB120.00 million will be due within one year and RMB15.00 million will be due after one year.

65% equity interests in WuXi Clinical Development Services (Chengdu) Co., Ltd. held by its parent company WuXi Clinical Development Services (Shanghai) Co., Ltd, one of our subsidiaries, was pledged to secure the borrowings of the above stated RMB15.00 million.

B. Non-IFRS Adjusted Net Profit Attributable to Owners of the Company

To supplement our consolidated financial statements which are presented in accordance with the IFRS, we use adjusted net profit attributable to owners as an additional financial measure. We define adjusted net profit attributable to owners as profit/(loss) for the year before certain expenses and depreciation and amortization as set out in the table below. Adjusted net profit attributable to owners is not an alternative to: (1) profit before income tax or profit for the year (as determined in accordance with IFRS) as a measure of our operating performance, (2) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs, or (3) any other measures of performance or liquidity.

The Company believes that the non-IFRS adjusted net profit attributable to owners of the Company is useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these non-IFRS adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of the non-IFRS adjusted net profit attributable to owners of the Company is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. Shareholders and potential investors should not view the non-IFRS adjusted net profit attributable to owners of the Company on a stand-alone basis or as a substitute for results under the IFRS, or as being comparable to results reported or forecasted by other companies.

	Year ended December 31, 2018 RMB million	Year ended December 31, 2017 RMB million
Profit attributable to the owners of the Company	**2,261**	1,227
Add:	**203**	177
Share-based compensation expenses	**46**	44
Listing expenses for offering of our A Shares and H Shares	**22**	7
Foreign exchange related gains or losses	**116**	112
Amortization of intangible assets acquired in business combination	**19**	14
Non-IFRS net profit attributable to the owners of the Company	**2,464**	1,404
Add:	**(722)**	9
Realized and unrealized gains or losses from venture investments	**(750)**	(18)
Realized and unrealized share of losses of joint ventures	**28**	27
Non-IFRS adjusted net profit attributable to the owners of the Company	**1,742**	1,413

C. Assets and Liabilities Analysis

Unit: RMB in million

Items	Amount as at the end of the Reporting Period	Percentage of the amount as at the end of the Reporting Period to the total assets (%)	Amount as at the end of last reporting period	Percentage of the amount as at the end of last reporting period to the total assets (%)	Ratio of change for the amount as at the end of the Reporting Period as compared with the amount as at the end of last reporting period (%)	Reasons
Property, plant and equipment	6,058	26.72	4,255	33.83	42.35	Mainly due to additional capital expenditures in Changzhou STA Phase II Project (常州合全基地二期項目), Qidong Laboratory Project (啟東實驗室項目), Tianjin Northern Base Phase II Project (天津北方基地二期項目) and Suzhou Drug Safety Assessment Center Expansion Projects (蘇州安評中心擴建).

Unit: RMB in million

Items	Amount as at the end of the Reporting Period	Percentage of the amount as at the end of the Reporting Period to the total assets (%)	Amount as at the end of last reporting period	Percentage of the amount as at the end of last reporting period to the total assets (%)	Ratio of change for the amount as at the end of the Reporting Period as compared with the amount as at the end of last reporting period (%)	Reasons
Prepaid Lease payments (non-current)	272	1.20	126	1.00	115.88	Mainly due to land use right acquired.
Interests in associates	619	2.73	251	2.00	146.43	Mainly due to additional investment in and income picked up from WuXi Healthcare Ventures II L.P..
Interests in joint ventures	37	0.16	132	1.05	(72.10)	Mainly due to Wuxi Clinical Development, Inc. being transferred from joint venture to a subsidiary.
Available-for-sale (“AFS”) investments	—	—	683	5.43	/	Due to reclassification of the balance to financial assets at fair value through profit or loss (“FVTPL”) upon adoption of IFRS9 starting January 1, 2018.
Deposits for acquisition	—	—	113	0.89	/	Due to the completion of the acquisition of Wuxi Clinical Development, Inc. as a subsidiary.
Inventories	855	3.77	650	5.17	31.54	Mainly due to increased production capacity of STA Changzhou, and the rapid growth of our CMO/ CDMO services.
Trade and other receivables	2,499	11.02	1,753	13.93	42.55	Mainly due to the growth of sales during the Reporting Period.
Contract assets	385	1.70	186	1.48	107.10	Mainly due to the growth of sales during the Reporting Period.
Financial assets at FVTPL (current)	2,125	9.38	15	0.12	/	Due to reclassification of structured deposits upon adoption of IFRS9 starting January 1, 2018.

Unit: RMB in million

Items	Amount as at the end of the Reporting Period	Percentage of the amount as at the end of the Reporting Period to the total assets (%)	Amount as at the end of last reporting period	Percentage of the amount as at the end of last reporting period to the total assets (%)	Ratio of change for the amount as at the end of the Reporting Period as compared with the amount as at the end of last reporting period (%)	Reasons
Wealth management products	—	—	298	2.37	/	Due to the reclassification to financial assets at FVTPL upon adoption of IFRS9 starting January 1, 2018.
Bank balance and cash	5,758	25.40	2,466	19.60	133.47	Mainly due to proceeds raised from the listings of A Shares and H Shares.
Trade and other payables	2,611	11.52	1,664	13.23	56.84	Mainly due to new employee share-based compensation plans launched in 2018 and increased payables for acquisition of equipment and properties.
Borrowings	135	0.60	1,618	12.86	(91.66)	Mainly due to repayment of borrowings.

D. Analysis on Investments

As part of our efforts to foster the healthcare ecosystem, the Company has established joint ventures and made selective investments in a wide variety of companies within the healthcare ecosystem. We primarily focus our investments in: (1) targets that fit into and support our existing value chain, (2) cutting edge technologies that we believe will advance the healthcare industry, (3) strategic long-term investments, and (4) venture capital funds, all of which would allow us to further access a wider variety of participants in the healthcare ecosystem while maintaining our position at the forefront of science.

	Unit: RMB in million
Investment amount during the Reporting Period	872.88
Investment amount for the corresponding period of previous year	327.44
Change in the investment amount	545.44
Percentage of change in the investment amount	166.58%

During the Reporting Period, investment in joint ventures and associates amounted to a total of RMB275.14 million. For example, in October 2018, we made an investment to establish a joint venture, CW Data Co., Ltd, with China Electronics Corporation to develop healthcare data products and services. The joint venture focuses on three core solution offerings, including data informatics, commercial analytics and advisory services that will provide data solutions to participants in the healthcare ecosystem, including pharmaceutical distributors and insurance companies. We also invested in PICA, a mobile application education platform company, which has established connection with over one million community doctors in China's rural areas, enhancing users' value.

During the Reporting Period, investment in other equities asides from joint ventures and associates amounted to a total of RMB597.74 million.

We primarily make investment using our own funds through its venture capital arm, WuXi PharmaTech Healthcare Fund I L.P., which is expected to play an increasingly significant role in contributing to the healthcare ecosystem. As of December 31, 2018, we had investments in 52 companies (not including investments in our joint ventures and associates) with our interests ranging from 0.1% to 20.0%. The following are some of our investments across several different areas in the healthcare industry:

- Innovative Biotechnology — We have invested in companies focusing on first-in-class drugs, including Unity Biotechnology, Hua Medicine, Syros Pharmaceuticals, FOG Pharmaceuticals and Rgenix, Unity Biotechnology is a biotechnology company that aims to develop therapeutics to extend healthspan by slowing, halting or reversing age-associated diseases. Unity Biotechnology's initial focus is on creating senolytic medicines to selectively eliminate senescent cells and thereby treat age-related diseases, such as osteoarthritis, eye diseases and pulmonary diseases. Hua Medicine is a China-based drug development company currently focused on developing a global first-ever oral drug for the treatment of Type 2 diabetes. Syros Pharmaceuticals is a company involved in developing cutting-edge medicines to control the expression of disease-driving genes, which is building a pipeline of gene control medicines for cancer, autoimmune disorders and rare genetic diseases. FOG Pharmaceuticals is a company focused on the discovery and development of a broadly-enabling new class of medicines based on cell-penetrating miniproteins that are intended to deliver fundamentally new treatments for cancer and other life-threatening diseases. Rgenix is a clinical stage biopharmaceutical company developing new small molecule and antibody cancer therapeutics.

- AI — As part of our efforts to invest in technologies related to AI and machine learning, we have invested in companies such as (1) Insilico Medicine, a company developing an AI platform which allows for rapid identification of new molecular targets using multi-omics data and rapid generation of novel compounds, (2) Schrödinger, a company developing a proprietary physics-based computational-chemistry platform that cost-efficiently and rapidly generates novel drug development candidates, (3) Verge Genomics, a machine learning, neuroscience, and experimental biology-based company seeking to accelerate drug discovery. The business has developed therapeutic programs in Amyotrophic Lateral Sclerosis ("ALS") and Parkinson's disease and has also invested in creating the field's largest and most comprehensive database of ALS and Parkinson's disease patient genomic data through partnerships with academic and government organization, and (4) Engine Biosciences, a company which has developed a unique network biology platform that aims to digitize and decipher complex cell biology to enable development of precise therapeutics.

- Transformative Technologies — We are also committed to investing in transformative technologies, and have invested in companies such as (1) Twist Bioscience ("Twist"), a company that has developed an innovative and patent-protected silicon-based DNA synthesis platform that enables production of high-quality synthetic DNA at a higher scale and lower price than its competitors. Twist has integrated its silicon chip-based platform with software, and an e-commerce platform that enables the Company to decentralize and tailor its DNA synthesis to a wide array of potential customers in the fields of academic research, healthcare, agriculture, industrials, and technology, and (2) Transcriptic Inc., a company that has created the first robotic cloud laboratory platform for on-demand life science research. The Company's Transcriptic Common Lab Environment integrates laboratory processes, protocols and instruments together with Internet of Things technologies through a single user interface to enable robust automation, scalability, flexibility and remote instrument monitoring.

E. Core Competence Analysis

We believe that the below strengths have enabled us to succeed and stand out from our competitors:

(1) Leading global pharmaceutical R&D services platform with integrated end-to-end capabilities

We are a global leading integrated end-to-end new drug R&D service platform, enabling pharmaceutical innovations worldwide. Our integrated end-to-end new drug R&D services capability is expected to fully benefit from the rapid development of the global new drug R&D outsourcing services market. According to forecasts by Frost & Sullivan, the size of the global new drug R&D outsourcing services market will grow from US$115.0 billion in 2018 to US$178.5 billion in 2022 with a CAGR of around 11.6%.

Our integrated end-to-end new drug R&D service platform meets diversified customers' demands. For multinational companies, we offer high-quality and cost-efficient R&D services with strong intellectual property ("IP") protection. All of the top 20 global pharmaceutical companies were our customers. Some of them have been working with us for more than 10 years. With our highly-trained talent pool and comprehensive set of capabilities, supported by our global operations and footprint, we are able to initiate complex projects with minimal lead time, significantly reducing the cost for big pharmaceutical companies. For venture-backed or start-up and virtual companies, we are able to provide cutting edge scientific capabilities, removing their need to invest significant resources in developing in-house capabilities and infrastructure, and reducing their project lead time, thus enabling them to bring their products to market faster.

We strive to continue to expand our service offering by executing the strategy from "follow the project" to "follow the molecule". At the early stage of new drug R&D, we enable our customers with our expertise and gradually establish a trusted partnership. At the CRO and CDMO/CMO stage, we provide services from "follow the project" to "follow the molecule", and win more business opportunities in the late development and commercialization stage.

(2) Enabling innovation to strengthen our competitive advantage

Our principle of "enabling innovation" plays a significant part in the way we design, offer and deliver our services, ensuring that we will deploy our latest know-how and capabilities whenever possible to fulfill our customers' demands and enable them to transform ideas into reality. We have rich experience in cutting-edge expertise, based on which we further explore technologies such as AI, medical big data and laboratory automation, etc. and strives to apply them in R&D of new drugs as early as possible to help our customers to increase their R&D efficiency and lower the entry barrier of pharmaceutical R&D. Based on our deep insights on industrial trends and emerging technologies, we enable our customers with the latest scientific and technological discoveries and convert them to potential products. Since early 2015, we have started to provide integrated discovery and R&D services of new drugs from discovery to IND filings with the NMPA to Chinese customers. In 2018, we have submitted 27 new-chemical entities IND filings with the NMPA for our customers and obtained 17 CTAs.

As at December 31, 2018, we have submitted 55 new-chemical entities IND filings with the NMPA for our customers and obtained 34 CTAs approvals. In 2018, we helped 2 customers with commercial manufacturing under the China's MAH policy, including Ganovo® developed by Ascletis Pharma for treatment of Hepatitis C, and Elunate® developed by Hutchison MediPharma for treatment of colorectal cancer.

We are a leading player in terms of capabilities and capacities and have built a strategy that is hard to be duplicated by our competitors. We are able to anticipate technological development and emerging R&D trend of the industry in the future and seize new development opportunities. Our services start from an early stage of pharmaceutical innovation, drug discovery, and we always keep our keen insights on new drug R&D industry. We have also been able to make deployments in new technologies ahead of our competitors to maintain our leading position. For instance, in terms of drug discovery service, we fully leveraged our capability of chemistry synthesis and compound screening and built a DEL with over 80 billion compounds. The DEL can help to accelerate target validation and hit identification to improve new drug R&D efficiency and reduce R&D costs.

(3) Leverage our knowledge of the industry and customer needs, further strengthen our platform through organic growth and merger and acquisition ("M&A")

We have accumulated extensive industry experience after 18 years of accelerated growth. We have provided services to leading domestic and international pharmaceutical companies and established trusted partnerships. We have grown an appreciation for customer demands and have become aware of the latest development trends and consequently have enhanced our service capabilities through ongoing strengthening of capabilities and expansion of scale as well as strategic M&As, to provide more premium, and comprehensive services to our customers.

In terms of organic growth, we continue to build our capabilities. We plan to build R&D centers in Chengdu and Qidong, a cell and gene therapies CDMO/CMO facility in Wuxi, expand our safety assessment center in Suzhou, set up an innovative R&D center in Hong Kong, expand our SMO clinical research platform and big data analytics platform across the China, set up our bioanalytical laboratory in San Diego, U.S. and expand our cell and gene therapies facility in Philadelphia, U.S., etc.

In terms of M&A, we have made a number of high-quality transactions such as AppTec, Abgent, Crelux and HD Biosciences, etc. successively and integrated their businesses with our existing business to optimize our industry chain while creating synergies. In July 2018, we acquired WuXi Clinical Development, Inc. (carrying on business as ResearchPoint Global), a clinical CRO in Texas, U.S., which has allowed us to expand our clinical trial services to the U.S., and to serve China-based pharmaceutical companies that seek to perform clinical trials in the U.S. Should there be any appropriate opportunities in the future, we will continue to enhance CRO and CDMO/CMO service capabilities through M&A.

(4) We have a strong, loyal and expanding customer base and will continue to grow our network within the healthcare ecosystem

We have a strong, loyal and expanding customer base. In 2018, we added over 1,400 new customers and provided services to 3,500 active customers in over 30 countries, including all top 20 global pharmaceutical companies. As our service capabilities continue to expand, the number of our customers continue to grow. We believe that we could provide high quality R&D services and strict IP protection, helping our customers to improve efficiency and reduce costs. We have enjoyed a high level of customer loyalty and could continue provide more services as our customers' projects progress, or when new projects start. This is in line with our strategy from "follow the project" to "follow the molecule".

We focus on executing our "long-tail" strategy to meet increasingly growing and diversified needs from small and medium-sized biotechnology companies, virtual companies and entrepreneurs. These customers have greater demands for CRO and CDMO/CMO services. We have capabilities at the forefront of science, removing the need for such companies to invest significant resources in developing in-house capabilities and infrastructure, which improves efficiency throughout the drug development process. Using our services, these companies are able to focus on innovative research, expedite progress of their projects and improve their capital efficiency.

We aim to lower entry barriers for the discovery and development of innovative drugs with respect to capabilities, capacities and capital, and are committed to embracing demands of new and existing customers, thereby attracting new participants to join the evolving healthcare ecosystem. Through this lowering of entry barriers, we believe that we are able to catalyze and benefit from the continuous transformation of the healthcare ecosystem. By nurturing and incubating the rise of new business models and encouraging participants to develop new drugs and healthcare products, we drive the creation of new knowledge and technologies, stimulate new demand and improve efficiency, which further drives innovation and fuels the growth of all participants. We have actively facilitated communication among entrepreneurs, industry insiders and investors. Internationally, we organize the WuXi Global Forum in San Francisco, U.S. every year since 2013. In China, we organize the WuXi AppTec Life Science and Chemistry Awards ceremony to honor outstanding scientists in the industry each year. In March 2019, we have also organized the first WuXi AppTec Health Industry Forum in Shanghai which received overwhelming participation from thousands of attendees. WuXi AppTec is becoming increasingly influential in the healthcare industry worldwide.

In addition, we have also enhanced our healthcare data capacity to improve pharmaceutical R&D efficiency through data collection, analysis and validation. We envisage cutting-edge technologies, such as big data and AI, transforming conventional business models and breaking-down barriers of healthcare data analytics through data-driven solutions. By harnessing the industry's collective wisdom, we can deliver vast improvements in productivity and expedite the development of new healthcare products. We have established our internal AI team and cooperated with global leading AI companies and universities to jointly explore the possibility of further improving our service efficiency. We have invested in and co-founded PICA, a mobile application education platform company reaching more than 1 million community doctors. PICA connects community doctors working in China's rural areas with the latest medical information and provides online training for them to better diagnose and treat their patients. We have established CW Data Co., Ltd, a joint venture with China Electronics Corporation to develop healthcare data products and services. The joint venture focuses on three core solution offerings, including data informatics, commercial analytics and advisory services that will provide data solutions to participants in the healthcare ecosystem, including pharmaceutical distributors and insurance companies.

(5) Experienced management team with vision and ambition

We are led by Dr. Ge Li, one of the pioneers in the pharmaceutical outsourcing industry. All members of our senior management team have worked at the forefront of the pharmaceutical industry, with significant industry experience in their areas of expertise.

Our management team is reputable in the area of life science both in the U.S. and China. Dr. Ge Li and our senior management team are passionately committed to the vision and ambition to transform the drug discovery and development industry and become a leading player in the global healthcare ecosystem.

F. Other Events

(1) 2018 WuXi AppTec A Share Incentive Scheme

On August 28, 2018, the Resolution on the Initial Grant of Restricted Shares to Participants (《關於向激勵對象首次授予限制性股票的議案》) and other resolutions were approved at the 22nd meeting of the 1st session of the Board of the Company and the 15th meeting of the 1st session of the Supervisory Committee, pursuant to which the initial grant date of the 2018 WuXi AppTec A Share Incentive Scheme was August 28, 2018. As proposed by the Company, 7,085,500 Restricted A Shares could be issued to 1,528 participants. 1,353 participants had paid and subscribed Shares while 175 participants had declined the subscription due to personal reasons. Accordingly, 6,281,330 Restricted A Shares were issued to 1,353 participants. The registration of the initial grant of Restricted A Shares under the 2018 WuXi AppTec A Share Incentive Scheme was completed on November 12, 2018.

(2) The Initial Public Offering of H Shares on the Hong Kong Stock Exchange

According to the Resolution on the Issue of Overseas-listed Foreign Shares (H Shares) and the Listing on the Main Board of The Stock Exchange of Hong Kong Limited and Conversion to Foreign Share Joint Stock Company with Limited Liability of the Company (《關於公司發行境外上市外資股（H股）並在香港聯合交易所有限公司主板上市及轉為境外募集股份有限公司的議案》) considered and approved at the 19th meeting of the 1st session of the Board of the Company on July 1, 2018, the Resolution on Proposing the General Meeting to Authorize the Board and its Authorized Person to Deal with all Matters relating to the Issue of Overseas-listed Foreign Shares (H Shares) and the Listing on the Main Board of The Stock Exchange of Hong Kong Limited in Full Discretion (《關於提請股東大會授權董事會及其授權人士全權處理與發行境外上市外資股（H股）並在香港聯合交易所有限公司主板掛牌上市有關事項的議案》) considered and approved at the 20th meeting of the 1st session of the Board of the Company on August 6, 2018, the Resolution on the Issue of Overseas-listed Foreign Shares (H Shares) and the Listing on the Main Board of The Stock Exchange of Hong Kong Limited and Conversion to Foreign Share Joint Stock Company with Limited Liability of the Company (《關於公司發行境外上市外資股（H股）並在香港聯合交易所有限公司主板上市及轉為境外募集股份有限公司的議案》) and the Resolution on the Authorization of the Board of Directors and its Authorized Person to Deal with all Matters relating to the Issue of Overseas-listed Foreign Shares (H Shares) and the Listing on the Main Board of The Stock Exchange of Hong Kong Limited in Full Discretion (《關於授權董事會及其授權人士全權處理與發行境外上市外資股（H股）並在香港聯合交易所有限公司主板掛牌上市有關事項的議案》) considered and approved at the 2nd extraordinary general meeting for 2018 on August 22, 2018 and the approval of the China Securities Regulatory Commission for the Issue of Overseas-listed Foreign by WuXi AppTec Co., Ltd. (《關於核准無錫藥明康德新藥開發股份有限公司發行境外上市外資股的批覆》) (Zhengjianxuke [2018] No.1792), the Company was permitted to issue up to 211,461,700 oversea-listed foreign ordinary shares of RMB1 each. On December 13, 2018, the Company completed the issue of 116,474,200 H Shares at HKD68.00 per Share. Listing of and dealings in such Shares commenced on the Main Board of the Hong Kong Stock Exchange on December 13, 2018. The Chinese and English stock names of the H Shares are "藥明康德" and "WUXI APPTEC", respectively, and the stock code of the H Shares is "2359".

According to the resolutions passed at the 2nd extraordinary general meeting for 2018 on August 22, 2018, an over-allotment option was granted to the international underwriters to issue Shares of up to 15.0% of the total number of H Shares under the offer. The Board and its authorized person were also authorized to determine the total number of Shares to be issued subject to laws, approval of regulatory authorities and market condition. Based on the condition of capital market, the over-allotment described in the Prospectus in relation to the H Shares was partially exercised by the joint global coordinators of the offer, on behalf of international underwriters, on January 4, 2019, and required the Company to issue additional 5,321,200 H Shares (the "Over-allotment Shares"), representing approximately 4.57% of the total number of offer shares initially available under the Global Offering. The offer price of the aforesaid Over-allotment Shares was HKD68.00 per Share. Approval for the listing and permission to deal in the Over-allotment Shares had been granted by the Hong Kong Stock Exchange. Listing of and dealings in such Over- allotment Shares commenced on the Main Board of the Hong Kong Stock Exchange at 9:30 a.m. on January 9, 2019.

(3) The proposed delisting of STA

Subsequent to the Reporting Period, on March 10, 2019, the Board held a meeting at which it was proposed that the Company shall seek delisting of STA (the "Proposed Delisting"), a subsidiary of the Company, from the National Equities Exchange and Quotations (全國中小企業股份轉讓系統) ("NEEQ"). The Board believes that the Proposed Delisting would allow STA to focus on long-term development strategy and enhance operational efficiency, and save unnecessary administrative and other listing-related costs and expenses.

2. THE MANAGEMENT'S DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

A. Competition and Development Trends of the Industry

The Company operates in the drug R&D service industry and enables or assists our customers to carry out new drug R&D in a faster and better way through our own technological and manufacturing platforms. On one hand, due to the industrial characteristics of innovative drug R&D, such as large investment, long cycle and high risk, together with the increasing R&D cost and "patent cliff" facing by drug manufacturers, more manufacturers are expected to engage external R&D institutes to conduct R&D tasks. On the other hand, small and medium biotechnology companies and individual entrepreneurs have become a major driving force of pharmaceutical innovation. They usually have advantages in certain specific scientific technologies and seek for external R&D and manufacturing platforms to accelerate their R&D projects.

Global drug R&D service companies can be classified as CRO, CDMO/CMO and R&D service platforms which cover the whole industrial chain of pharmaceutical R&D. At present, most of drug R&D service companies focus on a specific stage of new drug R&D, such as preclinical CRO, clinical trial CRO, CDMO/CMO. In addition, there are a few integrated end-to-end R&D service platforms, including the Company, which are able to provide one-stop new drug R&D and manufacturing services to their customers. Integrated end-to-end new drug R&D service platforms can provide services along with the value chain of drug R&D and start to provide services to their customers from the early drug discovery stage and assist their customers in term of capabilities and scale. They gain the confidence of their customers by offering quality and efficient services. During the development of a particular project, they can expand the scope of their services from "developing along with the project" to "expanding along with the development of drugs". Small drug manufacturers, including small and medium biotechnology companies, virtual companies and individual entrepreneurs, have become the new major driving force of pharmaceutical innovation. According to the Frost & Sullivan Report, in 2017, there were 7,454 small pharmaceutical companies in the world, accounting for 76% of the total pharmaceutical companies. 39% of the U.S. FDA approved new drugs was manufactured by these small pharmaceutical companies. By 2022, it is expected that there will be 13,523 small pharmaceutical companies, accounting for 80% of the total pharmaceutical companies. 47% of the U.S. FDA approved new drugs will be manufactured by these small pharmaceutical companies. However, such small pharmaceutical companies may not have enough time or capital to set up their own laboratories and manufacturing facilities required for their R&D projects to fulfill various service needs in a short period. As a result, integrated end-to-end R&D service platforms are able to meet their R&D service needs from concept verification to product launching out.

WuXi AppTec is an open-access platform offering pharmaceutical R&D and manufacturing services. Our main businesses includes CRO, small molecule CDMO/CMO services and cell and gene therapies CDMO/CMO services; in addition, we have the advantage of an integrated end-to-end platform of R&D services, which can increase R&D efficiency and better meet customer needs, especially for those "long-tail" customers including small and medium-sized biotechnology companies, virtual companies without in-house laboratories as well as entrepreneurs.

(1) Increasing efficiency and reducing cost, CRO market is expected to maintain rapid growth

CROs mainly provide pharmaceutical R&D services including pre-clinical research such as the discovery, R&D of drugs and clinical R&D, data management and application for registration of new drugs. Furthermore, CROs help their customers to accelerate project progress, control risks, optimize resources and reduce costs through high-quality and efficient R&D services. Given increasingly higher R&D costs, longer R&D timeline and lower success rate of new drugs, more and more pharmaceutical companies are expected to choose CROs for new drug R&D. Thus, the CRO industry is expected to maintain a rapid growth.

The global CRO market is expected to maintain growth of around 10.5% going forward. According to the forecasts by Frost & Sullivan, the size of the global CRO market was about US$48.7 billion in 2018. Because of the pressures from higher R&D cost and patent cliff, pharmaceutical companies are expected to outsource more R&D needs to external CROs. Accordingly, the global CRO market is expected to reach US$72.7 billion by 2022 with a 2018–2022 CAGR of around 10.5%.

The China CRO market is expected to maintain a growth of around 20.4% per annum going forward. According to the forecasts by Frost & Sullivan, the size of the China CRO market was about US$11.1 billion in 2018. On one hand, international pharmaceutical companies will continue to increase their overall spending on CRO services as a percentage of their total investments in R&D in the future, and China CROs will continue to benefit from such development trend for a long period of time; on the other hand, driven by the reform of the evaluation and approval systems on drugs & medical devices and consistent needs for evaluation of generic drugs, domestic CRO demands will continue to grow. The size of China CRO market is expected to reach US$23.3 billion by 2022 with a 2018–2022 CAGR of around 20.4%.

(2) Technology capability plus capacity output, small molecule CDMO/CMO market is expected to maintain rapid growth

CDMOs could help pharmaceutical companies to improve their production processes and synthesis efficiency and eventually reduce their manufacturing cost, transforming the capital intensive CMO industry to become a technology and capital intensive CDMO industry. The traditional business model of CMOs is to provide support to pharmaceutical companies in areas such as process development and formulation, mainly involving customized manufacturing such as clinical medication, manufacturing of intermediates and API, manufacturing & packaging of preparations (such as powder and injection), and receive payments for outsourced services. With an increasingly tighter cost control and higher requirements to improve efficiency, pharmaceutical companies expect CMOs to provide more intellectual and technological input in process development, and further assist them in improving efficiency and reducing costs. CDMOs have achieved in-depth integration between their proprietary process development capability with high value-added technology and scale production capacity.

The global small molecule CDMO/CMO market is expected to maintain approximately a growth of 12.0% per annum going forward. According to the forecasts by Frost & Sullivan, the global small molecule CDMO/CMO market was about US$64.9 billion in 2018. In order to improve manufacturing efficiency and reduce costs, multinational pharmaceutical companies will continue to seek external support from specialized CDMO/CMOs. Thus, the global CDMO/CMO market will maintain a rapid growth in the future. The size of the global small molecule CDMO/CMO market is expected to reach US$102.1 billion by 2022 with a 2018–2022 CAGR of around 12.0%.

The China small molecule CDMO/CMO market is expected to maintain around 19.4% growth going forward. According to the forecasts by Frost & Sullivan, the size of China CDMO/CMO market was about US$5.7 billion in 2018. Domestic players entered the CDMO/CMO segment later due to the high entry barriers. On one hand, China has competitive strengths in terms of talents, infrastructure and cost structure. On the other hand, pharmaceutical innovation is driven by international pharmaceutical companies as well as policies encouraging innovation and the launch of the MAH in China, and domestic CDMO/CMOs have become strategic suppliers of pharmaceutical companies and have played increasingly important roles in the industry. The size of China small molecule CDMO/CMO market is expected to reach US$11.6 billion by 2022 with a 2018–2022 CAGR of around 19.4%.

(3) With ongoing increase in market demands, cell and gene therapies CDMO/CMO industry is expected to continue high accelerated growth

The cell and gene therapy CDMO/CMO services industry is at an early development stage but the market demand for such services is continuously increasing. Cell and gene therapies are advanced next-generation therapies and anticipated to complement well with traditional chemical and biologics drugs. Compared with traditional drugs, on one hand, R&D, manufacturing and filing process of cell and gene therapies products are more complicated, on the other hand, R&D expenses of cell and gene therapy products are higher (including special requirements on manufacturing, transportation, storage and clinical trials). Cell and gene therapies CDMOs/CMOs could provide a series of services ranging from process development to GMP production, to product filing and consultation on relevant laws and regulations to its customers to expedite the progress of projects and thereby reducing costs.

The global cell and gene therapies CDMO/CMO market is expected to achieve a growth of around 24.5% per annum going forward. According to the forecasts by Frost & Sullivan, the size of the global cell and gene therapy CDMO/CMO was about US$1.5 billion in 2018. With ongoing increase in demands in technological innovation, process optimization and regulatory filing, the cell and gene therapies CDMO/CMO industry is positioned to maintain its high-speed growth. The size of the global cell and gene therapy CDMO/CMO market is expected to reach US$3.6 billion by 2022 with a 2018–2022 CAGR of around 24.5%.

The China cell and gene therapies CDMO/CMO market is expected to reach about US$500 million by 2022. According to the forecasts by Frost & Sullivan in 2017, around 27% of cell and gene therapies projects worldwide were developed in China, only second to the U.S.. With increasingly constructive regulations and policies, the China cell and gene therapies CDMO/CMO market is expected to experience high growth and its size is expected to reach US$500 million by 2022.

(4) Great growth potential of integrated end-to-end R&D service platform

An integrated end-to-end R&D service platform is expected to improve efficiency of capital utilization. An integrated end-to-end R&D service platform could also provide one-stop solution from drug discovery to commercial manufacturing and help its customers to improve efficiency of capital allocation and focus on innovative research and technologies. Its customers do not need to invest in laboratories or other fixed assets by leveraging our integrated end-to-end R&D service platform. In addition, the integrated end-to-end R&D service platform could enable its customers in R&D technology and experience to improve their overall R&D efficiency.

The integrated end-to-end R&D service platform could best meet demands of large pharmaceutical companies and the “long-tail” customers, which have less or even no revenue. The “long-tail” customers include medium-sized and small biotechnology companies, virtual pharmaceutical companies as well as entrepreneurs. The “long-tail” customers are the key drivers of pharmaceutical innovations. According to Frost &

Sullivan report, in 2017, there were 7,454 small pharmaceutical companies, accounting for 76% of total number of pharmaceutical companies; in addition, 39% of new drugs approved by the U.S. FDA were from small pharmaceutical companies. By 2022, the number of small pharmaceutical companies will reach 13,523, accounting for 80% of total number of pharmaceutical companies; 47% of new drugs approved by the U.S. FDA will be from small pharmaceutical companies. Small pharmaceutical companies are more willing to outsource their businesses; as such, the integrated end-to-end R&D services platform could satisfy their overall demands from proof of concept to marketing of product. The integrated end-to-end R&D service platform could meet emerging R&D demands of pharmaceutical companies. More and more pharmaceutical companies are starting to strategically penetrate into next-generation therapies including cell and gene therapies while the integrated end-to-end R&D service platform could further take over emerging R&D demands of pharmaceutical companies.

B. Development Strategies

We will continue to strengthen our global leading open-access drug R&D and production services platform to enable more global customers and expand our reach within the healthcare ecosystem. We aim to lower entry barriers for the discovery and development of innovative drugs with respect to capabilities, capacity and capital, and are committed to embracing demands of new and existing customers, thereby attracting new participants to join the evolving healthcare ecosystem. Through this lowering of entry barriers, we believe that we are able to catalyze and benefit from the continuous transformation of the healthcare ecosystem. By nurturing and incubating the rise of new business models and encouraging participants to develop new drugs and healthcare products, we drive the creation of new knowledge and technologies, stimulate new demand and improve efficiency, which further drives innovation and fuels the growth of all participants. We enable the healthcare ecosystem participants and help them to make more and better drugs, to realize the dream that “every drug can be made and every disease can be treated”.

(1) Expand capacity and capabilities globally

To better serve our customers, we plan to strengthen our capabilities and capacities through organic growth and M&A. We plan to continue to build R&D centers in Chengdu and Qidong, a cell and gene therapies CDMO/CMO facility in Wuxi, expand our safety assessment center in Suzhou, set up an innovative R&D center in Hong Kong, expand our SMO clinical research platform and big data analytics platform across the China, set up our bioanalytical laboratory in San Diego, U.S. and expand our cell and gene therapies facility in Philadelphia, U.S. etc.. In July 2018, we acquired WuXi Clinical Development, Inc. (carrying on business as ResearchPoint Global), a clinical CRO in Texas, U.S., which has allowed us to expand our clinical trial services to the U.S., allowing us to serve China-based pharmaceutical companies that seek to perform clinical trials in the U.S.. Should there be any appropriate opportunities in the future, we will continue to enhance its CRO and CDMO/CMO service capabilities through M&A.

(2) Continue to invest in R&D to improve our service capabilities, enable our customers with cutting edge technologies

We believe that our advanced technologies have been crucial in helping us to maintain our position as a leading drug discovery and development platform, allowing us to offer the most efficient and effective solutions to our customers. We will continue to invest in innovative technologies to stay at the forefront of the industry. In terms of drug discovery, we fully leveraged our capability of chemistry synthesis and compound screening and built a DEL with over 80 billion compounds. The DEL can help to accelerate target validation and hit identification to improve new drug R&D efficiency and reduce R&D costs. In the CDMO/CMO segment, we have developed our capabilities of bio-catalysis, spray drying and providing CDMO/CMO services for oligonucleotides and peptides. In the cell and gene therapies, we have established integrated R&D and manufacturing facilities in Philadelphia, U.S. and Wuxi, China. Going forward, we will continue to explore cutting-edge technologies such as AI, medical big data and laboratory automation, etc. and strive to apply them in R&D of new drugs as early as possible to better enable its customers.

(3) Increase customer penetration and win new customers

We seek to increase average spending from existing customers through deeper engagement and promoting different types of services through cross-selling on our platform. From “follow the project” to “follow the molecule”, we continuously seek to expand the scope of our services when our customers’ projects progress along the pharmaceutical R&D value chain and when they start new projects.

We are committed to continuously acquiring new customers, especially the “long-tail” customers. We directly promote our CRO and CDMO/CMO services to our customers through organizing meetings with pharmaceutical companies and biotechnology companies on a regular basis. We also have a professional business development team comprised of over 120 members globally to deeply dig demands of existing and potential customers and closely cooperate with other business units of the Company to secure more orders. In addition, we have actively facilitated interactions among entrepreneurs, industry insiders and investors. Internationally, we organize the WuXi Global Forum in San Francisco, U.S. every year since 2013. Domestically, we organize the WuXi AppTec Life Science and Chemistry Awards ceremony to honor outstanding scientists in the industry each year. In March 2019, we have also organized the first WuXi AppTec Health Industry Forum in Shanghai.

(4) Continue to attract, train and retain quality talent to support our rapid growth

We believe that our employees are critical to our ability to provide high quality services to our customers. As at December 31, 2018, the Company had over 17,000 staff, including over 13,000 scientists and research technicians, among which, over 600 earned their Ph. D. degrees overseas or used to study and work abroad with over 10 years of experience in new drug R&D. We have set up a talent academy to actively discover and develop technical and management talents. We have taken a number of major human resources initiatives including: (1) establishing a fair and transparent performance appraisal system, (2) providing concrete promotion opportunities, (3) providing technical and management trainings, and (4) offering market-oriented compensations. In addition, we have developed a sound long-term incentive mechanism to motivate our staff through stock ownership. WuXi AppTec was listed on the Shanghai Stock Exchange in May 2018 and has completed the first award of restricted stocks in August 2018, vesting 6,281,330 Restricted A Shares to 1,353 staff in total. As new regulatory policies are promulgated to allow us to provide share-based compensation to overseas employees, our overseas employees will also have the opportunity to receive share-based compensation in the future.

(5) Expand our reach within the healthcare ecosystem

We are an enabler of the healthcare ecosystem and strive to lower entry barriers of pharmaceutical R&D, improve efficiency and help our customers to be successful. We will continue to strengthen our capabilities and expand our capacity to further improve our enabling platform. We observe that the global healthcare industry is entering its golden age and an healthcare innovation ecosystem is gradually taking into shape and increasingly more innovators and entrepreneurs are expected to get involved in each step of innovation and more research institutes, scientists, hospitals and doctors will realize their innovation dreams through our unique enabling platform, allowing more high-quality new drugs to be marketed to benefit patients. In addition, we have also enhanced our healthcare data capacity to improve pharmaceutical R&D efficiency through data collection, analysis and validation. We envisage cutting-edge technologies, such as big data and AI, transforming conventional business models and breaking-down barriers of healthcare data analytics through data-driven solutions. By harnessing the industry's collective wisdom, we can deliver vast improvements in productivity and expedite the development of new healthcare products.

C. Operation Plan

In 2019, we will firmly enable our global customers and build the healthcare ecosystem as always.

(1) Platform Building

On one hand, we will continue to strengthen capabilities and expand scale of the R&D services platform. We plan to continue to build our R&D centers in Chengdu and Qidong and our cell and gene therapy product CDMO/CMO R&D center in Wuxi, expand our drug safety evaluation center in Suzhou, set up our innovative R&D center in Hong Kong, expand our SMO clinical research platform and big data analytics platform across the nation, set up our bioanalytical laboratory in San Diego, U.S. and expand our cell and gene therapy facility in Philadelphia, U.S., etc.. Moreover, in case of any suitable opportunity presents itself in the future, we will also enhance its CRO and CDMO/CMO service capabilities through M&A.

On the other hand, we will further explore advantages of the integrated end-to-end R&D services platform. We will continuously provide innovative and diversified services when pushing forward drug R&D value chain and starting new projects by our customers, namely, at CRO and CDMO/CMO stage, continuously expand its services offering by evolving from “following the project” to “following the molecule”.

(2) Customer Strategy

We are committed to further improvement of customer satisfaction through providing high-quality and efficient services and strict IP protections to our customers. Moreover, we will continue to acquire more new customers from domestic market and overseas, in particular, “long-tail” customers. We will attract more participants to join the new drug R&D industry and enable more customers to help them succeed through ongoing reduction of entry barrier of drug R&D industry.

(3) Quality and Compliance

We have always adhered to the highest international quality standard and attached great importance to our compliance with relevant laws and regulations. We have developed systems concerning quality control, safety in production, IP protection, sales management and financial & accounting management, etc.. In 2019, we will continue to refine and implement our standard operating procedures to prevent incurrence of accident and facilitate sound growth of all segments.

(4) Innovation and Development

We will continue to use the latest technology to enable global pharmaceutical innovation. We have the global-leading new drug R&D platform and extensive experience of cutting-edge projects and closely followed the forefront of new drug R&D technological development, based on which, we will explore cutting-edge technologies such as AI, medical big data and laboratory automation, etc. and strive to apply them in R&D of new drugs as early as possible to help its customers to increase their R&D efficiency and reduce the R&D barrier of new drugs to the greatest extent.

(5) Team of Talents

We will continue to introduce, foster and retain top talents within the industry. We have taken specific initiatives including: (1) establishing a fair and transparent performance appraisal system, (2) providing concrete promotion opportunities, (3) providing technical and management trainings, and (4) offering market-oriented compensations to further improve our medium and long-term incentive mechanism.

(6) Corporate Culture

We will continue to uphold our core value of "honesty and dedication, working together and sharing success; doing the right thing and doing things well" and firmly implement our code of conduct of "customer first, honesty and integrity, ongoing improving, efficient implementation, cross-functional collaboration, transformation and innovation" and enhance our core competitiveness under the guideline of "promoting development, encouraging competitions and rewarding winners".

D. Potential Risks

(1) Risk of Market Demands Decline in Drug R&D Services

Our business operation relies on expenditures and demands of our customers (including multi-national pharmaceutical companies, biotechnology companies, start-ups, virtual companies and scholars & non-profit research organizations, etc.) on outsourcing services, i.e., discovery, analytical testing, development and manufacturing of pharmaceuticals, cell and gene therapies and medical devices, etc.. In the past, benefiting from continuous growth of the global pharmaceutical market, increase of R&D budgets of our customers and increasing percentage of our customers' outsourcing services, demands on our services from our customers continued to rise. Our business operation could be adversely impacted if the industry growth slows down or percentages of outsourcing services decline. In addition, any merger, consolidation and budget adjustment of pharmaceutical players might also impact our customers' R&D expenditures and outsourcing demands as well as result in adverse impact upon our business operation.

(2) Risk of Changes in Regulatory Policy of the Industry

The drug R&D services industry is heavily regulated by regulators including drug administrations in any nation or region where we have established our presence, which typically regulate drug R&D services players through development of relevant policies, laws and regulations. Systems of policies, laws and regulations in the drug R&D services industry are well established in developed countries; in China, regulators such as the NMPA also have gradually developed and continuously refined relevant laws and regulations subject to market development. In case we fail to timely adjust our operating strategy to adapt to changes of industrial policies and laws and regulations in the drug R&D services industry in corresponding nations or regions, potential adverse impact might be caused to our business operation.

(3) Risk of Heightened Competition in the Drug R&D Services Industry

Currently, competition in the global drug R&D services market is getting increasingly intense. Our competitors in particular segments mainly include specialized CROs/CMOs/CDMOs and in-house R&D department of large pharmaceutical companies, among which, most are large global pharmaceutical companies or R&D organizations, which may enjoy advantages over us in terms of financial strength, technological capabilities and customer base. Besides the aforementioned incumbents, we also face competition from new entrants, which either have more solid capital strengths or more effective business channels or stronger R&D capability in respective segment. We will face risk resulted from heightened competition in the pharmaceutical market and weakened competitive edge in case we fail to enhance our overall R&D strength and other strengths in business competition. There is no assurance that we will be able to compete effectively with existing competitors or new competitors or that the level of competition will not adversely affect our business, results of operations, financial condition and prospects.

(4) Business Compliance Risk

We have always attached great importance to compliance of our business operation and gradually established a relatively complete internal control system, which requires our staff to abide by relevant laws and regulations and carry out business activities in accordance with relevant laws. Although we have developed a complete internal control and compliance approval system as well as standard operating procedures to ensure legitimacy and compliance of our daily operation, our business operation, reputation, financial condition will be adversely impacted to certain degree resulting from failure to obtain qualifications required for daily R&D, testing analysis and production, or to completing necessary approval and filing processes or to timely coping with any regulatory requirement put forward or added by the regulators due to ineffective supervision on subsidiaries or departments by the parent company and senior management in actual practices given the number of subsidiaries we control.

(5) Risk of Overseas Operation and Change of International Policy

We have set up or purchased a number of foreign companies to fuel our overseas business expansion and accumulated abundant experience of overseas operation over the years. During the Reporting Period, our revenue from overseas operation accounted for significant percentage of our main business revenue. Given that we are required to abide by laws and regulations of any nation or region where we carry out business operation and set up our offices and rely on foreign suppliers of raw materials, customers and technical service providers to ensure our orderly daily operation to certain degree, our overseas operation might be impacted and potential adverse impact might be resulted on our normal operation and ongoing growth of our overseas business in case any of the below circumstances occurs, including material change of laws, regulations, industrial policies or political and economic environment of any foreign nation or region where we carry out business operation, or any unforeseeable factors such as international tension, war, trade sanction, or other force majeure.

(6) Risk of Loss of Senior Management and Key Scientific Staff

Our senior management and key scientific staff are an important part of our core competence as well as foundation and key to our survival and growth. Maintenance of a stable senior management and team of key scientific staff and attraction of talents to join us play a key role on our abilities to keep our leading position in the industry in terms of technological capabilities and continuity of our R&D and manufacturing services. Turnover of senior management and key scientific staff might occur if we lose our competitive edge in terms of compensation, incentive mechanism on core technical staff fails to give its full play or human resources management/control or internal promotion system could not be effectively implemented.

(7) Risk of Failure in Business Expansion

We anticipate that our customers' demands on drug R&D, commercial manufacturing and clinical development will increase on an ongoing basis. In order to continuously meet market demands and seize the growth opportunity, we may acquire new technologies, businesses or services or enter into strategic alliances with third parties in the healthcare ecosystem and need to invest a great deal of capital and resources and continue to push forward strengthening of our capabilities and expansion of scale globally. We may not be able to successfully acquire the targets identified despite spending significant amount of time and resources on pursuing such acquisition or investment. Adverse impact might be caused to our business, financial and operating performances and outlook in case our entry into new segment suffers unforeseeable delay due to failure to integrate acquisitions successfully, delay in construction and regulatory issues, or we fail to achieve our growth targets.

(8) Foreign Exchange Risk

We conduct a multinational business. Fluctuations in exchange rates between the RMB and US$ and other currencies may be affected by, among other things, changes in political and economic conditions. During the Reporting Period, most of the revenue of the main business was denominated in US$ while a majority of our cost of services and operating costs and expenses were denominated in RMB. During the Reporting Period, RMB exchange rate demonstrated significant volatility and the Company's foreign exchange gain/(loss) in 2018, 2017 and 2016 were RMB31.00 million, RMB(138.89) million and RMB93.17 million, respectively. If RMB appreciates significantly against US$, our margins might be pressured, a portion of cost denominated in US$ might be increased and the size of our international customers' orders might be contracted due to increase of unit prices of services denominated in US$, which may adversely impact our profitability as a result.

Profiles of Directors, Supervisors and Senior Management

Below are the brief profiles of the current Directors, Supervisors and senior management of the Group.

DIRECTORS

The Board currently comprises 12 Directors, of which five are executive Directors, two are non-executive Directors and five are independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Executive Directors			
Dr. Ge Li (李革)	52	chairman, chief executive officer and executive Director	March 1, 2017
Mr. Edward Hu (胡正國)	56	co-chief executive officer and executive Director	March 1, 2017
Mr. Xiaozhong Liu (劉曉鐘)	54	executive Director, vice president	March 1, 2017
Mr. Zhaohui Zhang (張朝暉)	49	executive Director, vice president	March 1, 2017
Dr. Ning Zhao (趙寧)	52	executive Director, vice president	March 1, 2017
Non-executive Directors			
Mr. Xiaomeng Tong (童小幪)	45	non-executive Director	March 1, 2017
Dr. Yibing Wu (吳亦兵)	51	non-executive Director	March 1, 2017
Independent non-executive Directors			
Dr. Jiangnan Cai (蔡江南)	61	independent non-executive Director	March 1, 2017
Ms. Yan Liu (劉艷)	46	independent non-executive Director	March 1, 2017
Mr. Dai Feng (馮岱)	43	independent non-executive Director	August 22, 2018(Note)
Dr. Hetong Lou (婁賀統)	56	independent non-executive Director	March 1, 2017
Mr. Xiaotong Zhang (張曉彤)	50	independent non-executive Director	March 1, 2017

Note: Mr. Dai Feng was elected as our independent non-executive Director on August 22, 2018 and such appointment was effective from December 13, 2018.

SUPERVISORS

Our Supervisory Committee consists of three Supervisors, including the chairman of the Supervisory Committee and an employee representative Supervisor.

Name	Age	Position	Date of Appointment as Supervisor
Mr. Harry Liang He (賀亮)	52	chairman of the Supervisory Committee	March 1, 2017
Mr. Jichao Wang (王繼超)	45	Supervisor	March 1, 2017
Ms. Minfang Zhu (朱敏芳)	47	employee representative Supervisor	March 1, 2017

EXECUTIVE DIRECTORS

Dr. Ge Li (李革), aged 52, is the chairman, chief executive officer and an executive Director of the Company. He is also the chairperson of Strategy Committee and a member of Nomination Committee of the Company. Dr. Ge Li is primarily responsible for the overall management of the business of our Group. Dr. Ge Li founded our Group in December 2000 and he also serves as a director of most subsidiaries of our Company.

Dr. Ge Li has the following work experience:

- Since February 2014, he has been serving as a non-executive director of WuXi Biologics, a company listed on the Main Board of the Stock Exchange (stock code: 2269) and primarily engaged in the discovery, research, development and manufacturing of biological services, and has been responsible for providing overall guidance on the business, strategy, and corporate development.

- From December 2011 to August 2015, he served as an independent non-executive director of Shanghai Hile Bio-pharmaceutical Co., Ltd. (上海海利生物技術股份有限公司), a company listed on the Shanghai Stock Exchange (上海證券交易所) (stock code: 603718) and primarily engaged in the development, production and sales of animal vaccine, and was responsible for providing independent advice to its board of directors.

- From August 2007 to December 2015, he served as the chairman and the chief executive officer of WuXi PharmaTech, a company previously listed on NYSE and was responsible for its overall management.

- From May 1993 to December 2000, Dr. Ge Li was one of the founding scientists and later served as a research manager of Pharmacopeia Inc., a biopharmaceutical company listed on NASDAQ (stock code: PCOP) and primarily engaged in discovering and delivering of novel therapeutics, and was responsible for managing external research collaboration.

Dr. Ge Li obtained a bachelor's degree in chemistry from Peking University in the PRC in July 1989. He also obtained a Ph.D. degree in organic chemistry from Columbia University in the United States in February 1994.

Dr. Ge Li is the spouse to Dr. Ning Zhao.

Mr. Edward Hu (胡正國), aged 56, is the co-chief executive officer and an executive Director of our Company. He is also a member of Strategy Committee of the Company. Mr. Edward Hu is primarily responsible for the overall business and management of our Group. Mr. Edward Hu joined our Group in August 2007 and was appointed as an executive Director in March 2016. Mr. Edward Hu was appointed as a co-chief executive officer in August 2018. He served as the chief financial officer from March 2016 to January 2019. He also serves as a director of most subsidiaries of our Company.

Mr. Edward Hu has the following work experience:

- Since February 2014, he has been serving as a non-executive director of WuXi Biologics, a company listed on the Main Board of the Stock Exchange (stock code: 2269) and has been primarily responsible for providing guidance on the business strategy and financial management.

- From August 2007 to December 2015, he served as the chief financial officer and chief operating officer of WuXi PharmaTech, a company previously listed on NYSE and was responsible for the financial and operational management.

- From October 2000 to July 2007, he served on various roles to become a senior vice president and chief operating officer of Tanox Inc., a biopharmaceutical company previously listed on NASDAQ (stock code: TNOX, acquired by Genentech Inc. in August 2007) and primarily engaged in discovering and developing antibody therapeutic drugs, and was responsible for company operations, quality control, finance and information technology.

- From April 1998 to October 2000, he served as a business planning manager of Biogen Inc., a global biotechnology company listed on NASDAQ (stock code: BIIB) which primarily engaged in developing, marketing and sales of biopharmaceuticals for neurologic and immune diseases, and he was responsible for business planning and budget management of its research and development division.

- From May 1996 to December 1998, he served as a senior financial analyst of Merck, and was responsible for financial planning and analysis.

Mr. Edward Hu obtained a bachelor's degree in physics from Hangzhou University, currently known as Zhejiang University (浙江大學), in the PRC in July 1983. He also obtained a master's degree in chemistry and a master's degree of business administration from Carnegie Mellon University in the United States in May 1993 and May 1996, respectively.

Mr. Xiaozhong Liu (劉曉鐘), aged 54, is an executive Director and a vice president of our Company. Mr. Xiaozhong Liu is primarily responsible for the business development of our Group. Mr. Xiaozhong Liu founded our Group in December 2000.

Mr. Xiaozhong Liu has the following work experience:

- Since December 2015, he has been serving as a director and executive vice president of operations of our Company.

- From August 2007 to December 2015, he served as a director and an executive vice president of operations of WuXi PharmaTech, a company previously listed on NYSE.

- From December 2000 to July 2007, he served as a director and an executive vice president of operations of our Company.

- In the 1990s, he served as the general manager of Zhuhai Ze Yu Trading Co. Ltd. (珠海澤宇工貿有限公司).

- He has previously served at the China Academy of Building Research (中國建築科學研究院).

Mr. Xiaozhong Liu obtained a bachelor's degree in science from Peking University in the PRC in July 1987 and a master's degree in business administration from China Europe International Business School in the PRC in September 2008.

Mr. Zhaohui Zhang (張朝暉), aged 49, is an executive Director and a vice president of our Company. Mr. Zhaohui Zhang is primarily responsible for the business development of our Group. Mr. Zhaohui Zhang founded our Group in December 2000.

Mr. Zhaohui Zhang has the following work experience:

- Since December 2015, he has been serving as a director and senior vice president of operation of our Company.
- From August 2007 to December 2015, he served as a director and senior vice president of operation of WuXi PharmaTech, a company previously listed on NYSE.
- From December 2000 to July 2007, he served as a director and vice president of domestic marketing of our Company.
- In around 2000, he served as the chief executive officer of Wuxi Qingye Investment Consultancy Limited (無錫青葉企業投資諮詢有限責任公司).

Mr. Zhaohui Zhang obtained a bachelor's degree in mechanical and electrical engineering from Jiangnan University (江南大學) in the PRC in 1990 and a master's degree in business administration from China Europe International Business School in the PRC in 2008.

Dr. Ning Zhao (趙寧), aged 52, is an executive Director and a vice president of our Company. She is also a member of Remuneration and Appraisal Committee of the Company. Dr. Ning Zhao is primarily responsible for the global human resources management and corporate strategy of our Group. Dr. Ning Zhao joined our Group in March 2004.

Dr. Ning Zhao has the following work experience:

- Since February 2011, she has been serving as a senior vice president of operations, global head of human resources of our Company.

- From February 2009 to December 2015, she served as a director of WuXi PharmaTech, a company previously listed on NYSE.

- From February 2008 to February 2011, she served as the lead advisor of analytical services operations of our Company.

- From March 2004 to February 2008, she served as a vice president of analytical services of our Company.

- Between the 1990s and the 2000s, Dr. Ning Zhao worked as a research and development supervisor at Wyeth Pharmaceuticals, Inc., Pharmacopeia Inc. and Bristol-Myers Squibb Co. with various research papers published.

Dr. Ning Zhao obtained a bachelor's degree in chemistry from Peking University in the PRC in July 1989. She also obtained a Ph.D. degree from Columbia University in the United States in the 1990s.

Dr. Ning Zhao is the spouse of Dr. Ge Li.

NON-EXECUTIVE DIRECTORS

Mr. Xiaomeng Tong (童小幪), aged 45, is a non-executive Director of our Company. He is also a member of Strategy Committee of the Company. Mr. Xiaomeng Tong is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. Xiaomeng Tong joined our Group in March 2016.

Mr. Xiaomeng Tong has the following work experience:

- Since May 2011, he has been serving as a managing partner of Boyu Capital Advisory Co. Limited (博裕投資顧問).

- From October 2008 to April 2011, he served as a managing director and head of Greater China District of Providence Equity Partners, where he headed its Greater China District practice.

- From July 2000 to September 2008, he served as a managing director and joint head of Greater China District of General Atlantic, where he co-headed its Greater China practice.

Mr. Xiaomeng Tong obtained a bachelor's degree in economics from Harvard University in the United States in June 1998.

Dr. Yibing Wu (吳亦兵), aged 51, is a non-executive Director of our Company. He is also a member of Strategy Committee of the Company. Dr. Yibing Wu is primarily responsible for providing guidance on corporate strategy and governance to our Group. Dr. Yibing Wu joined our Group in March 2016.

Dr. Yibing Wu has the following work experience:

- Since May 2016, he has been serving as a non-executive Director of WuXi Biologics, a company listed on the Main Board of the Stock Exchange (stock code: 2269) and has been responsible for providing guidance on corporate strategy and governance.

- Since November 2015, he has been serving as a director of Summer Bloom Investments Pte. Ltd.

- Since January 2014, he has been serving as a director and general manager of Temasek Holdings Advisors (Beijing) Co., Ltd.

- Since October 2013, he has been working with Temasek Holdings (Private) Limited and is currently senior executive general manager, the joint head of Global Portfolio Strategy and Risk Group and the joint head of China.

- From January 2012 to September 2013, he served as the president of CITIC Goldstone Investment Co. Ltd.

- From April 2011 to April 2014, he served as a director of Neptune Orient Lines Limited, a company listed on the Singapore Exchange Limited (stock code: RE2).

- From December 2009 to September 2013, he served as the president of CITIC Private Equity Funds Management Co., Ltd.

- From May 2009 to July 2013, he served as a non-executive director of Lenovo Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 0992)

- From September 2008 to November 2009, he served as the standing vice president of Legend Holdings Co., Ltd.

- From August 2004 to August 2008, he was seconded from McKinsey & Company as the chief strategy officer, chief integration officer, chief transformation officer and chief information officer of Lenovo Group Ltd.

- From September 1996 to August 2008, he worked with McKinsey & Company, where he was a senior partner, senior director, and the head of Asia Pacific M&A practice and general manager of Beijing office.

Dr. Yibing Wu obtained a bachelor's degree in molecular biology from University of Science and Technology of China (中國科學技術大學) in the PRC in July 1989 and a Ph.D. degree in biochemistry and molecular biology from Harvard University in the United States in June 1996.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Jiangnan Cai (蔡江南), aged 61, is an independent non-executive Director of our Company. He is also the chairperson of Nomination Committee and a member of Strategy Committee of the Company. He is primarily responsible for supervising and providing independent judgement to our Board. Dr. Jiangnan Cai was appointed as our independent non-executive Director in March 2017.

Dr. Jiangnan Cai has the following work experience:

- Since March 2015, he has been serving as a non-executive director of Harmonicare Medical Holdings Limited (和美醫療控股有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 1509), and has been responsible for supervising and providing independent judgement to the board of the company.

- Since June 2016, he has been serving as an independent non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601607) and the Main Board of the Stock Exchange (stock code: 2607), and has been responsible for supervising and providing independent judgement to the board of the company.

- Since May 2014, he has been serving as an independent director of Zhejiang DIAN Diagnostics Co., Ltd. (浙江迪安診斷技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300244), and has been responsible for supervising and providing independent judgement to the board of the company.

- Since April 2012, he has been serving as a part-time professor in economics and the director of Center for Healthcare Management and Policy of the China Europe International Business School (中歐國際工商學院衛生管理與政策研究中心).

- From April 1999 to June 2012, he served as a human services program planner, reimbursement analyst and contracted program coordinator at the Center for Health Information and Analysis at Massachusetts.

- From July 1987 to December 1990, he served as a lecturer and the director of the Institute of Economic Development in East China University of Science and Technology (華東理工大學經濟研究所).

Dr. Jiangnan Cai obtained a master's degree in economics from Fudan University (復旦大學) in February 1985 and a doctorate degree in health policy from Brandeis University in the United States in February 1997.

Ms. Yan Liu (劉艷), aged 45, is an independent non-executive Director of the Company. She is also the chairperson of Remuneration and Appraisal Committee and a member of Audit Committee as well as Nomination Committee of the Company Ms. Yan Liu is primarily responsible for supervising and providing independent judgement to our Board. Ms. Yan Liu was appointed as our independent non-executive Director in March 2017.

Ms. Yan Liu has the following work experience:

- Since December 2016, she has been serving as an independent director of Huatai Securities Co., Ltd (華泰證券股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601688) and the Main Board of the Stock Exchange (stock code: 6886) which primarily engaged in providing financial services in mainland China and internationally, and she has been responsible for providing independent judgement to board of the company.

- Since September 2016, she has been serving as an independent director of Yantai Changyu Pioneer Wine Co., Ltd (煙台張裕葡萄釀酒股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000869, 200869) which primarily engaged in the production and sale of wine and alcoholic beverages, and she has been responsible for providing independent judgement to the board of the company.

- Since August 2014, she has been serving as an independent director of Huaxin Cement Co., Ltd (華新水泥股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600801) and primarily engaged in production and sale of cements and concretes, and has been responsible for providing independent judgement to the board of the company.

- She joined Beijing Tian Yuan Law Firm (北京市天元律師務所) in October 1995 and is currently a partner of the firm.

Ms. Yan Liu obtained a bachelor's and master's degree in law from Peking University Law School (北京大學法學院) in the PRC in July 1995 and July 1998, respectively. She also obtained a master's degree in law from New York University Law School in the United States in May 2000.

Mr. Dai Feng (馮岱), aged 43, is an independent non-executive Director of our Company. Mr. Dai Feng is primarily responsible for supervising and providing independent judgement to our Board. Mr. Dai Feng was elected as our independent non-executive Director in August 2018 and such appointment was effective from December 13, 2018.

Mr. Dai Feng has the following work experience:

- Since March 2015, he has been serving as the managing director of CareCapital Advisors Limited (松柏投資管理(香港)有限公司), a company principally engaged in management advisory, and has been responsible for advising on business development and organizational management, with a focus on the dental industry.

- Mr. Dai Feng is currently the chairman of Wuxi EA Medical Instruments Technologies Limited (無錫時代天使醫療器械科技有限公司), a provider of invisible dental orthodontic devices and the vice chairman of Carestream Dental LLC, a provider of dental digital product lines and services and a director of Szechuan New Huaguang Medical Technology Limited (四川新華光醫療科技有限公司), a leading distributor of dental products.

- Since February 2018, he has been serving as the director of The Forsyth Institute (Harvard Dental School Affiliate) (哈佛大學牙科學院附屬研究院).

- Since January 2018, he has been serving as an independent non-executive director of Sling Group Holdings Limited (stock code: 8285), a company listed on the GEM of the Stock Exchange and a women's handbag company.

- From December 2007 to December 2010 and from March 2012 to December 2013, he served as a director of Lepu Medical Technology (Beijing) Co., Ltd. (樂普（北京）醫療器械股份有限公司) a company listed on the Shenzhen Stock Exchange (stock code: 300003).

- From April 2004 to December 2014, he has served at various positions, including manager, principal and managing director at Warburg Pincus Asia LLC, a company principally engaged in investment advisory.

Mr. Dai Feng obtained a bachelor's degree in engineering sciences from Harvard University in the United States in June 1997.

Dr. Hetong Lou (婁賀統), aged 56, is an independent non-executive Director of our Company. He is also the chairperson of Audit Committee and a member of Remuneration and Appraisal Committee. Dr. Hetong Lou is primarily responsible for supervising and providing independent judgement to our Board. Dr. Hetong Lou was appointed as our independent non-executive Director in March 2017.

Dr. Hetong Lou has the following work experience:

- Since April 2018, he has been serving as a director of China Hengshi Foundation Company Limited (中國恒石基業有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 1197), and was responsible for its general management.

- Since May 2018, he has been serving as a director of Shandong Hualu Hengsheng Chemical Co Ltd (山東華魯恒升化工股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600426), and was responsible for its general management.

- From April 2015 to August 2018, he has been serving as a director of Shanghai Lilong New Media Co., Ltd (上海利隆新媒體股份有限公司), a company which shares are quoted on the NEEQ (stock code: 833366), primarily engaged in providing international integrated road show service, and was responsible for its general management.

- Since December 2015, he has been serving as an independent director of Neway Valve (Suzhou) Co., Ltd (蘇州紐威閥門股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603699), and was responsible for its general management.

- Since December 2014, he has been serving as an independent director of Shanghai LongYun Advertising and Media Co., Ltd (上海龍韻廣告傳媒股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603729), and was responsible for its general management.

- He is currently serving as an associate professor of the Department of Accounting of Fudan University (復旦大學).

Dr. Hetong Lou obtained a bachelor's degree in accounting from Shanghai University of Finance and Economics (上海財經大學) in the PRC in July 1984. He has also obtained a Ph.D. degree in Accounting from Fudan University in the PRC in July 2007.

Mr. Xiaotong Zhang (張曉彤), aged 50, is an independent non-executive Director of our Company. He is a member of Audit Committee of the Company. Mr. Xiaotong Zhang is primarily responsible for supervising and providing independent judgement to our Board. Mr. Xiaotong Zhang was appointed as our independent non-executive Director in March 2017.

Mr. Xiaotong Zhang has the following work experience:

- Since May 2018, he has been serving as an independent director of Hubei Kailong Chemical Group Co., Ltd (湖北凱龍化工集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002783) which primarily engaged in manufacturing and sale of explosives in the PRC, and he has been responsible for supervising and providing independent judgement to the board of the company.

- Since October 2015, he has been serving as an independent director of Limin Chemical Co., Ltd (利民化工股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002734) which primarily engaged in the research and development, production and sale of pesticide and preparations, and he has been responsible for supervising and providing independent judgement to the board of the company.

- Since October 2014, he has been serving as an independent director of Shangdong Huapeng Glass Co., Ltd (山東華鵬玻璃股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603021) which primarily engaged in the research and development, manufacture and sale of glass products, and he has been responsible for supervising and providing independent judgement to the board of the company.

- He is currently serving as an independent director of CTS (Dengfeng) Songshan Shaolin Culture Tourism Co., Ltd (港中旅(登封)嵩山少林文化旅遊有限公司), a company primarily engaged in promoting the tourism of the Songshan Mountain scenic spot, improving the infrastructure and upgrading the services, and has been responsible for supervising and providing independent judgement to the board of the company.

- Since April 1994, he has been serving as a lawyer and a partner of Beijing Finance and Commercial Law Offices (北京市通商律師事務所).

Mr. Xiaotong Zhang obtained a bachelor's degree in law from Southwest University of Political Science and Law (西南政法大學)(formerly known as Southwest College of Political Science and Law (西南政法學院)) in the PRC in July 1990 and a master's degree in law from Peking University Law School (北京大學法學院) in the PRC in July 1999. Mr. Zhang also obtained a master's degree in business administration from Cheung Kong Graduate School of Business (長江商學院) in the PRC in September 2015.

SUPERVISORS

Mr. Harry Liang He (賀亮), aged 52, is a Supervisor of our Company. He joined the Group in July 2005 and has been the chairman of the Supervisory Committee since March 2017.

Mr. Harry Liang He has the following work experience:

- Since April 2018, he has been serving as the deputy head of the Waigaoqiao site of the Company.

- From December 2015 to March 2018, he served as an assistant to the chief executive officer and an executive director of the chief executive officer's office of our Company.

- From July 2007 to December 2015, he served as an assistant to the chief executive officer, senior director and subsequently an executive director of the chief executive officer's office of WuXi PharmaTech, a company previously listed on NYSE.

- From July 2005 to June 2007, he served as an assistant to the chief executive officer of our Company.

- He previously served as a senior chemical testing engineer, data management manager and as an acting manager of the United States Navy public works environmental laboratory at Shaw Environmental & Infrastructure Inc. (肖恩環境和基礎建設公司).

Mr. Harry Liang He obtained a bachelor's degree in chemistry from Beijing University of Chemical Technology in the PRC in July 1989.

Mr. Jichao Wang (王繼超), aged 45, is a Supervisor of our Company. He joined the Group in February 2001 and was appointed as a Supervisor in March 2017.

Mr. Jichao Wang has the following work experience:

- Since December 2015, he has been serving as a finance senior director, and subsequently a finance executive director of our Company.

- From August 2007 to December 2015, he served as a finance director, and subsequently a finance senior director of WuXi PharmaTech, a company previously listed on NYSE.

- From February 2001 to August 2007, he served as a finance director of our Company.

- Mr. Jichao Wang pursued further education in economics at Peking University from February 2000 to July 2000. Mr. Wang obtained a master's degree in business administration from University of Shanghai for Science and Technology (上海理工大學) in the PRC in March 2007. Mr. Wang obtained a master's degree in business administration from Shanghai Jiao Tong University (上海交通大學) in the PRC in June 2012.

Ms. Minfang Zhu (朱敏芳), aged 47, is a Supervisor of our Company. She joined our Group in February 2001 and was appointed as a Supervisor in March 2017.

Ms. Minfang Zhu has the following work experience:

- Since December 2015, she has been serving as a human resources assistant director, then a human resources associate director and subsequently a human resources director of our Company.

- From August 2007 to December 2015, she served as a finance senior manager and a human resources assistant director of WuXi PharmaTech, a company previously listed on NYSE.

- From February 2001 to August 2007, she served as a finance senior manager and a human resources assistant director of our Company.

Ms. Minfang Zhu obtained an associate degree in financial management from Jiangsu Radio and Television University (江蘇廣播電視大學) in the PRC in July 2001.

SENIOR MANAGEMENT

Dr. Ge Li (李革), see "— Executive Directors" for details.
Mr. Edward Hu (胡正國), see "— Executive Directors" for details.
Mr. Xiaozhong Liu (劉曉鐘), see "— Executive Directors" for details.
Mr. Zhaohui Zhang (張朝暉), see "— Executive Directors" for details.
Dr. Ning Zhao (趙寧), see "— Executive Directors" for details.

Mr. Ellis Bih-Hsin Chu (朱璧辛), aged 48, is the chief financial officer of our Company. He joined our Company in January, 2019.

Mr. Ellis Chu has the following work experience:

From 2006 to 2018, he successively served as the investment banking associate at Lehman Brothers Asia Limited, the vice president of the Investment Banking at Nomura International (Hong Kong) Limited, director of the Asia IBD — M&A Department at Citigroup Global Markets Asia Limited and the managing director and Head of China M&A at Merrill Lynch (Asia Pacific) Ltd and managing director and Head of Greater China at Ion Pacific Limited. Before joining us, he served as the chief financial officer of JHL Biotech Inc. since May 2018.

Mr. Ellis Chu obtained an MBA degree from Columbia Business School in 2006.

Mr. Ellis Chu did not hold any directorships in any listed public companies in Hong Kong or overseas and he had no relationship with any other directors, senior management, substantial shareholders or controlling shareholder of the Company in the last three years. The remuneration of Mr. Ellis Chu as chief financial officer of the Company shall be determined according to the remuneration policy of the Company and factors including his qualifications and experience.

Dr. Steve Qing Yang (楊青), aged 50, is a vice president of our Company. Dr. Steve Yang is primarily responsible for our commercial operation and research services of our Group. Dr. Yang joined our Group in April 2014.

Dr. Steve Yang has the following work experience:

- Since December 2015, he has been serving as an executive vice president and chief business officer at our Company.

- From April 2014 to December 2015, he served as a vice president, chief operating officer, chief business officer and chief strategy officer at WuXi PharmaTech, a company previously listed on NYSE.

- Prior to joining our Group, he served as a vice president and the head of Asia and Emerging Markets iMed of AstraZeneca (阿斯利康製藥公司) in the United Kingdom, a company listed on the NYSE (stock code: AZR).

- He joined Pfizer Inc. in the U.S., a company listed on the NYSE (stock code: PFE) in November 2001. From November 2001 to August 2006, he served as the executive director and head of global research and development. From September 2006 to December 2010, he served as the head of Asia R&D and the vice president of global research and development.

Dr. Steve Yang obtained a bachelor's degree from Michigan Technological University in the United States in June 1991 and a Ph.D. degree from University of California, San Francisco in the United States in 1997.

Dr. Shuhui Chen (陳曙輝), aged 55, is a vice president of our Company. He joined our Group in April 2004.

Dr. Shuhui Chen has the following work experience:

- Since December 2015, he has been serving as an executive vice president and chief scientific officer of our Company.
- From August 2007 to December 2015, he served as an executive vice president and chief scientific officer at WuXi PharmaTech, a company previously listed on NYSE.
- From April 2004 to August 2007, he served as the chief scientific officer of our Company.
- In around 2004, he served as a research advisor at Eli Lilly and Company, a company listed on the NYSE (stock code: LLY).

Dr. Shuhui Chen obtained a Ph.D. degree in chemistry from Yale University in the United States in May 1991.

Mr. Chi Yao (姚馳), aged 35, is the board secretary of our Company. He joined our Group in March 2016. Mr. Yao has the following work experience:

- Since March 2016, he served as a board secretary and the executive director of the corporate legal office of our Company.
- From December 2012 to March 2016, he served as a legal consultant at DLA Piper (歐華律師事務所).
- From July 2011 to November 2012, he served as a legal consultant at King & Wood Mallesons (金杜律師事務所) in Beijing, PRC.

Mr. Chi Yao obtained a bachelor of law degree and a master's degree of law from China University of Political Science and Law (中國政法大學) in the PRC in June 2006 and June 2011, respectively.

Corporate Governance Report

The Board of the Company is pleased to present this corporate governance report in this annual report (the "Corporate Governance Report").

CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to achieving good corporate governance standards.

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

The Company's corporate governance practices are based on the CG Code contained in Appendix 14 of the Listing Rules on the Stock Exchange.

The Board is of the view that throughout the year ended December 31, 2018, the Company has complied with all the code provisions as set out in the CG Code, except for code provision A.2.1. as explained in the paragraph headed "Chairman and Chief Executive Officer" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has devised its own code of conduct regarding Directors' dealings in the Company's securities (the "Code of Conduct") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Code of Conduct throughout the year ended December 31, 2018.

The Company has also established written guidelines (the "Employees Written Guidelines") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

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

Board Composition

The Board currently comprises 12 Directors, consisting of 5 executive Directors, 2 non-executive Directors and 5 independent non-executive Directors as follows:

Executive Directors
Dr. Ge Li *(Chairman and chief executive officer)*
Mr. Edward Hu *(Co-chief executive officer)*
Mr. Xiaozhong Liu
Mr. Zhaohui Zhang
Dr. Ning Zhao

Non-executive Directors
Mr. Xiaomeng Tong
Dr. Yibing Wu

Independent Non-executive Directors
Dr. Jiangnan Cai
Ms. Yan Liu
Mr. Dai Feng
Dr. Hetong Lou
Mr. Xiaotong Zhang

The biographical information of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" of this annual report and the relationships between the Directors are disclosed in the respective Director's biography.

Except for Dr. Ge Li, Dr. Ning Zhao, Mr. Xiaozhong Liu and Mr. Zhaohui Zhang who had entered into an acting-in-concert agreement and a supplemental agreement on March 23, 2016 and March 17, 2017 to acknowledge and confirm their acting-in-concert relation in the Company and the relationships between the Directors set forth in the respective Director's biography under the section headed "Profiles of Directors, Supervisors and Senior Management", the Directors do not have financial, business, family or other material/relevant relationships with one another.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

The Chairman and Chief Executive Officer of the Company are held by Dr. Ge Li who is the founder of the Company and has extensive experience in the industry.

The Board is of the view that given that Dr. Ge Li had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board currently comprises five executive Directors (including Dr. Ge Li), two non-executive Directors and five independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Independent Non-executive Directors

During the year ended December 31, 2018, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years and are eligible for re-election upon expiry of the their term of office in accordance with the Company's Articles of Association.

Responsibilities of the Directors

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

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

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

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

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

The Directors shall disclose to the Company details of other offices held by them.

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

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities.

Continuous Professional Development of Directors

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

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

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

During the year ended December 31, 2018, all Directors attended training sessions on the respective obligations of the Directors and senior management. In addition, relevant reading materials including legal and regulatory update have been provided to the Directors for their reference and studying.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the year ended December 31, 2018 is summarized as follows:

Directors	Type of Training Note
Executive Directors	
Dr. Ge Li	A/B
Mr. Edward Hu	A/B
Mr. Xiaozhong Liu	A/B
Mr. Zhaohui Zhang	A/B
Dr. Ning Zhao	A/B
Non-Executive Directors	
Mr. Xiaomeng Tong	A/B
Dr. Yibing Wu	A/B
Independent Non-Executive Directors	
Dr. Jiangnan Cai	A/B
Ms. Yan Liu	A/B
Mr. Dai Feng	A/B
Dr. Hetong Lou	A/B
Mr. Xiaotong Zhang	A/B

Note:

Types of Training
A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Diversity Policy

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. During the year ended December 31, 2018, the Board has adopted a board diversity policy for the purpose of ensuring that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board.

The Company commits to selecting the best person for the role based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will review the Board Diversity Policy and the measurable objectives, as appropriate, to ensure the effectiveness of the Policy.

Nomination Policy

During the year ended December 31, 2018, the Company has adopted Nomination Policy, which is incorporated in the terms of reference of the Nomination Committee, taking into consideration the revised Listing Rules effective from January 1, 2019. The Policy sets out the objectives, selection criteria and nomination procedures for identifying and recommending candidates for appointment or re-appointment of Directors. No candidate was nominated for directorship since the Listing Date to the date of this annual report.

BOARD COMMITTEES

The Board has established 4 committees, namely, the Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Strategy Committee, for overseeing particular aspects of the Company's affairs.

All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Dr. Hetong Lou, Mr. Xiaotong Zhang and Ms. Yan Liu. Dr. Hetong Lau is the chairperson of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code and in compliance with the relevant laws and regulations of the PRC.

The main duties of the Audit Committee include but are not limited to:

- monitoring and evaluating the work of the external auditor;
- supervising the implementation of the internal audit system of the Company;
- being responsible for the communications among the management level of the Company, the internal and external audit;
- reviewing and commenting on the financial reports of the Company;
- examining the financial reporting system, risk management and internal control systems of the Company;
- making recommendations to the Company on the appointment, reappointment and removal of the external auditor;
- performing daily management duties and implementing control on connected transactions; and
- performing such other duties determined by the Board and stipulated in the Listing Rules or regulatory rules of the place where the shares of the Company are listed.

During the year, the Audit Committee held 6 meetings to review, in respect of the year ended December 31, 2018, the annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors 2 times without the presence of the executive Directors.

The attendance records of the Audit Committee are set out under "Attendance Records of Directors and Committee Members".

Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee consists of 3 members, namely Ms. Yan Liu, independent non-executive Director, Dr. Hetong Lou, independent non-executive Director, and Dr. Ning Zhao, executive Director. Ms. Yan Liu is the chairperson of the Remuneration and Appraisal Committee.

The terms of reference of the Remuneration and Appraisal Committee are of no less exacting terms than those set out in the CG Code and in compliance with the relevant laws and regulations of the PRC.

The main duties of the Remuneration and Appraisal Committee include but are not limited to:

- formulating remuneration policies for Directors and senior management in accordance with the respective scope, responsibilities and significance of Directors and senior management and remuneration levels of similar positions in other enterprises within the same industry;

- making recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policies;

- monitoring the implementation of remuneration system of the Company for the Directors and senior management;

- assessing the fulfillment of duties of Directors and senior management of the Company and appraising their annual performance;

- determining with delegated responsibility, the remuneration packages of individual Directors and senior management;

- reviewing and approving compensation payable to Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- reviewing and managing the share incentive scheme(s) of the Company, including determining the scope of the eligible participants and conditions of a grant and auditing the exercise conditions; and

- performing such other duties determined by the Board and stipulated in the Listing Rules or regulatory rules of the place where the shares of the Company are listed.

The Remuneration and Appraisal Committee held 2 meetings during the Reporting Period to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and senior management and other related matters. The attendance records of the Remuneration and Appraisal Committee are set out under "Attendance Records of Directors and Committee Members".

Details of the remuneration of the senior management by band are set out in note 13 in the Notes to the Consolidated Financial Statements for the year ended December 31, 2018.

Nomination Committee

The Nomination Committee consists of 3 members, namely Dr. Jiangnan Cai, independent non-executive Director, Ms. Yan Liu, independent non-executive Director, and Dr. Ge Li, executive Director. Dr. Jiangnan Cai is the chairperson of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code and in compliance with the relevant laws and regulations of the PRC.

The main duties of the Nomination Committee include but are not limited to:

- making recommendation to the Board on its size and composition to complement the Company's business operation and shareholding structure;

- reviewing and making recommendations to the selection standard and procedure of Directors and senior management;

- identifying individuals suitably qualified to become Directors and senior management and selecting or making recommendations to the Board on selection of individuals nominated for directorships or senior management positions;

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- assessing the independence of Independent Non-executive Directors; and

- performing such other duties determined by the Board and stipulated in the Listing Rules or regulatory rules of the place where the shares of the Company are listed.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee held 2 meetings to review the structure, size and composition of the Board and the independence of the independent non-executive Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy. The attendance records of the Nomination Committee are set out under "Attendance Records of Directors and Committee Members".

Strategy Committee

The Strategy Committee consists of 5 members including 2 executive Directors namely, Dr. Ge Li and Mr. Edward Hu, 2 non-executive Directors namely, Mr. Xiaomeng Tong and Dr. Yibing Wu, and 1 independent non-executive Director namely, Dr. Jiangnan Cai. Dr. Ge Li is the chairperson of the Strategy Committee.

The terms of reference of the Strategy Committee are in compliance with the relevant laws and regulations of the PRC.

The main duties of the Strategy Committee include but are not limited to:

- researching and recommending on long-term development strategy of the Company;
- researching and recommending on significant capital expenditure, investment and financing projects of the Company;
- researching and recommending on major capital operation (including but not limited to the increase or reduction of registered share capital, issuance of bonds, subsidiary merger, separation, dissolution or change of company form, profit distribution plan and make up for losses program), asset management project, and annual financial budget plan of the Company;
- researching and recommending on significant matters relating to the development of the Company;
- monitoring the above matters and assessing, examining and recommending on significant changes; and
- performing such other duties determined by the Board and stipulated in the Listing Rules or regulatory rules of the place where the shares of the Company are listed.

During the Reporting Period, the Strategy Committee held 5 meetings to review the annual financial budget and the current business development and investment projects of the Company. The attendance records of the Strategy Committee are set out under "Attendance Records of Directors and Committee Members".

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the year, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director during their tenure of office at the Board and Board Committee meetings and the general meetings of the Company held during the year ended December 31, 2018 is set out in the table below:

	Attendance/Number of Meetings						
Name of Director	Board	Audit Committee	Remuneration and Appraisal Committee	Nomination Committee	Strategy Committee	Annual General Meeting	Other General Meetings (if any)
Dr. Ge Li	13/13	NA	NA	2/2	5/5	3/3	NA
Mr. Edward Hu	13/13	6/6	NA	NA	5/5	3/3	NA
Mr. Xiaozhong Liu	13/13	NA	NA	NA	NA	3/3	NA
Mr. Zhaohui Zhang	13/13	NA	NA	NA	NA	3/3	NA
Dr. Ning Zhao	13/13	NA	2/2	NA	NA	3/3	NA
Mr. Xiaomeng Tong	13/13	NA	NA	NA	5/5	1/3	NA
Dr. Yibing Wu	13/13	NA	NA	NA	5/5	2/3	NA
Dr. Jiangnan Cai	13/13	NA	NA	2/2	5/5	2/3	NA
Ms. Yan Liu	13/13	NA	2/2	2/2	NA	2/3	NA
Mr. Dai Feng (Note)	1/13	NA	NA	NA	NA	0/3	NA
Dr. Hetong Lou	13/13	6/6	2/2	NA	NA	3/3	NA
Mr. Xiaotong Zhang	13/13	6/6	NA	NA	NA	2/3	NA

Note: Mr. Dai Feng was elected as our independent non-executive Director in August 2018 and such appointment was effected from December 13, 2018.

Apart from regular Board meetings, the Chairman also held meetings with the independent non-executive Directors without the presence of other Directors during the year.

Apart from Mr. Dai Feng who joined in December 13, 2018, all independent non-executive Directors and non-executive Directors have attended general meetings to gain and develop a balanced understanding of the view of Shareholders.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

The Audit Committee monitors and manages the Company's overall risks related to the business operations. It also (i) reviews and approves the Company's risk management policy to ensure that such policies are in line with the corporate objectives; (ii) reviews ad approves the corporate risk tolerance; (iii) monitors significant risks related to the business operations and the handling of such risks by the management; (iv) evaluates the corporate risk based on the corporate risk tolerance; and (v) monitors and ensures the appropriate application of the Company's risk management framework consistently within the Group. During the year, the Audit Committee had conducted a review on the effectiveness of the risk management and internal control system and considered them effective and adequate.

The co-chief executive officers are responsible for (i) formulating and updating the Company's risk management policy and objectives; (ii) reviewing and approving major risk management matters of the Company; (iii) formulating risk management measures; (iv) providing guidance on the risk management approach to the relevant departments of the Company; (v) reviewing the relevant departments' reporting on key risks and providing feedback; (vi) monitoring the implementation of risk management measures by relevant departments; (vii) ensuring that the appropriate structure, processes and competences are in place across the Group; and (viii) reporting significant risks to the Audit Committee.

The relevant departments of the Company are responsible for implementing the risk management policy and the day-to-day risk management practices. In order to standardize risk management across the Group and establish transparent and standardized risk management performance, the relevant departments (i) collect data on risks related to their operation and function; (ii) conduct risk assessment, including the identification, prioritization, measurement and categorization of all major risks which may have potential impacts on achieving their objectives; (iii) prepare risk management reports for the review of the chief executive officers; (iv) continuously monitor major risks related to the Company's operations; (v) implement appropriate measures in response to the risk exposure where necessary; and (vi) formulate and implement appropriate mechanisms to facilitate the application of the risk management framework.

The Company have engaged an internal control consultant to perform certain agreed-upon procedures in connection with the internal control of the Company and the major operating subsidiaries and to report factual findings on the Group's entity-level controls and internal controls of various processes, including environment control, risk assessment, internal monitoring, information and communication, anti-bribery, reporting and disclosure, related parties and related party transaction, tax, sales and payment collection management, purchases and payment management, inventory management, fixed assets management, human resources and remuneration management, capital management, contract management, research and development and intangible assets management, information system management, and insurance.

The Company has adopted a series of internal control policies, measures and procedures designed to provide reasonable assurance for achieving objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. The internal control policies, measures and procedures which the Company implemented or plans to implement are summarized below:

- The Company has set up the Compliance Department and Legal Affairs Office, which are responsible for the overall internal control, corporate governance and legal compliance matters of the Group.

- The Compliance Department and Legal Affairs Office are responsible for issuing and amending internal control policies, measure and procedures to ensure that the Company maintains comprehensive and effective internal control and complies with applicable laws and regulations. The Compliance Department also monitors the implementation of the internal control policies, measures and procedures and conducts regular compliance review and investigation at different stages of drug development process. In addition, the Compliance Department and Legal Affairs Office provide guidelines to the business departments regarding each stage of the drug discovery, development or manufacturing process.

- The Compliance Department organizes monthly/annual inspections on the internal controls of each business department of the Company and issues to the person-in-charge of the relevant business department the internal control self-assessment report with information related to risks discovered and any suggested remedies for his/her action.

- The person-in-charge of each business department is responsible for implementing relevant internal control policies, measures and procedures and conducting regular review regarding the implementation of such policies, measures and procedures.

- The Company has implemented relevant internal control policies, measures and procedures for all business departments regarding each of the drug discovery, development and manufacturing stages, educating the relevant employees about such policies, measures and procedures, and addressing their questions, submitting suggested revisions to such policies, measures and procedures to the Compliance Department and regularly inspect the implementation of policies, measures and procedures.

- The Company has adopted various measures and procedures for all aspects of the business operation, such as project management, quality assurance, intellectual property protection, environmental protection and occupational health and safety. Employees are provided with regular training on such measures and procedures. The implementation of measures and procedures are constantly monitored through the Compliance Department at each stage of the drug development process.

- The Compliance Department has established a whistleblowing mechanism regarding complaints against the Directors, senior management, employees, clients, and other business partners, and independent and fair investigation will be conducted on the reported complaints for appropriate follow up actions. The Compliance Department has also established an online platform for the employees to report their complaints and inquiries. Besides, the Compliance Department has established Whistleblowing Policies which regulates the reporting channels, case officers, investigation procedures and results reports, and explicitly states that retaliation on whistleblowers is prohibited. Based on the complaints received, the Compliance Department will evaluate the effectiveness and any potential weaknesses in the Company's internal control system to make corresponding improvement on the internal control policies, measures and procedures.

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

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Board, through the Audit Committee, has reviewed the effectiveness of the internal audit system and the risk management and the internal control system of the Group, including the adequacy of resources, qualifications and experience of staff in the aforementioned systems and of the Company's accounting and financial reporting function, and the adequacy of their training programs and budget.

For the year ended December 31, 2018, the Board, through a review, considered that the risk management and internal control system of the Group was effective and adequate.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 109 to 115.

AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2018 amounted to RMB7.47 million and RMB4.36 million respectively.

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

Service Category	Fees Paid/Payable RMB'000
Audit Services	7,468
Non-audit Services	
— Taxation	4,362
Total	11,830

JOINT COMPANY SECRETARIES

Mr. Chi Yao and Ms. Yuen Wing Yan Winnie of Tricor Services Limited (an external service provider) have been appointed as the Company's joint company secretaries.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters.

Ms. Yuen Wing Yan Winnie has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year, whereas certain continuing professional development hours were attained before the commencement of the Company's financial year by Mr. Chi Yao who was appointed as the joint secretary during the year.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting

A shareholders' general meeting is required to be held once every year. An extraordinary general meeting is required to be held within 2 months of the occurrence of any of the following:

- the number of Directors is less than the number stipulated by the PRC Company Law or less than two-thirds of the number specified in the Articles of Association;
- the unrecovered losses of the Company amounted to one-third of the Company's total paid-in share capital;
- Shareholders severally or jointly holding more than 10% or more of the Company's Shares request in writing to hold such meeting;
- the Board deems it necessary;
- the Supervisory Committee proposes to hold such a meeting; or
- any other circumstances as provided for in the laws, administrative regulations, departmental rules, regulatory documents, the Listing Rules, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, or the Articles of Association.

A shareholders' general meeting shall be convened by the Board, and presided over by the Chairman of the Board. In the event that the Chairman cannot or does not fulfill his duties, a Director nominated by half or more of the Directors shall preside over the meeting. Where the Board is unable to perform or fail to perform the duty of convening the extraordinary general meeting, the Supervisory Committee may convene and preside over shareholders' general meeting in a timely manner. If the Supervisory Committee fails to convene and preside over shareholders' general meeting, Shareholders individually or in aggregate holding 10% or more of the Company's Shares for 90 days or more consecutively may unilaterally convene and preside over shareholders' general meeting.

Putting Forward Proposals at General Meetings

A single Shareholder who holds, or several shareholders who jointly hold, 3% or more of the Shares of the Company may submit an interim proposal in writing to the Board 10 days before the general meeting is held. The Board shall notify other Shareholders within 2 days upon receipt of the proposal, and submit the said interim proposal to the general meeting for deliberation. The contents of the interim proposal shall fall with the scope of powers of the general meeting, and the proposal shall have a clear agenda and specific matters on which resolutions are to be made.

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
(For the attention of the Board of Directors/Company Secretary)
Fax: +86(21)50463093
Email: ir@wuxiapptec.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. For this purpose, the Company has set up a website (www.wuxiapptec.com.cn), where relevant latest information, the up-to-date state of the Company's business operation and development, the Company's financial information and corporate governance practices and other data are available to the public.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

During the year ended December 31, 2018, the Company has amended its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Policies relating to Shareholders

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

Dividend Policy

The Company has adopted a policy on payment of dividends pursuant to code provision E.1.5 of the CG Code that has become effective from January 1, 2019 taking into consideration of various elements including but not limited to the Company's strategic development objectives, operation plan, profitability, cash flow and financing. The policy sets out the factors in consideration, procedures, methods and intervals of the payment of dividends with an objective to provide the shareholders with continuing, stable and reasonable returns on investment while maintaining the Company's business operation and achieving its long-term development goal.

Directors' Report

The Board is pleased to present this annual report together with the audited consolidated financial statements of the Group for the Reporting Period.

PRINCIPAL ACTIVITIES

The Company is a joint stock limited company incorporated under the laws of the PRC, the predecessor of which, WuXi AppTec Ltd. (無錫藥明康德新藥開發有限公司) (formerly known as WuXi PharmaTech Co., Ltd. (無錫藥明康德組合化學有限公司)), was established under the laws of the PRC as an enterprise legal person in December 2000. The Company completed its initial public offering and listing of 104,198,556 A Shares on The Shanghai Stock Exchange (stock code: 603259.SH) on May 8, 2018. The Company completed its public offering and listing of 116,474,200 H Shares on the Main Board of The Hong Kong Stock Exchange, (stock code: HK 2359) on December 13, 2018. The Group is a leading global pharmaceutical R&D services platform transforming the business of discovery, development and manufacturing of innovative pharmaceuticals.

The activities and particulars of the Company's principal subsidiaries are shown under note 51 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and note 5 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review and discussion form part of this Directors' report.

RESULTS AND DIVIDEND

The consolidated results of the Group for the Reporting Period are set out on pages 116 to 271 of this annual report.

The Board proposes the 2018 Profit Distribution Plan as follows: (1) a dividend in an aggregate amount of RMB678,636,125.88 (inclusive of tax) to be paid to Shareholders of the Company on the record date for determining the Shareholders' entitlement to the 2018 Profit Distribution Plan (which amounts to a dividend of RMB5.80 (inclusive of tax) for every 10 Shares of the Company based on the total issued Shares of the Company as of the date of this annual report), and (2) 4 new Shares for every 10 existing Shares of the Company to be issued out of reserve to all Shareholders. The 2018 Profit Distribution Plan is subject to, amongst others, approval by Shareholders of the Company at the forthcoming AGM and application be made to and approved by the Hong Kong Stock Exchange for the listing of and permission to deal in the new H Shares (in respect of the capitalization issue).

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last four financial years is set out on page 9 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property and equipment of the Group during the Reporting Period are set out in note 16 to the consolidated financial statements on pages 197 to 198 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment protection and has not noted any material in compliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. Further details of the Group's environmental policies and performance will be disclosed in the environmental, social and governance report of the Company for the Reporting Period to be published in due course.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 40 to the consolidated financial statements on page 227 of this annual report.

RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 120 to 122 of this annual report. Details of the movement in the reserves of the Company during the Reporting Period is set out in note 52 to the consolidated financial statements on page 270 of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2018, the Company's distributable reserves, calculated in accordance with PRC rules and regulation, were RMB774.84 million.

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

After the Reporting Period, as eleven of the grantees of the 2018 WuXi AppTec A Share Incentive Scheme, namely Mr. Li, Chi Ho (李之浩), Ms. Zhang Jinhua (張金華), Mr. Wei Liang, Mr. Gong Shaogang (龔劭剛), Mr. Li Xi (李曦), Ms. Tian Lina (田麗娜), Ms. Zhao Ying (趙瑩), Ms. Liang Yingzhen (梁英珍), Ms. Li Ying (李英), Mr. Hu Yao (胡堯), Ms. Liu Xiu Mei (劉秀美) had resigned from the Company and terminated their employment contracts with the Company, they no longer fulfilled the conditions for unlocking. Pursuant to the 2018 WuXi AppTec A Share Incentive Scheme, on March 22, 2019, the Board considered and approved the buyback and cancellation of 31,347 Restricted A Shares which were granted to the aforesaid grantees which had not been unlocked at a price of RMB45.53 per share for the buyback. The total consideration for the buyback amounted to RMB1,427,228.91. Such portion of shares will be cancelled in accordance with the Rules Governing the Listing of Stocks on Shanghai Stock Exchange.

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the PRC, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

USE OF NET PROCEEDS FROM THE IPO

The total proceeds from the issue of new H Shares by the Company in its Listing (after deducting the underwriting fees and related Listing expenses) amounted to approximately RMB7,285.90 million[(1)], and the balance of unutilized net proceeds of approximately RMB7,032.56 million[(2)] as at the date of this annual report.

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

Use of proceeds		Original allocation of Net Proceeds (HKD million)	Original allocation of Net Proceeds (RMB million)	Revised allocation of Net Proceeds (RMB million)	Utilised amount (as at the date of this annual report) (RMB million)	Unutilised amount (as at the date of this annual report) (RMB million)
To expand our capacity and capabilities across all business units globally	37%	2,798.0	2,462.2	2,602.1	545.6	2,056.5
— invest in PRC projects[3]	22%	1,663.1	1,463.5	1,547.2	498.7	1,048.5
— invest in U.S. projects[4]	8%	570.1	501.7	562.6	46.9	515.7
— invest in Hong Kong project[5]	7%	564.8	497.0	492.3	—	492.3
To fund the acquisition of CRO and CMO/CDMO companies	27%	2,000.0	1,759.9	1,863.6	—	1,863.6
To invest in our ecosystem	4%	300.0	264.0	281.3	98.5	182.8
To develop cutting-edge technology	3%	200.0	176.0	182.8	1.4	181.4
To repay our bank loans	20%	1,500.0	1,320.0	1,399.5	1,399.5	—
Working capital and general corporate uses	10%	755.3	664.6	703.3	451.7	251.6
	100%	7,553.3	6,646.7	7,032.6	2,496.7	4,535.9

Notes:

(1) The total proceeds included approximately RMB6,969.58 million from the Global Offering in December 2018 and RMB316.32 million from the partial exercise of over-allotment option in January 2019 as disclosed in the announcement of the Company dated January 6, 2019.

(2) By excluding the underwriting fees and commissions and estimated expenses payable by the Company, the net proceeds planned for applications amount to approximately RMB7,032.56 million. Net IPO proceeds were received in Hong Kong dollar and translated to Renminbi for application planning. The plan was adjusted slightly due to the fluctuation of the foreign exchange rates since the Listing.

(3) Invest in seven PRC projects, including establishment of the Chengdu R&D campus, a manufacturing facility for viral vectors and plasmid DNA used in cell and gene therapy products in Wuxi, and a chemistry and biology labs in Qidong, Jiangsu Province, as well as development of nation-wide clinical trial sites and expansion of our SMO clinical research platform.

(4) Invest in U.S. projects, including setting up a bioanalytical laboratory in San Diego, California and a cGMP manufacturing facility for commercialized cell and gene therapy products in the U.S.

(5) Invest in Hong Kong project, including establishing a Hong Kong-based R&D Innovation Center.

DIRECTORS

The Board currently consists of the following 12 Directors:

Executive Directors

Dr. Ge LI (李革) *(Chairman and Chief Executive Officer)*
Mr. Edward HU (胡正國) *(Co-Chief Executive Officer)*
Mr. Xiaozhong LIU (劉曉鐘)
Mr. Zhaohui ZHANG (張朝暉)
Dr. Ning ZHAO (趙寧)

Non-executive Directors

Mr. Xiaomeng TONG (童小幪)
Dr. Yibing WU (吳亦兵)

Independent Non-executive Directors

Dr. Jiangnan CAI (蔡江南)
Ms. Yan LIU (劉艷)
Mr. Dai FENG (馮岱)
Dr. Hetong LOU (婁賀統)
Mr. Xiaotong ZHANG (張曉彤)

SUPERVISORS

The Company currently has the following 3 Supervisors:

Mr. Harry Liang HE (賀亮)
Mr. Jichao WANG (王繼超)
Ms. Minfang ZHU (朱敏芳)

BIOGRAPHICAL DETAILS OF THE DIRECTORS, THE SUPERVISORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors, the Supervisors and the senior management of the Group as at the date of this annual report are set out on pages 47 to 63 in the section headed "Profiles of Directors, Supervisors and Senior Management" of this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company, under which they agreed to act as executive Directors for an initial term of three years commencing from March 1, 2017, which may be terminated by not less than 90 days' notice in writing served by either the executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company until the expiry of the first session of the Board, which may be terminated by not less than three months' notice in writing served by either of the Director or the Company. Under the respective appointment letters, each of the independent non-executive Directors is entitled to a fixed Director's fee while non-executive Directors ' remuneration, if any, is subject to the adjustment of the Board and the Remuneration and Appraisal Committee from time to time.

Each of the Supervisors has signed an appointment letter with the Company until the expiry of the first session of Supervisory Committee, which may be terminated by not less than three months' notice in writing served by either of the Supervisor or the Company.

The appointments of the Directors and Supervisors are subject to the re-election upon expiry of their term of office according to the Articles of Association.

Save as disclosed above, none of the Directors or Supervisors has entered into any service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation).

CONTRACT WITH CONTROLLING SHAREHOLDERS

No contract of significance was entered into between the Company or any of its subsidiaries and the Founding Individuals or any of its subsidiaries during the Reporting Period or subsisted at the end of the year and no contract of significance for the provision of services to the Company or any of its subsidiaries by a Founding Individual or any of its subsidiaries was entered into during the Reporting Period or subsisted at the end of the year. Upon the Listing of the Company on the Hong Kong Stock Exchange, the Founding Individuals ceased to be controlling Shareholders (as defined in the Listing Rules) of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement and contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director/Supervisor or any entity connected with such a Director/Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Reporting Period.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The emoluments of the Directors, Supervisors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration and Appraisal Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in note 13 to the consolidated financial statements on pages 192 to 194 of this annual report.

Details of the Executive Directors', Supervisors' and senior managements' emoluments are set out in note 50 to the consolidated financial statement on page 262 of this annual report.

For the Reporting Period, no emoluments were paid by the Group to any Director, Supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors or Supervisors has waived any emoluments for the year ended December 31, 2018.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2018, by our Group to or on behalf of any of the Directors.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the Directors and Supervisors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a Director of the Company and/or its subsidiaries.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

NON-COMPETITION ARRANGEMENTS

Each of the Founding Individuals provided certain non-competition undertakings in favor of the Company, pursuant to which the said parties have given certain non-competition undertakings to the Company. Details of the non-competition agreements are set out in the section headed "Relationship with our Founding Individuals — Non-Competition Arrangements" in the Prospectus.

The Founding Individuals confirmed that they have complied with the non-competition undertakings for the Reporting Period. The independent non-executive Directors have conducted such review for the Reporting Period and also reviewed the relevant undertakings and are satisfied that the non-competition undertakings have been fully complied with.

MANAGEMENT CONTRACTS

Other than the Directors' and Supervisors' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the Reporting Period.

EQUITY-LINKED AGREEMENTS

During the Reporting Period, other than the share incentive arrangements as set out in the section under "Share Incentive Schemes" set out on pages 92 to 95 and note 44 to the consolidated financial statements on pages 242 to 250 of this annual report, the Company has not entered into any equity-linked agreement.

MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceeding during the Reporting Period.

LOAN AND GUARANTEE

During the Reporting Period, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, Supervisors and senior management of the Company, the controlling shareholders of the Company (if any) or their respective connected persons.

SHARE INCENTIVE SCHEMES

2018 WuXi AppTec A Share Incentive Scheme

In order to establish and improve long-term corporate incentive systems of the Company, attract and retain talent, fully mobilize the motivation of management members and technicians and effectively tying the interests of our Shareholders, the Company and the management of the Company and enabling the respective parties to become aware of the Company's long-term development, and to promote the realization of the development strategies of the Company, on August 22, 2018, the shareholders' meeting of the Company passed a resolution to issue up to 8,856,900 A Shares of the Company under the 2018 WuXi AppTec A Share Incentive Scheme. The total participants of the 2018 WuXi AppTec A Share Incentive Scheme is 1,528, including the Directors, members of the senior-level management (including senior management), mid-level managers and backbone members of our technicians and basic-level managers and other technicians. On August 28, 2018, 7,085,500 Restricted A Shares of the Company were approved for a Director of the Company and eligible employees to subscribe at the price of RMB45.53 per A Share and the remaining 1,771,400 A Shares will be reserved for future distribution.

In October 2018, 6,281,330 number of A Shares were subscribed by a Director of the Company and eligible employees and RMB285,989,000 consideration were received by the Company. These granted Restricted A Shares have a contractual term of no more than four years and unlock over a three year period, with 40%, 30% and 30% of the awards unlocking on the first, second and third anniversary date of the A Shares registration date upon meeting certain annual performance conditions. Pursuant to the black-out period provisions of the 2018 WuXi AppTec A Share Incentive Scheme, Directors and employees shall not transfer the A Shares which fulfill the unlocking conditions to any third party in any form within the six months from each unlocking anniversary date.

For the Reporting Period, no Restricted A Shares or options were forfeited since granted.

In view of that 11 original participants under the 2018 Wuxi AppTec A Share Incentive Scheme have resigned, pursuant to the provisions under the aforesaid incentive scheme in "II. Changes in the Individual Situation of Participants" under "Chapter 8 — How to Deal with the Changes Occurred to the Company and Participants", the Company has repurchased the 31,347 A Shares granted but still locked-up as held by the 11 resigned participants. On March 22, 2019, the Company has repurchased 31,347 A Shares at the price of RMB45.53 per Share. The total consideration for the repurchase amounted to RMB1,427,228.91.

STA Share Units and Options Incentive Scheme

STA, as a listed company on NEEQ, has also adopted different employee incentive schemes to provide incentives for its eligible employees including the directors (excluding independent directors), supervisors and members of the senior management, members of the mid-level management and core technicians (operation staff) since 2015. STA Group has established equity-settled share units and options incentive schemes including the (i) STA Share Option Incentive Scheme (2015); (ii) STA Overseas Employees Incentive Scheme and (iii) STA Share Option Incentive Scheme (2016). None of the eligible STA employees are the chief executives or directors of the Company.

On September 13, 2017, the shareholders' meeting approved to capitalise 20 ordinary STA shares for every 10 STA shares standing to the credit of the share premium account of STA ("Conversion of Capital Reserve"). In May 2017 and April 2018, the distribution of RMB10.0 and RMB3.5 for every 10 STA shares was approved at the STA shareholders' meetings, respectively. As a result, the number of STA shares and exercise price per share granted under the STA Share Option Incentive Scheme (2015), STA Oversea Employees Incentive Scheme, and STA Share Option Incentive Scheme (2016) presented herein have been adjusted to reflect the Conversion of Capital Reserve and dividend adjustment.

Options granted under the STA Share Option Incentive Scheme (2015), STA Overseas Employees Incentive Scheme and STA Share Option Incentive Scheme (2016) shall have a contractual term of 10 years and vest over a four-year period, with 20%, 20%, 20% and 40% of total options vesting on the first, second, third and fourth anniversary date two years after the vesting commencement date upon meeting certain annual performance conditions.

Set out below are details of the movements of the outstanding units and options granted under the STA Share Units and Options Incentive Scheme throughout the Reporting Period:

STA Share Units and Options Incentive Scheme	Outstanding at 1/1/2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2018
STA Share Option Incentive Scheme (2015)	12,516,000	—	3,129,000	270,000	**9,117,000**
STA Overseas Employees Incentive Scheme	5,028,792	—	1,197,198	—	**3,831,594**
STA Share Option Incentive Scheme (2016) — 1st batch	670,500	—	105,300	174,240	**390,960**
STA Share Option Incentive Scheme (2016) — 2nd batch	597,300	—	—	120,840	**476,460**
Total	18,812,592	—	4,431,498	565,080	**13,816,014**
Exercisable at the end of the year	4,332,198				**8,763,696**
Weighted average exercise price	RMB6.34	N/A	RMB6.32	RMB8.00	**RMB6.28**

STA Share Appreciation Incentive Scheme

On May 16, 2016 and July 12, 2017, STA Share Appreciation Incentive Scheme (2016) and STA Share Appreciation Incentive Scheme (2017) were approved at the STA shareholders' meeting. As a result of the Conversion of Capital Reserve, the total number of STA units granted under the STA Share Appreciation Incentive Scheme (2016) and the STA Share Appreciation Incentive Scheme (2017) to directors (excluding independent directors), supervisors and members of the senior management and core technicians (operation staff) were 1,350,000 and 123,000 respectively. Stock appreciation rights have been awarded in units, with each unit representing the value of one STA shares. Upon the exercise of stock appreciation rights, exercising recipients will receive payments in RMB from STA, subject to any withholding tax, equal to the number of stock appreciation rights exercised times the difference between the subscribe price and market price of the STA shares on the exercise day. The number of STA shares and subscribe price per STA share granted under the STA share Appreciation Incentive Scheme presented herein has been adjusted to reflect the Conversion of Capital Reserve and dividend adjustment.

Units granted under the STA Share Appreciation Incentive Scheme shall have a contractual term of 10 years and generally vest over a four year period, with 20%, 20%, 20% and 40% of total options vesting on the first, second, third and fourth anniversary date two years after the vesting commencement date.

Set out below are details of the movements of the outstanding units granted under the STA Share Appreciation Incentive Scheme throughout the Reporting Period:

STA Share Appreciation Incentive Scheme	Outstanding at 1/1/2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2018
STA Share Appreciation Incentive Scheme (2016) — 1st batch	720,000	—	144,000	21,600	**554,400**
STA Share Appreciation Incentive Scheme (2016) — 2nd batch	279,000	—	—	30,000	**249,000**
STA Share Appreciation Incentive Scheme (2017)	99,000	—	—	12,000	**87,000**
Total	1,098,000	—	144,000	63,600	**890,400**
Exercisable at the end of the year	—				**144,000**
Weighted average exercise price	RMB8.00	N/A	RMB8.00	RMB8.00	**RMB8.00**

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at December 31, 2018, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interest in Shares or Underlying Shares of our Company

Name of Director	Nature of Interest	Number and class of shares interested(1)	Approximate percentage of the Company's issued share capital
Dr. Ge Li	Interests held jointly with another person; interests of spouse; interests of controlled corporation	323,359,483 A Shares(2) (L)	27.7623%
Dr. Ning Zhao	Interests held jointly with another person; interests of spouse; interests of controlled corporation	323,359,483 A Shares(2) (L)	27.7623%
Mr. Zhaohui Zhang	Interests held jointly with another person; interests of controlled corporation	323,359,483 A Shares(2) (L)	27.7623%
Mr. Xiaozhong Liu	Interests held jointly with another person; interests of controlled corporation	323,359,483 A Shares(2) (L)	27.7623%
Mr. Edward Hu	Beneficial owner; interests of spouse	104,500 Restricted A Shares(3) (L)	0.0090%

Notes:

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

(2) Dr. Ge Li, Dr. Ning Zhao, Mr. Xiaozhong Liu and Mr. Zhaohui Zhang entered into an acting-in-concert agreement and a supplemental agreement on March 23, 2016 and March 17, 2017 to acknowledge and confirm their acting-in-concert relationship in our Company.

(3) The Restricted A Shares are granted pursuant to the 2018 WuXi AppTec A Share Incentive Scheme.

Interest in associated corporation (within the meaning of Part XV of the SFO)

Name of Director	Associated Corporation	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding interest
Dr. Ge Li	Shanghai SynTheAll Pharmaceutical Co., Ltd. (上海合全藥業股份有限公司)	Beneficial owner	2,967,000	0.6712%
Mr. Zhaohui Zhang	Shanghai SynTheAll Pharmaceutical Co., Ltd. (上海合全藥業股份有限公司)	Beneficial owner	912,561	0.2064%
Mr. Xiaozhong Liu	Shanghai SynTheAll Pharmaceutical Co., Ltd. (上海合全藥業股份有限公司)	Beneficial owner	1,256,028	0.2841%
Mr. Edward Hu	Shanghai SynTheAll Pharmaceutical Co., Ltd. (上海合全藥業股份有限公司)	Beneficial owner	114,453	0.0259%

Save as disclosed above and in the section headed "Share Incentive Schemes" and to the best knowledge of the Directors, as at December 31, 2018, none of the Directors, Supervisors or the chief executive of the Company has any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES AND SHORT POSITION IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2018, so far as it was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had interests or short positions in 5% or more of the respective type of Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number and class of shares interested	Approximate percentage of shares in relevant class of shares	Approximate percentage of the Company's issued share capital
Dr. Ge Li(2)(3)	Interests held jointly with another person; interests of spouse; interests of controlled corporation	323,359,483 A Shares (L)	30.85%	27.76%
Dr. Ning Zhao(2)(3)	Interests held jointly with another person; interests of spouse; interests of controlled corporation	323,359,483 A Shares (L)	30.85%	27.76%
Mr. Zhaohui Zhang(2)(4)	Interests held jointly with another person; interests of controlled corporation	323,359,483 A Shares (L)	30.85%	27.76%
Mr. Xiaozhong Liu(2)(5)	Interests held jointly with another person; interests of controlled corporation	323,359,483 A Shares (L)	30.85%	27.76%

Name of Shareholder	Nature of Interest	Number and class of shares interested	Approximate percentage of shares in relevant class of shares	Approximate percentage of the Company's issued share capital
Ms. Zhang Lei[(4)]	Interests of spouse	323,359,483 A Shares (L)	30.85%	27.76%
Ms. Zhang Guolian[(5)]	Interests of spouse	323,359,483 A Shares (L)	30.85%	27.76%
G&C VI Limited[(6)]	Beneficial owner	81,000,000 A Shares (L)	7.73%	6.95%
G&C I Limited[(6)]	Interests of controlled corporation	81,000,000 A Shares (L)	7.73%	6.95%
G&C Limited[(6)]	Interests of controlled corporation	81,000,000 A Shares(L)	7.73%	6.95%
WXAT BVI[(7)]	Beneficial owner	81,000,000 A Shares(L)	7.73%	6.95%
WuXi PharmaTech[(7)]	Interests of controlled corporation	81,000,000 A Shares(L)	7.73%	6.95%
Life Science Limited[(7)]	Interests of controlled corporation	81,000,000 A Shares(L)	7.73%	6.95%
Life Science Holdings[(7)]	Interests of controlled corporation	81,000,000 A Shares(L)	7.73%	6.95%
G&C IV Hong Kong Limited[(8)]	Beneficial owner	59,234,400 A Shares(L)	5.65%	5.09%
G&C VIII Limited[(8)]	Interests of controlled corporation	59,234,400 A Shares(L)	5.65%	5.09%
G&C IV Limited[(8)]	Interests of controlled corporation	59,234,400 A Shares(L)	5.65%	5.09%
Jiashi Kangheng (Tianjian) Investments Partnership (Limited Partnership) (嘉世康恒（天津）投資合夥企業（有限合夥）)[(9)]	Beneficial owner	71,892,000 A Shares(L)	6.86%	6.17%
Boyu Dongzhi (Shanghai) Equity Investment Management Co., Ltd. (博裕東直（上海）股權投資管理有限責任公司)[(9)]	Interests of controlled corporation	71,892,000 A Shares(L)	6.86%	6.17%

Name of Shareholder	Nature of Interest	Number and class of shares interested	Approximate percentage of shares in relevant class of shares	Approximate percentage of the Company's issued share capital
Xinyu Kangyi (Tianjin) Investment Partnership (Limited Partnership) (新裕康怡（天津）投資合夥企業（有限合夥）)[(9)]	Interests of controlled corporation	71,892,000 A Shares(L)	6.86%	6.17%
Boyu (Shanghai) Equity Investment Management Co., Ltd. (博裕（上海）股權投資管理有限責任公司)[(9)]	Interests of controlled corporation	71,892,000 A Shares(L)	6.86%	6.17%
Xia Meiying (夏美英)[(9)]	Interests of controlled corporation	71,892,000 A Shares(L)	6.86%	6.17%
Huang Ailian (黃愛蓮)[(9)]	Interests of controlled corporation	71,892,000 A Shares(L)	6.86%	6.17%
Guokai Boyu II (Shanghai) Equity Investment Partnership (Limited Partnership) (國開博裕二期（上海）股權投資合夥企業（有限合夥）)[(9)]	Interests of controlled corporation	71,892,000 A Shares(L)	6.86%	6.17%
Boyu Guangqu Taoran (Shanghai) Investment Management Partnership (Limited Partnership) (博裕廣渠陶然（上海）投資管理合夥企業（有限合夥）)[(9)]	Interests of controlled corporation	71,892,000 A Shares(L)	6.86%	6.17%
Tao Rong (陶融)[(9)]	Interests of controlled corporation	71,892,000 A Shares(L)	6.86%	6.17%
Boyu Guangqu (Shanghai) Investment Management Co., Ltd. (博裕廣渠（上海）投資管理有限公司)[(9)]	Interests of controlled corporation	71,892,000 A Shares(L)	6.86%	6.17%
Glorious Moonlight Limited[(10)]	Beneficial owner	88,851,600 A Shares(L)	8.48%	7.63%
Endless Vigor Limited[(10)]	Interests of controlled corporation	88,851,600 A Shares(L)	8.48%	7.63%
Peaceful Pasture Limited[(10)]	Interests of controlled corporation	88,851,600 A Shares(L)	8.48%	7.63%

Name of Shareholder	Nature of Interest	Number and class of shares interested	Approximate percentage of shares in relevant class of shares	Approximate percentage of the Company's issued share capital
Boyu Capital Fund II, L.P.[10]	Interests of controlled corporation	88,851,600 A Shares(L)	8.48%	7.63%
Boyu Capital General Partner II, L.P.[10]	Interests of controlled corporation	88,851,600 A Shares(L)	8.48%	7.63%
Boyu Capital General Partner II, Ltd.[10]	Interests of controlled corporation	88,851,600 A Shares(L)	8.48%	7.63%
Boyu Capital Holdings Limited[10]	Interests of controlled corporation	88,851,600 A Shares(L)	8.48%	7.63%
ABG-WX Holding (HK) Limited[11]	Beneficial owner	74,043,000 A Shares(L)	7.06%	6.36%
ABG-WX Investment (HK) Limited[11]	Interests of controlled corporation	74,043,000 A Shares(L)	7.06%	6.36%
ABG-WX (HK) Limited[11]	Interests of controlled corporation	74,043,000 A Shares(L)	7.06%	6.36%
ABG II-WX Limited[11]	Interests of controlled corporation	74,043,000 A Shares(L)	7.06%	6.36%
ABG Management Ltd.[11]	Interests of controlled corporation	74,043,000 A Shares(L)	7.06%	6.36%
Yu Fan[11]	Interests of controlled corporation	74,043,000 A Shares(L)	7.06%	6.36%
Summer Bloom Investments (I) Pte. Ltd.[12]	Beneficial owner	81,447,300 A Shares(L)	7.77%	6.99%
Summer Bloom Investments (II) Pte. Ltd.[12]	Interests of controlled corporation	81,447,300 A Shares(L)	7.77%	6.99%
Summer Bloom Investments Pte. Ltd.[12]	Interests of controlled corporation	81,447,300 A Shares(L)	7.77%	6.99%
Pavilion Capital International Pte. Ltd.[12]	Interests of controlled corporation	81,447,300 A Shares(L)	7.77%	6.99%
Pavilion Capital Holdings Pte. Ltd.[12]	Interests of controlled corporation	81,447,300 A Shares(L)	7.77%	6.99%
Linden Investments Pte. Ltd.[12]	Interests of controlled corporation	81,447,300 A Shares(L)	7.77%	6.99%
Fullerton Fund Investments Pte. Ltd.[12]	Interests of controlled corporation	81,447,300 A Shares(L)	7.77%	6.99%
Temasek Holdings (Private) Limited[12]	Interests of controlled corporation	81,447,300 A Shares(L)	7.77%	6.99%
HCFII WX (HK) Holdings Limited[13]	Beneficial owner	62,725,500 A Shares(L)	5.98%	5.39%

Name of Shareholder	Nature of Interest	Number and class of shares interested	Approximate percentage of shares in relevant class of shares	Approximate percentage of the Company's issued share capital
HCFII WX Holdings Limited[13]	Interests of controlled corporation	62,725,500 A Shares(L)	5.98%	5.39%
Hillhouse Capital Fund II, L.P.[13]	Interests of controlled corporation	62,725,500 A Shares(L)	5.98%	5.39%
Hillhouse Fund II Holdings GP, Ltd.[13]	Interests of controlled corporation	62,725,500 A Shares(L)	5.98%	5.39%
Colm John O'Connell[13]	Interests of controlled corporation	62,725,500 A Shares(L)	5.98%	5.39%
Morgan Stanley	Interests of a controlled corporation	29,577,100 H Shares (L)	25.39%	2.54%
		18,330,000 H Shares (S)	15.74%	1.57%
Wellington Management Group LLP	Investment manager	28,311,500 H Shares (L)	24.31%	2.43%
Schroders Plc	Investment manager	21,046,500 H Shares (L)	18.07%	1.81%
Qatar Investment Authority	Interests of a controlled corporation	17,750,000 H Shares (L)	15.24%	1.52%
JPMorgan Chase & Co.	Interests of a controlled corporation , Investment manager, Person having a security interest in shares and Approved lending agent	9,168,446 H Shares (L)	7.87%	0.79%
	Interests of a controlled corporation	580,000 H Shares (S)	0.49%	0.05%
	Approved lending agent	2,087,746 H Shares (P)	1.79%	0.18%
Pandanus Associates Inc.	Interests of a controlled corporation	6,848,000 H Shares (L)	5.88%	0.59%

Notes:

(1) (L) — Long position; (S) — Short position; (P) — Lending pool

(2) Dr. Ge Li, Dr. Ning Zhao, Mr. Xiaozhong Liu and Mr. Zhaohui Zhang entered into an acting-in-concert agreement and a supplemental agreement on March 23, 2016 and March 17, 2017 to acknowledge and confirm their acting-in-concert relationship in our Company. For details, please see the section headed "History and Corporate Development — Acting in Concert" in the Prospectus.

(3) Dr. Ning Zhao is the spouse of Dr. Ge Li and they are deemed to be interested in each other's interests in our Company.

(4) Ms. Lei Zhang is the spouse of Mr. Zhaohui Zhang and is deemed to be interested in Mr. Zhaohui Zhang's interests in our Company.

(5) Ms. Guolian Zhang is the spouse of Mr. Xiaozhong Liu and is deemed to be interested in Mr. Xiaozhong Liu's interests in our Company.

(6) Dr. Ge Li indirectly wholly owns G&C VI Limited through his wholly own interests in G&C I Limited and G&C Limited. Under the SFO, Dr. Ge Li is deemed to be interested in our Shares held by G&C VI Limited.

(7) Life Science Holdings indirectly wholly owns WXAT BVI through its wholly own interests in WuXi PharmaTech and Life Science Limited. Under the SFO, Life Science Holdings is deemed to be interested in our Shares held by WXAT BVI.

(8) G&C IV Limited is funded by nine investors, who are Independent Third Parties and independent to each other, holding non-voting shares, and is controlled by Dr. Ge Li by holding one voting share representing 100% of the voting power in G&C IV Limited. For details, please see the section headed "History and Corporate Development — Corporate Structure" in the Prospectus. Dr. Ge Li indirectly wholly owns G&C IV Hong Kong Limited through his control in G&C IV Limited which wholly owns G&C VIII Limited. Under the SFO, Dr. Ge Li deemed to be interested in our Shares held by G&C IV Hong Kong Limited.

(9) Jiashi Kangheng (Tianjian) Investments Partnership (Limited Partnership) (嘉世康恒（天津）投資合夥企業（有限合夥）) is held as to 0.36% by its general partner, Boyu Dongzhi (Shanghai) Equity Investment Management Co., Ltd. (博裕東直（上海）股權投資管理有限責任公司), and held as to 99.64% by its limited partner, Xinyu Kangyi (Tianjin) Investment Partnership (Limited Partnership) (新裕康怡（天津）投資合夥企業（有限合夥）). Boyu Dongzhi (Shanghai) Equity Investment Management Co., Ltd. (博裕東直（上海）股權投資管理有限責任公司) is wholly-owned by Boyu (Shanghai) Equity Investment Management Co., Ltd. (博裕（上海）股權投資管理有限責任公司), which is held as to 50% by each of Xia Meiying and Huang Ailian. Xinyu Kangyi (Tianjin) Investment Partnership (Limited Partnership) (新裕康怡（天津）投資合夥企業（有限合夥）) is held as to 63.51% by its limited partner, Guokai Boyu II (Shanghai) Equity Investment Partnership (Limited Partnership) (國開博裕二期（上海）股權投資合夥企業（有限合夥）), the general partner of which is Boyu Guangqu Taoran (Shanghai) Investment Management Partnership (Limited Partnership) (博裕廣渠陶然（上海）投資管理合夥企業（有限合夥）), which in turn is held as to 46.22%, 52.19% and 1.59% by its limited partners, Huang Ailian and Tao Rong, and its general partner, Boyu Guangqu (Shanghai) Investment Management Co., Ltd. (博裕廣渠（上海）投資管理有限公司), respectively. Boyu Guangqu (Shanghai) Investment Management Co., Ltd. (博裕廣渠（上海）投資管理有限公司) is wholly-owned by Boyu (Shanghai) Equity Investment Management Co., Ltd. (博裕（上海）股權投資管理有限責任公司). The general partner of Xinyu Kangyi (Tianjin) Investment Partnership (Limited Partnership) (新裕康怡（天津）投資合夥企業（有限合夥）) is Boyu Dongzhi (Shanghai) Equity Investment Management Co., Ltd. (博裕東直（上海）股權投資管理有限責任公司).

(10) Peaceful Pasture Limited indirectly wholly owns Glorious Moonlight Limited through its wholly-owned interests in Endless Vigor Limited. Peaceful Pasture Limited is controlled by Boyu Capital Fund II, L.P., which is controlled by Boyu Capital General Partner II, L.P., which is in turn controlled by Boyu Capital General Partner II, Ltd., which is wholly-owned by Boyu Capital Holdings Limited.

(11) ABG-WX (HK) Limited indirectly wholly owns ABG-WX Holding (HK) Limited through its wholly-owned interests in ABG-WX Investment (HK) Limited. ABG-WX (HK) Limited is controlled by ABG II-WX Limited which is controlled by ABG Management Ltd., which in turn is wholly-owned by Yu Fan.

(12) Summer Bloom (I) Investments Pte. Ltd. is wholly-owned by Summer Bloom Investments (II) Pte. Ltd., which in turn is wholly owned by Summer Bloom Investments Pte. Ltd.. Summer Bloom Investments Pte. Ltd. is solely controlled by Pavilion Capital International Pte. Ltd., which is wholly-owned by Pavilion Capital Holdings Pte. Ltd., which in turn, is wholly-owned by Linden Investments Pte. Ltd.. Linden Investments Pte. Ltd. is in turn wholly-owned by Fullerton Fund Investments Pte. Ltd., which in turn, is wholly-owned by Temasek Holdings (Private) Limited. Pavilion Capital Holdings Pte. Ltd. and its subsidiaries are independently managed portfolio companies. Temasek Holdings (Private) Limited is not involved in the management decisions of these companies.

(13) Hillhouse Capital Fund II, L.P. indirectly wholly owns HCFII WX (HK) Holdings Limited through its wholly-owned interests in HCFII WX Holdings Limited. Hillhouse Capital Fund II, L.P. is controlled by its general partner Hillhouse Fund II Holdings GP, Ltd., which is wholly-owned by Colm John O'Connell.

Save as disclosed above, to the best knowledge of the Company, as at December 31, 2018, no person (other than the Directors, Supervisors and chief executives) had informed the Company that he/she had interests or short positions in the Shares or underlying Shares of equity derivatives of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or held any interests or short position in 5% or more of the respective types of capital in issue of the Company.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the 2018 Wuxi AppTec A Share Incentive Scheme, at no time during the Reporting Period was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debt securities including debentures of, the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

In the Reporting Period, the Group's largest customers accounted for 6.22% of the Group's total revenue. The Group's five largest customers accounted for 20.80% of the Group's total revenue.

In the Reporting Period, the Group's largest suppliers accounted for 5.29% of the Group's total purchase. The Group's five largest suppliers accounted for 15.42% of the Group's total purchase.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders of the Company by reason of their holding of the Company's securities.

HUMAN RESOURCES

The Group had approximately 17,730 employees as at December 31, 2018. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration of the Group's employees includes basic salaries, allowances, bonus, share options and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. We provide regular training to our employees in order to improve their skills and knowledge. The training courses range from further educational studies to skill training to professional development courses for management personnel. The Group also has in place incentive schemes for its employees, the details of which are set out in the section headed "Share Incentive Schemes".

RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to this retirement benefits schemes is to make the specified contributions. The Group has a defined contribution plan in the U.S. where participating employees may contribute to the plan 1% to 99% of their eligible annual compensation as defined in the plan, up to the Internal Revenue Service contribution (the "IRS contribution") limit of USD18,000 for the years ended December 31, 2018 and 2017. The Group makes a matching contribution of participants' elective deferral contribution of 100% of the first 1% and 50% for the next 5% of eligible participant contributions, with a maximum matching contribution of 3.5% of eligible participant compensation.

Details of the pension obligations of the Company are set out in note 48 to the consolidated financial statements in this annual report.

CONNECTED TRANSACTIONS

Details on related party transactions for the Reporting Period are set out in note 50 to the consolidated financial statements. Details of any related party transactions which also constitute connected transactions or continuing connected transactions not fully exempted under Rule 14A.73 of the Listing Rules are disclosed below.

I. Non-exempt Continuing Connected Transaction

The Group entered into one non-exempt continuing connected transaction of testing service framework agreement and a supplemental agreement with WuXi Biologics on May 17, 2017 and November 23, 2018, respectively (collectively, the "Testing Service Framework Agreement"), pursuant to which the Group would provide certain testing services, including but not limited to biosafety testing, to WuXi Biologics and its subsidiaries ("WuXi Biologics Group"). This connected transactions of the Company is also a related party transaction, which is disclosed in note 50 to the consolidated financial statements in this annual report.

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

Connected Transaction	Connected Person	Description	Pricing Policy	Annual cap for the year ended December 31, 2018 (RMB million)	Actual Transaction Amount for the year ended December 31, 2018 (RMB million)
Testing Service Framework Agreement	Wuxi Biologics Group	Provision of certain testing services to Wuxi Biologics	Standard pricing used by the Group for all its customers	9.000	8.998

The detailed terms of the non-exempt continuing connected transactions mentioned above are as following:

Testing Service Framework Agreement

The Group entered into a Testing Service Framework Agreement, pursuant to which the Group would provide certain testing services, including but not limited to biosafety testing, to WuXi Biologics Group. The Group enter into individual agreements separately with the WuXi Biologics Group with respect to different testing projects which provide for specific terms and conditions including service scope, service fee and other terms in accordance with the Testing Service Framework Agreement. The Testing Service Framework Agreement will expire on December 31, 2020.

Pricing

The testing service fee charged by us will be determined with reference to the nature and value of the relevant testing services as with our other customers.

Annual caps

The annual caps for the continuing connected transactions for the year ended December 31, 2018 amounted to RMB9.0 million, and two years ending December 31, 2019 and December 31, 2020 will amount to RMB34.1 million and RMB31.1 million, respectively.

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

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

(2) on normal commercial terms or better; and

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

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

The auditors of the Group had informed the Board of Directors and confirmed nothing has come to their attention that causes them to believe that the continuing connected transactions:

(1) have not been approved by the listed issuer's board of directors;

(2) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group;

(3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(4) have exceeded the cap.

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

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the Reporting Period are set out in note 50 to the consolidated financial statements contained herein.

Save as disclosed in the paragraph headed "Connected Transactions" in this annual report, the related party transactions disclosed in note 50 were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) in relation to the director's and officer's liability insurance is currently in force and was in force during the Reporting Period.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions set out in the CG Code as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Period.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining a high standard of corporate governance.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 64 to 83 of this annual report.

DONATIONS

During the Reporting Period, the Company made donations of RMB0.43 million.

AUDITOR

The H Shares were only listed on the Stock Exchange on December 13, 2018, and there has been no change in auditors since the Listing Date. The consolidated financial statements for the Reporting Period have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, who are proposed for reappointment at the forthcoming 2018 AGM.

COMPLIANCE WITH LAWS AND REGULATIONS

For the Reporting Period, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

On behalf of the Board
Dr. Ge Li
Chairman and Chief Executive Officer

Hong Kong, March 22, 2019

Independent Auditor’s Report

TO THE BOARD OF DIRECTORS OF 無錫藥明康德新藥開發股份有限公司 WUXI APPTEC CO., LTD.*
(incorporated in the People’s Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of WuXi AppTec Co., Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 116 to 271 which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

* *For identification purpose only*

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill acquired in business combinations	
At December 31, 2018, as disclosed in Note 17, the carrying amount of goodwill is RMB1,144,076,000. Management of the Group perform impairment test of goodwill at least on an annual basis. In performing the impairment test, management identified cash-generating units ("CGUs") first and then allocated goodwill to the corresponding CGUs that is expected to benefit from the synergies of the combination. The management of the Group determine the impairment loss at the amount by which the carrying amount of a CGU to which the goodwill is allocated exceeds its recoverable amount. The recoverable amount of each CGU is the higher of the value in use or fair value less costs of disposal. The assumptions applied in determining the value in use of CGUs would require significant management estimates, including cash flow forecast, discount rate and long-term average growth rate. Therefore, we identify impairment of goodwill as a key audit matter.	Our procedures in relation to the impairment of goodwill acquired in business combinations included: • Understanding the key internal controls over impairment test of goodwill and evaluating the design and implementation of these controls; • With the assistance of our internal valuation specialists, evaluate the reasonableness of the cash flow forecast model and the management's key assumptions including discount rate and long-term average growth rate; and • Checking the cash flow projections to determine whether it conforms or contradicts with historical data and supporting evidence.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition for Fee-For-Service ("FFS") revenue	
The Group has adopted and applied IFRS 15 "Revenue from Contracts with Customers" throughout the year ended December 31, 2018. The recognition of FFS revenue under IFRS 15 requires management to apply critical judgements in determining whether the timing of satisfaction of performance obligations is at a point in time or over time. The Group primarily earn revenue by providing contract research organization ("CRO") services through its China and U.S. based laboratory services and Clinical research and other CRO services segments under the FFS model. At December 31, 2018, revenue of the China and U.S. based laboratory services and Clinical research and other CRO services segments is RMB6,902,188,000, of which RMB5,075,680,000 is derived from FFS model, representing 73.5% of revenue of the Group's CRO services. Inappropriate application of the judgements could lead to material misstatement in the revenue recognition. Therefore, we identify the occurrence and accuracy of revenue recognition of contracts with customers under FFS model as a key audit matter.	Our procedures in relation to the revenue recognition for FFS revenue included: • Understanding the key controls related to determining the timing of satisfaction of performance obligations and evaluating the design and operating effectiveness of these controls; and • Selecting samples from recorded FFS sales transactions and evaluating if the performance obligations have been met in the contract by obtaining evidence of satisfaction of the performance obligation: (i) For performance obligations satisfied over time: (a) Evaluating the entity's documentation supporting its conclusions whether any of the "over time" criteria have been met and whether the selected method to measure progress using either cost-to-cost (input method) or units produced/services transferred (output method) faithfully depicts the progress of the contract; (b) Test the accuracy of the inputs or outputs used by the management in their calculations. (ii) For performance obligations satisfied at a point in time, checking supporting evidence of the delivery of units produced/services transferred.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fair value measurement for investments with no quoted market prices in active markets	
The Group made investments in a wide variety of companies and funds to support the Group's sustainable growth. Those investments are accounted for as available-for-sale measured at cost or fair value with changes accounted for in other comprehensive income under IAS 39 prior to 2017 and has reclassified as financial assets at fair value through profit or loss ("FVPTL") for the year beginning on January 1, 2018 upon application of IFRS 9 "Financial Instruments". At December 31, 2018, as disclosed in Note 31, the fair value of unlisted equity and fund investments with no quoted market prices in active markets is RMB1,138,353,000. The determination of the fair value of these investments with no quoted market prices in active markets involves significant estimates made by management. Therefore, we identify the fair value measurement for these investments at reporting date as a key audit matter.	Our procedures in relation to the fair value measurement for investments with no quoted market prices in active markets included: • Understanding the key controls over the fair value measurements and evaluating the design and implementation of these controls; • For those investments that management use the assistance of external appraisers in the fair value measurement, assessing the objectivity, independence and competence of the external appraisers; and • With the assistance of our internal valuation specialists, evaluating the appropriateness of the valuation techniques in the circumstances and challenging management's key inputs with supporting evidence such as market data obtained independently.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

- Conclude on the appropriateness of the directors of the Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 22, 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	5	**9,613,684**	7,765,260
Cost of services		**(5,836,765)**	(4,525,340)
Gross profit		**3,776,919**	3,239,920
Other income	7	**156,417**	254,992
Other gains and losses	8	**600,588**	(81,213)
Impairment losses under expected credit losses ("ECL") model	9.1	**(10,521)**	—
Other impairment losses, net of reversal	9.2	**—**	(140,194)
Selling and marketing expenses		**(337,878)**	(291,510)
Administrative expenses		**(1,152,592)**	(986,540)
Research and development expenses		**(436,533)**	(305,648)
Operating profit		**2,596,400**	1,689,807
Share of profits (losses) of associates		**104,601**	(21,589)
Share of losses of joint ventures		**(27,770)**	(27,051)
Finance costs	10	**(92,407)**	(48,547)
Profit before tax		**2,580,824**	1,592,620
Income tax expense	11	**(247,143)**	(295,900)
Profit for the year	12	**2,333,681**	1,296,720
Other comprehensive income (expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**84,430**	(9,436)
Fair value gain (losses) on			
— available-for-sale ("AFS") investments		**—**	39,127
— hedging instrument designated in cash flow hedges		**(83,211)**	—
Reclassification adjustment relating to AFS investments disposed of		**—**	(32,093)
Share of other comprehensive income of an associate, net of related income tax		**—**	13,634
Other comprehensive income for the year, net of income tax		**1,219**	11,232
Total comprehensive income for the year		**2,334,900**	1,307,952

For the year ended December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
Profit for the year attributable to:			
Owners of the Company		**2,260,523**	1,227,093
Non-controlling interests		**73,158**	69,627
		2,333,681	1,296,720
Total comprehensive income for the year attributable to:			
Owners of the Company		**2,267,727**	1,236,592
Non-controlling interests		**67,173**	71,360
		2,334,900	1,307,952
		RMB	RMB
Earnings per share			
— Basic	14	**2.23**	1.31
— Diluted	14	**2.21**	1.30

Consolidated Statement of Financial Position

At December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current Assets			
Property, plant and equipment	16	6,057,611	4,255,468
Goodwill	17	1,144,076	958,038
Other intangible assets	18	347,949	296,514
Prepaid lease payments	20	272,306	126,138
Interests in associates	21	618,736	251,084
Interests in joint ventures	22	36,822	131,997
Deferred tax assets	23	250,175	244,158
Available-for-sale investments	24	—	683,405
Financial assets at fair value through profit or loss ("FVTPL")	31	2,079,311	—
Other non-current assets	25	47,378	50,874
Deposits for acquisition	26	—	112,570
		10,854,364	7,110,246
Current Assets			
Inventories	27	854,761	649,815
Contract costs	28	97,712	77,123
Amounts due from related parties	50	13,882	16,563
Trade and other receivables	29	2,498,696	1,752,807
Contract assets	29	384,530	185,676
Prepaid lease payments	20	6,237	3,400
Income tax recoverable		34,028	—
Financial assets at FVTPL	31	2,125,334	14,739
Derivative financial instruments	34	37,054	—
Wealth management products	32	—	297,687
Pledged bank deposits	33	2,913	6,247
Bank balances and cash	33	5,757,691	2,466,144
		11,812,838	5,470,201
Current Liabilities			
Trade and other payables	35	2,610,553	1,664,433
Amounts due to related parties	50	12,015	839,562
Derivative financial instruments	34	153,292	—
Contract liabilities	37	681,863	604,132
Borrowings	36	120,000	1,318,189
Income tax payables		184,335	193,107
		3,762,058	4,619,423
Net Current Assets		8,050,780	850,778
Total Assets Less Current Liabilities		18,905,144	7,961,024

At December 31, 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current Liabilities			
Borrowings	36	**15,000**	300,000
Deferred tax liabilities	23	**111,747**	103,281
Deferred income	38	**418,843**	377,556
Other long-term liabilities	39	**194,323**	442,176
		739,913	1,223,013
Net Assets		**18,165,231**	6,738,011
Capital and Reserves			
Share capital	40	**1,164,741**	937,787
Reserves		**16,523,280**	5,404,593
Equity attributable to owners of the Company		**17,688,021**	6,342,380
Non-controlling interests		**477,210**	395,631
Total Equity		**18,165,231**	6,738,011

The consolidated financial statements on pages 116 to 271 were approved and authorized for issue by the board of directors on March 22, 2019 and are signed on its behalf by:

Ge LI
Director

Edward HU
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Cash flow hedging reserve RMB'000	Foreign currency translation reserve RMB'000	Statutory reserve RMB'000	Investment revaluation reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at January 1, 2017	937,787	2,311,714	—	435,595	346,671	—	58,142	—	70,644	398,216	1,010,404	5,569,173	493,232	6,062,405
Profit for the year	—	—	—	—	—	—	—	—	—	—	1,227,093	1,227,093	69,627	1,296,720
Other comprehensive (expense) income for the year	—	—	—	—	—	—	(9,053)	—	18,552	—	—	9,499	1,733	11,232
Total comprehensive (expense) income for the year	—	—	—	—	—	—	(9,053)	—	18,552	—	1,227,093	1,236,592	71,360	1,307,952
Transferred to statutory reserve (Note a)	—	—	—	—	—	—	—	21,296	—	—	(21,296)	—	—	—
Retained earnings transferred to share premium in relation to conversion into a joint stock limited company (Note c)	—	282	—	—	—	—	—	—	—	—	(282)	—	—	—
Contribution from non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	5,250	5,250
Recognition of share-based payments (Note b)	—	—	—	—	37,845	—	—	—	—	—	—	37,845	3,888	41,733
Issue of ordinary shares of a subsidiary under employee share option plan	—	—	—	17,714	(12,672)	—	—	—	—	—	—	5,042	21,125	26,167
Change in ownership interests in subsidiaries without change of control (Note 51.3)	—	—	—	(506,272)	—	—	—	—	—	—	—	(506,272)	(180,390)	(686,662)
Dividends paid to non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	(18,834)	(18,834)
Balance at December 31, 2017	937,787	2,311,996	—	(52,963)	371,844	—	49,089	21,296	89,196	398,216	2,215,919	6,342,380	395,631	6,738,011
Adoption of IFRS 9 (Note 2)	—	—	—	—	—	—	—	—	(89,196)	—	277,817	188,621	—	188,621

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Cash flow hedging reserve RMB'000	Foreign currency translation reserve RMB'000	Statutory reserve RMB'000	Investment revaluation reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
Adjusted balance at January 1, 2018	937,787	2,311,996	–	(52,963)	371,844	–	49,089	21,296	–	398,216	2,493,736	6,531,001	395,631	6,926,632
Profit for the year	–	–	–	–	–	–	–	–	–	–	2,260,523	2,260,523	73,158	2,333,681
Other comprehensive (expense) income for the year	–	–	–	–	–	(79,646)	86,850	–	–	–	–	7,204	(5,985)	1,219
Total comprehensive (expense) income for the year	–	–	–	–	–	(79,646)	86,850	–	–	–	2,260,523	2,267,727	67,173	2,334,900
Transferred to statutory reserve (Note a)	–	–	–	–	–	–	–	66,413	–	–	(66,413)	–	–	–
Issue of A Shares upon listing on Shanghai Stock Exchange	104,199	2,146,490	–	–	–	–	–	–	–	–	–	2,250,689	–	2,250,689
Issue of restricted A Shares	6,281	279,708	(285,989)	–	–	–	–	–	–	–	–	–	–	–
Issue of H Shares upon listing on The Hong Kong Stock Exchange	116,474	6,853,104	–	–	–	–	–	–	–	–	–	6,969,578	–	6,969,578
Transaction costs attributable to issue of new shares	–	(365,654)	–	–	–	–	–	–	–	–	–	(365,654)	–	(365,654)
Recognition of share-based payments (Note d)	–	–	–	–	41,206	–	–	–	–	–	–	41,206	2,786	43,992
Issue of ordinary shares of a subsidiary under employee share option plan	–	–	–	10,284	(8,735)	–	–	–	–	–	–	1,549	24,315	25,864
Change in ownership interests in subsidiaries without change of control (Note 51.3)	–	–	–	(8,075)	–	–	–	–	–	–	–	(8,075)	6,510	(1,565)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(19,205)	(19,205)
Balance at December 31, 2018	1,164,741	11,225,644	(285,989)	(50,754)	404,315	(79,646)	135,939	87,709	–	398,216	4,687,846	17,688,021	477,210	18,165,231

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

Notes:

a. In accordance with the Articles of Association of the Company, it is required to transfer 10% of the profit after taxation to the statutory reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the Company.

b. The amount represents share-based payment reserve arising from the WuXi PharmaTech Stock Units and Options Plan, STA Share Units and Options Incentive Scheme as disclosed in Note 44.

c. Pursuant to the resolution of shareholders and the revised Articles of Association of the Company dated February 17, 2017, the Company converted into a joint stock limited liability company under the People's Republic of China (the "PRC") Laws and the balance of retained earnings of RMB282,000 of the Company at February 17, 2017 was transferred to share premium.

d. The amount represents share-based payment reserve arising from the WuXi PharmaTech Stock Units and Options Plan, STA Share Units and Options Incentive Scheme and 2018 WuXi AppTec A Share Incentive Scheme as disclosed in Note 44.

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**2,580,824**	1,592,620
Adjustments for:		
Interest income	**(12,195)**	(24,393)
Income from government grants and subsidies related to assets	**(34,891)**	(32,292)
Finance costs	**92,407**	48,547
Dividend income arising from AFS investments	**—**	(330)
Dividends received from financial assets at FVTPL	**(29,605)**	—
Depreciation of property, plant and equipment	**601,441**	439,896
Amortization of prepaid lease payments	**4,052**	3,400
Amortization of other intangible assets	**39,692**	34,384
Impairment losses under ECL model	**10,521**	—
Other impairment losses, net of reversal		
— goodwill	**—**	45,237
— intangible assets	**—**	81,077
— inventories	**2,011**	762
— financial assets	**—**	13,880
Share of loss of joint ventures	**27,770**	27,051
Share of (profits) losses of associates	**(104,601)**	21,589
Share-based payment expenses	**43,992**	41,733
Net foreign exchange (gain) loss	**(31,002)**	138,887
Gain on disposal of AFS investments	**—**	(32,093)
Loss (gain) on disposal of		
— property, plant and equipment	**10,382**	8,565
— other intangible assets	**(9)**	9,158
Fair value gain on financial assets at FVTPL	**(694,882)**	(40,181)
Loss on derivative financial instruments	**115,244**	—
Operating cash flows before movements in working capital	**2,621,151**	2,377,497
Movements in working capital elements:		
Increase in inventories	**(206,957)**	(200,167)
Increase in contract costs	**(20,589)**	(10,439)
Increase in trade and other receivables	**(664,045)**	(413,821)
Increase in income tax recoverable	**(34,028)**	—
Increase in contract assets	**(198,854)**	(49,385)
Increase in other non-current assets	**(7,430)**	(3,616)
Decrease in amounts due from related parties	**2,681**	78,546
Decrease in amounts due to related parties	**—**	(15,021)
Increase in trade and other payables	**254,193**	98,362
Increase in contract liabilities	**69,594**	208,411

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Increase (decrease) in other long-term liabilities	**29,077**	(14,112)
Decrease in deferred income	**(18,069)**	(900)
Cash generated from operations	**1,826,724**	2,055,355
Income taxes paid	**(300,942)**	(259,707)
NET CASH FROM OPERATING ACTIVITIES	**1,525,782**	1,795,648
INVESTING ACTIVITIES		
Interests received	**12,195**	25,501
Proceeds from disposal of		
— financial assets at FVTPL	**159,202**	780,045
— AFS investments	**—**	57,966
Purchase of		
— financial assets at FVTPL	**(2,273,573)**	—
— AFS investments	**—**	(148,662)
Proceeds from disposal of other intangible assets	**141**	600
Proceeds from disposal of property, plant and equipment	**10,030**	38,702
Withdraw of wealth management products	**—**	388,347
Acquisition of interests in associates	**(653,250)**	(53,922)
Acquisition of interests in joint ventures	**(93,236)**	(100,645)
Purchase of property, plant and equipment	**(2,076,896)**	(1,352,467)
Purchase of other intangible assets	**(14,772)**	(10,502)
Repayment of obligation under a finance lease from a related party	**—**	11,441
Payments for prepaid lease payments	**(153,057)**	—
Withdraw of pledged bank deposits	**3,334**	—
Placement of pledged bank deposits	**—**	(5,697)
Net cash outflow on acquisition of subsidiaries	**(99,933)**	(851,211)
Deposit for acquisition of a subsidiary	**—**	(112,570)
Repayment from related parties	**—**	369
Dividends received from AFS investments	**—**	330
Dividends received from financial assets at FVTPL	**25,602**	—
Payment for forward contract	**(102,049)**	—
Government grants and subsidies received related to assets	**94,247**	200,031
NET CASH USED IN INVESTING ACTIVITIES	**(5,162,015)**	(1,132,344)

For the year ended December 31, 2018

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
FINANCING ACTIVITIES		
Payment of dividends	(19,205)	(18,834)
New borrowings raised	1,465,530	1,622,163
Repayment of borrowings	(2,983,584)	(481,011)
Proceeds from contribution from non-controlling shareholders of a subsidiary	—	5,250
Proceeds from issue of ordinary shares of a subsidiary under employee share option plan	25,864	26,167
Acquisition of partial interest of subsidiaries from non-controlling shareholders	—	(1,627,186)
Proceeds from issue of A Shares	2,250,689	—
Considerations received for subscribing restricted A shares of the Company under the 2018 WuXi AppTec A Share Incentive Scheme	285,989	—
Proceeds from issue of H Shares	6,969,578	—
Advance from related parties	—	14,784
Repayment to related parties	—	(144,140)
Interests paid	(83,348)	(40,311)
Payments for acquisition of equity interest under common control	(574,030)	—
Repayments of consideration payable on purchase of a property under installment payment plan	(28,265)	(14,133)
Issue cost paid	(325,060)	(10,926)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	6,984,158	(668,177)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,347,925	(4,873)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	2,466,144	2,507,299
Effects of exchange rate changes	(56,378)	(36,282)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	5,757,691	2,466,144

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

1. General information

WuXi AppTec Co., Ltd. (the "Company") was incorporated in the PRC on March 1, 2017 as a joint stock limited liability company under the PRC laws upon the conversion of 無錫藥明康德新藥開發有限公司 WuXi AppTec Ltd. (formerly known as 無錫藥明康德組合化學有限公司 WuXi PharmaTechs Co., Ltd.), a company with limited liability incorporated in the PRC in December 2000. The Company completed its initial public offering and listing of 104,198,556 ordinary shares of the Company ("A Shares") on The Shanghai Stock Exchange (stock code: 603259.SH) on May 8, 2018. The Company completed its public offering and listing of 116,474,200 ordinary shares of the Company ("H Shares") on the Main Board of The Stock Exchange of Hong Kong Limited ("The Hong Kong Stock Exchange"), (stock code: HK 2359) on December 13, 2018. The address of the registered office of the Company is Mashan No.5 Bridge, Binhu District, Wuxi, Jiangsu Province, the PRC and the principal place of business of the Company is 288 Fute Zhong Road, Waigaoqiao Free Trade Zone, Shanghai, the PRC. The Company is ultimately controlled by Dr. Ge LI, Dr. Ning ZHAO, the spouse of Dr. Ge LI, Dr. LIU Xiaozhong and Mr. Zhaohui, Zhang, who are all acting in concert (collectively known as "ultimate Controlling Shareholders").

The Company is an investment holding company. The principal activity of the Company and its subsidiaries (collectively referred to as "Group") is to provide a portfolio of research and manufacturing services throughout the discovery, development and manufacturing spectrum for small molecule drugs, cell therapies and gene therapies as well as providing testing services for medical devices.

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

2. Application of new and amendments to IFRSs

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

The Group has consistently applied all the new and amendments to IFRSs issued by the International Accounting Standards Board (the "IASB"), that are effective for the Group's accounting period beginning on 1 January 2018 for the years ended 31 December 2017 and 2018 except that the Group adopted IFRS 9 "Financial Instruments" on January 1, 2018.

2. Application of new and amendments to IFRSs (continued)

New and amendments to IFRSs that are mandatorily effective for the current year (continued)

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

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

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

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

In addition, the Group has not early applied Amendments to HKFRS 9 Prepayment Features with Negative Compensation which will be mandatorily effective for the Group for the financial year beginning on January 1, 2019.

2. Application of new and amendments to IFRSs (continued)

New and amendments to IFRSs that are mandatorily effective for the current year (continued)

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

Financial assets and financial liabilities

	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 RMB'000	Fair value remeasurement under IFRS 9 RMB'000	Additional loss allowance recognised under IFRS 9 RMB'000	New carrying amount under IFRS 9 RMB'000
Investments in listed equity securities (Note 24)	AFS investments	Financial assets at FVTPL	29,080	—	—	29,080
Investments in unlisted equity securities (Note 24)	AFS investments	Financial assets at FVTPL	456,144	191,180	—	647,324
Investment in unlisted funds (Note 24)	AFS investments	Financial assets at FVTPL	198,181	—	—	198,181
Monetary fund investment (Note 31)	Financial assets at FVTPL	Financial assets at FVTPL	14,739	—	—	14,739
Trade and other receivables (Note 29)	Loans and receivables	Financial assets at amortised cost	1,404,629	—	(2,503)	1,402,126
Amounts due from related parties (Note 50)	Loans and receivables	Financial assets at amortized cost	16,563	—	—	16,563
Wealth management products (Note 32)	Loans and receivables	Financial assets at FVTPL	297,687	—	—	297,687
Bank balances and cash and pledged bank deposits (Note 33)	Loans and receivables	Financial assets at amortized cost	2,472,391	—	—	2,472,391
Trade and other payables (Note 35)	Financial liabilities at amortized cost	Financial liabilities at amortized cost	901,451	—	—	901,451
Amounts due to related parties (Note 50)	Financial liabilities at amortized cost	Financial liabilities at amortized cost	839,562	—	—	839,562
Borrowings (Note 36)	Financial liabilities at amortized cost	Financial liabilities at amortized cost	1,618,189	—	—	1,618,189
Payable for acquisition of a property (Note 39)	Financial liabilities at amortized cost	Financial liabilities at amortized cost	251,785	—	—	251,785

2. Application of new and amendments to IFRSs (continued)

New and amendments to IFRSs that are mandatorily effective for the current year (continued)

Other assets

	Original carrying amount under IAS 39 RMB'000	Fair value remeasurement under IFRS 9 RMB'000	Additional loss allowance recognised under IFRS 9 RMB'000	New carrying amount under IFRS 9 RMB'000
Contract assets (Note 29)	185,676	—	(56)	185,620

The additional impairment loss allowance upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset.

There were no financial liabilities which the Group had previously designated as at FVTPL or measured at amortized cost under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IFRS 9.

AFS investments which the Group had previously measured at cost or fair value with changes accounted for in other comprehensive income under IAS 39 has been classified as FVTPL at the date of initial application of IFRS 9.

The table below shows information relating to financial assets and other items that are measured differently (including change in impairment calculation) as a result of transition to IFRS 9:

	IAS 39 carrying amount December 31, 2017 RMB'000	Reclassifications RMB'000	Remeasurements RMB'000	IFRS 9 carrying amount January 1, 2018 RMB'000	Retained earnings effect January 1, 2018 RMB'000	Investment revaluation reserve effect January 1, 2018 RMB'000
AFS investments	683,405	(683,405)	—	—	49,466	(49,466)
Financial assets at FVTPL	14,739	981,092	191,180	1,187,011	191,180	—
Loans and receivables	4,191,270	(297,687)	(2,503)	3,891,080	(2,503)	—
Contract assets	185,676	—	(56)	185,620	(56)	—
Interests in associates	—	—	—	—	39,730	(39,730)

2. Application of new and amendments to IFRSs (continued)

New and amendments to IFRSs that are mandatorily effective for the current year (continued)

Other assets (continued)

From AFS investments to FVTPL

At the date of initial application of IFRS 9, the Group's equity and fund investments of RMB683,405,000 were reclassified from AFS investments to financial assets at FVTPL. The fair value change of RMB191,180,000 relating to those equity investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained earnings as at January 1, 2018. The fair value gains of RMB49,466,000 relating to those investments previously carried at fair value were transferred from investment revaluation reserve to retained earnings.

From loans and receivables to FVTPL

At the date of initial application of IFRS 9, the Group's wealth management products of RMB297,687,000 were reclassified from loans and receivables to financial assets at FVTPL.

The adoption of IFRS 9 has no impact on the interests on joint ventures and associates except that the investment revaluation reserve of RMB39,730,000 attributable by associates was reclassified to retained earnings following the reclassification from AFS investments at fair value to financial assets at FVTPL as at January 1, 2018.

Impact on assets and equity as at January 1, 2018:

	As previously reported RMB'000	IFRS 9 adjustment RMB'000	After adjustment RMB'000
Trade and other receivables	1,404,629	(2,503)	1,402,126
Contract assets	185,676	(56)	185,620
AFS investments	683,405	(683,405)	—
Wealth management products	297,687	(297,687)	—
Financial assets at FVTPL	14,739	1,172,272	1,187,011
Total effect on net assets		188,621	
Reserves	5,404,593	188,621	5,593,214
Total effect on equity		188,621	

2. Application of new and amendments to IFRSs (continued)

New and amendments to IFRSs and interpretation in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2020

Except as disclosed below, the directors of the Company anticipate that application of the new and amendments to IFRSs will have no material impact on the Group's future financial statements.

IFRS 16 Leases

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

2. Application of new and amendments to IFRSs (continued)

New and amendments to IFRSs and interpretation in issue but not yet effective (continued)

IFRS 16 Leases (continued)

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

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 recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

2. Application of new and amendments to IFRSs (continued)

New and amendments to IFRSs and interpretation in issue but not yet effective (continued)

IFRS 16 Leases (continued)

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

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB1,260,056,000 as disclosed in Note 46. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB41,609,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost. Adjustment to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

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

2. Application of new and amendments to IFRSs (continued)

New and amendments to IFRSs and interpretation in issue but not yet effective (continued)

IFRS 16 Leases (continued)

The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease", which already existed prior to the date of initial application. Therefore, the Group did not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The Group also used hindsight in determining the lease term if the contract contains options to extend or terminate the lease. In addition, the Group also elected the practical expedient not to apply for leases for which the lease term ends within 12 months at the date of initial application. Furthermore, the Group elected the modified retrospective approach for the application of IFRS 16 as lessee and recognised the cumulative effect of initial application to opening retained earnings without restating comparative information.

3. Significant accounting policies

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

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

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

3. Significant accounting policies (continued)

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. Significant accounting policies (continued)

Basis of consolidation

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

Basis of consolidation (continued)

Changes in the group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 before January 1, 2018 and IFRS 9 on or after January 1, 2018 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. Significant accounting policies (continued)

Business combination

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. Significant accounting policies (continued)

Business combination (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised other comprehensive income and measured under IFRS 9/IAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

3. Significant accounting policies (continued)

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been consolidated from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been consolidated at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

3. Significant accounting policies (continued)

Goodwill (continued)

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in associates and joint ventures

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.

3. Significant accounting policies (continued)

Investments in associates and joint ventures (continued)

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures 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 or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture 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 or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, 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 recognised 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 recognised immediately in profit or loss in the period in which the investment is acquired.

3. Significant accounting policies (continued)

Investments in associates and joint ventures (continued)

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture 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 Impairment of Assets 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 recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9/IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39 or IFRS 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

3. Significant accounting policies (continued)

Investments in associates and joint ventures (continued)

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue from contracts with customers

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3. Significant accounting policies (continued)

Revenue from contracts with customers (continued)

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

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

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

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

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

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

3. Significant accounting policies (continued)

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued for each period, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

3. Significant accounting policies (continued)

Principal versus agent (continued)

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Contract costs

The Group incurs costs to fulfill a contract in its business. The Group first assess whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

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

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

- the costs are expected to be recovered.

Costs to fulfill a contract of the Group mainly consists of cost of materials consumed (determined on a weighted average method), cost of labor and other costs of personnel directly engaged in providing the chemical discovery, development and manufacturing service, including supervisory personnel, and attributable overheads.

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

3. Significant accounting policies (continued)

Leases

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

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

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

Leasehold land and building

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

3. Significant accounting policies (continued)

Leases (continued)

Leasehold land and building (continued)

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

3. Significant accounting policies (continued)

Foreign currencies (continued)

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

3. Significant accounting policies (continued)

Government grants

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

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

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

Retirement benefit costs

The Group participates in two defined contribution schemes:

a) A state-managed retirement benefit scheme in the PRC, pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the scheme.

b) A defined contribution plan in the United States of America ("USA"), pursuant to which the Group makes a matching contribution of participants' elective deferral contribution of 100% of the first 1% and 50% for the next 5% of eligible participant contributions. The maximum match is 3.5% of eligible participant compensation.

Payments to such retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

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3. Significant accounting policies (continued)

Short-term employee benefits

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

3. Significant accounting policies (continued)

Taxation (continued)

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

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

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

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

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

3. Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Intangible assets

Intangible assets acquired separately

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

3. Significant accounting policies (continued)

Intangible assets (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

Internally-generated intangible assets — research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;

3. Significant accounting policies (continued)

Intangible assets (continued)

Internally-generated intangible assets — research and development expenditure (continued)

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

Impairment of tangible assets, intangible assets and contract costs other than goodwill (see the accounting policy in respect of goodwill above)

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

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

3. Significant accounting policies (continued)

Impairment of tangible assets, intangible assets and contract costs other than goodwill (see the accounting policy in respect of goodwill above) (continued)

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

3. Significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average method. Net realizable value represents the contracted selling price less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributed to the acquirer of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

Amortized cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Amortized cost and interest income (continued)

Interest income is recognised in profit or loss and is included in the "other income" line item.

Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains and losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial assets measured at amortized cost, exchange differences are recognised in profit or loss in the 'other gains and losses' line item (Note 8).

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS9 (including trade and other receivables, contract assets, amounts due from related parties, cash and cash equivalents and pledged bank deposits). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

The Group always recognises lifetime ECL for trade receivables, contract assets and amounts due from related parties of trade nature. The ECL on these financial assets are assessed collectively using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Significant increase in credit risk (continued)

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors;
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Measurement and recognition of ECL (continued)

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at amortized cost

Other financial liabilities including borrowings, trade and other payables and amounts due to related parties are subsequently measured at amortized cost, using the effective interest method.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognised in the "other gains and losses" line item in profit or loss (Note 8).

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Treasury shares

Own equity instruments which held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3. Significant accounting policies (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

3. Significant accounting policies (continued)

Derivative financial instruments (continued)

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulate under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the “other gains and losses” line item.

3. Significant accounting policies (continued)

Derivative financial instruments (continued)

Cash flow hedges (continued)

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Discontinuation of hedge accounting

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3. Significant accounting policies (continued)

Share-based payment transactions

Equity-settled share-based transactions

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

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

When the share options are exercised or when the restricted shares are vested, the Company issues new ordinary shares, and the amount previously recognised in the share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained earnings.

Cash-settled share-based payment transactions

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Judgements in determining the timing of satisfaction of performance obligations

The Group has different contractual arrangements with different customers. In determining the timing of satisfaction of perform obligations, the management review the contract term of each individual contract. The recognition of FFS revenue under IFRS 15 requires management to apply critical judgements in determining whether the timing of satisfaction of performance obligations is at a point in time or over time.

Satisfaction of Performance Obligations:

For certain types of revenue under FFS model, the directors of the Company have determined that performance obligations are satisfied over time. Significant judgement is required in determining whether the terms of the Group's contracts with customers in relation to certain type of revenue under FFS model create an enforceable right to payment for the Group. The Group has considered the relevant local laws that are applicable to those relevant contracts and opinion from external legal counsel.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical judgements in applying accounting policies (continued)

Judgements in determining the timing of satisfaction of performance obligations (continued)

Satisfaction of Performance Obligations: (continued)

Depending on which better depicts the transfer of value to the customer, the directors of the Company make judgement to measure the progress of the projects using either cost-to-cost (input method) or units produced/services transferred to the customer to date (output method).

For certain services under FFS method, the directors of the Company have assessed that the Group has a present right to payment from the customers for the services performed at a point in time upon finalization, delivery and acceptance of the deliverable units. Therefore, the directors of the Company have satisfied that the performance obligation of FFS is satisfied at a point in time and recognised FFS revenue at a point in time.

Key sources of estimation uncertainty

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The assumptions applied in determining the value in use of cash-generating units would require significant management estimates, including cash flow forecast, discount rate and long-term average growth rate. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill is RMB1,144,076,000 (31 December 2017: RMB958,038,000) (net of accumulated impairment loss of RMB99,641,000 (31 December 2017: RMB97,033,000)). Details of the recoverable amount calculation are disclosed in Note 19.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Impairment on property, plant and equipment and other intangible assets

The Group regularly reviews whether there are any indications of impairment and recognises an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The Group tests for impairment for property, plant and equipment whenever there is an indication that the asset may be impaired. The recoverable amounts have been determined based on the higher of the fair value less costs of disposal and value in use. The use of estimates are required in these calculations.

Fair value measurements of financial instruments

Certain of the Group's financial assets, unquoted equity instruments amounting to RMB1,138,353,000 as at December 31, 2018 are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. Further disclosures are detailed in Note 42.

Fair Value of share based compensation

The share based compensation expense is measured based on the fair value of the share rewards as calculated under the Black-Scholes or binomial option pricing model. Management is responsible for determining the fair value of the share options or restricted shares granted to employees. The key assumptions used to determine the fair value of the share unit awards at the grant date and the re-measure dates include share price on measurement date, expected volatility and risk-free interest rate. Changes in these assumptions could significantly affect the fair value of share awards and hence the amount of compensation expenses the Group recognise in our consolidated financial statements.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Useful lives and residual values of other intangible assets

The Group's management determines the useful lives, residual values and related amortisation charges for its other intangible assets. This estimate is based on the historical experience of the actual useful lives of other intangible assets of similar nature and functions and may vary significantly as a result of technical innovations and keen competitions from competitors, resulting in higher amortisation charge and/or write-off or write-down of technically obsolete assets when useful lives are less than previously estimated. The Group will increase the amortisation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Deferred tax assets

As at 31 December 2018, a deferred tax asset of RMB26,301,000 (31 December 2017: RMB27,263,000) in relation to unused tax losses for certain operating subsidiaries has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB254,851,000 for non-operating subsidiaries or certain loss making companies due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Provision of ECL for trade receivables and contract assets

The Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in Note 30.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Inventories and contract costs

The Group assesses periodically if cost of inventories and contract cost may not be recoverable based on an assessment of the net realizable value of inventories and contract cost. Allowances are applied to inventories and contract cost where events or changes in circumstances indicate that the net realizable value is lower than the cost of inventories or contract cost. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories and in the case of contract cost, the net realizable value has been determined based on the contracted selling price to be recognised upon the completion of the contract cost less all estimated remaining costs to completion and costs necessary to provide the service. Where the expectation is different from the original estimate, such difference will impact the carrying value of the inventories and contract cost in the year in which such estimate changes.

As at December 31, 2018, the carrying amounts of inventories were approximately RMB854,761,000 (December 31, 2017: RMB649,815,000), net of write down of inventories of approximately RMB11,703,000 (December 31, 2017: RMB11,002,000).

As at December 31, 2018, the carrying amounts of contract costs were approximately RMB97,712,000 (December 31, 2017: RMB77,123,000).

5. Revenue

The Group's revenue streams are categorized as follows:

China-based laboratory services	Services include small molecules discovery, such as synthetic chemistry, medicinal chemistry, analytical chemistry, biology, drug metabolism and pharmacokinetics ("DMPK")/ absorption, distribution, metabolism, and excretion ("ADME"), toxicology and bioanalytical services.
U.S.-based laboratory services	Services include expert solution for medical devices safety testing services and comprehensive manufacturing and testing for cell and gene therapies.
Clinical research and other CRO services	Clinical research services includes clinical development services and site management organization (SMO) services. Clinical development services include project planning, clinical operation and monitoring and managements of phase I-IV clinical trials, outcomes research and medical device trials; embedded outsourcing; and clinical informatics, respectively. SMO services include project management and clinical site management services.
CMO/CDMO services	CMO/CDMO services stands as an integrated platform to support the development of manufacturing processes and the production of advanced intermediates and active pharmaceutical ingredients and formulation development and dosage drug product manufacturing, for preclinical, clinical trials, new drug application, and commercial supply of chemical drugs as well as wide spectrum development from early to late stage.
Others	Others mainly include the administrative service income, sales of raw material and sales of scrap materials.

Disaggregation of revenue

The Group derives its revenue from the transfer of goods and services over time or at a point in time in the following major service lines. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 below.

5. Revenue (continued)

Disaggregation of revenue (continued)

An analysis of the Group's revenue is as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue		
— China-based laboratory services	**5,113,405**	4,120,576
— U.S.-based laboratory services	**1,204,153**	1,134,881
— Clinical research and other CRO services	**584,630**	356,109
— CMO/CDMO services	**2,698,885**	2,108,554
— Others	**12,611**	45,140
	9,613,684	7,765,260

Timing of revenue recognition

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Over time		
— China-based laboratory services	**4,358,565**	3,519,997
— U.S.-based laboratory services	**1,204,153**	1,134,881
— Clinical research and other CRO services	**584,630**	356,109
— CMO/CDMO services	**292,353**	190,545
— Others	**12,440**	18,843
At a point in time		
— China-based laboratory services	**754,840**	600,579
— CMO/CDMO services	**2,406,532**	1,918,009
— Others	**171**	26,297

5. Revenue (continued)

Timing of revenue recognition (continued)

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) are RMB7,779 million as at December 31, 2018 (December 31, 2017: RMB7,596 million). The expected amount of revenue recognized in 2019 is RMB6,361 million. The management of the Group expects the majority of the transaction price allocated to the unsatisfied contracts as of each reporting date during the reporting period will be recognised as revenue within two years from the reporting date.

6. Segment information

Operating segments are determined based on the Group's internal reports which are submitted to Chief Executive Officer, being the chief operating decision maker ("CODM") of the Group for the purpose of performance assessment and resources allocation. This is also the basis upon which the Group is organized and managed. As a result of this evaluation, the Group determined that it has five operating segments as follows:

— China-based laboratory services

— U.S.-based laboratory services

— Clinical research and other CRO services

— CMO/CDMO services

— Others

6. Segment information (continued)

Segment revenue and results

The following is an analysis of the Group's revenue by reportable segments.

	Year ended December 31, 2018					
	China-based laboratory services RMB'000	U.S.-based laboratory services RMB'000	Clinical research and other CRO services RMB'000	CMO/ CDMO services RMB'000	Others RMB'000	Total RMB'000
Segment revenue	5,113,405	1,204,153	584,630	2,698,885	12,611	9,613,684
Segment results	2,201,791	289,263	168,408	1,113,994	3,463	3,776,919
Unallocated amount:						
Other income						156,417
Other gains and losses						600,588
Impairment losses under ECL model						(10,521)
Selling and marketing expenses						(337,878)
Administrative expenses						(1,152,592)
Research and development expenses						(436,533)
Share of profits of associates						104,601
Share of losses of joint ventures						(27,770)
Finance costs						(92,407)
Profit before tax						2,580,824

6. Segment information (continued)

Segment revenue and results (continued)

	Year ended December 31, 2017					
	China-based laboratory services RMB'000	U.S.-based laboratory services RMB'000	Clinical research and other CRO services RMB'000	CMO/ CDMO services RMB'000	Others RMB'000	Total RMB'000
Segment revenue	4,120,576	1,134,881	356,109	2,108,554	45,140	7,765,260
Segment results	1,842,201	361,897	102,489	918,454	14,879	3,239,920
Unallocated amount:						
Other income						254,992
Other gains and losses						(81,213)
Other impairment losses, net of reversal						(140,194)
Selling and marketing expenses						(291,510)
Administrative expenses						(986,540)
Research and development expenses						(305,648)
Share of losses of associates						(21,589)
Share of losses of joint ventures						(27,051)
Finance costs						(48,547)
Profit before tax						1,592,620

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. The CODM makes decisions according to operating results of each segment. No analysis of segment asset and liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

6. Segment information (continued)

Entity-wide disclosure

Geographical information

An analysis of the Group's revenue from external customers, analyzed by their respective country/region of domicile, is detailed below:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue		
— PRC	2,444,621	1,571,998
— Asia-others	282,356	220,838
— USA	5,246,260	4,437,550
— Europe	1,514,284	1,419,578
— Rest of the world	126,163	115,296
	9,613,684	7,765,260

No revenue amounting to 10% or more of the Group's total revenue was derived from sales to a single customer for the years ended December 31, 2018 and 2017.

Information about the Group's non-current assets by geographical location of the assets is presented below:

	31/12/2018 RMB'000	31/12/2017 RMB'000
— PRC	6,295,753	4,638,148
— Rest of the world	2,229,125	1,431,965
	8,524,878	6,070,113

Non-current assets excluding deferred tax assets, available-for-sale investments, financial assets at FVTPL and deposits for acquisition.

7. Other income

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Interest income from financial institutions	12,195	24,393
Government grants and subsidies related to		
— assets (i)	34,891	32,292
— income (ii)	79,726	197,977
Dividend income arising from		
— AFS investments	—	330
— financial assets at FVTPL	29,605	—
	156,417	254,992

Notes:

(i) The Group has received certain government grants and subsidies to invest in laboratory equipment. The grants and subsidies were recognised in profit or loss over the useful lives of the relevant assets. Details of the grants and subsidies are set out in Note 38.

(ii) The government grants and subsidies related to income have been received to compensate for the Group's research and development expenditures. Some of the grants related to income have future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognised in profit or loss when related costs are subsequently incurred and the Group receives government acknowledge of compliance. Other government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

For the year ended December 31, 2018

8. Other gains and losses

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Net foreign exchange gain (loss)	31,002	(138,887)
Gain on disposal of AFS investments	—	32,093
Loss on disposal of plant and equipment	(10,382)	(8,565)
Gain (loss) on disposal of other intangible assets	9	(9,158)
Fair value gain on financial assets at FVTPL	694,882	40,181
Loss on derivative financial instruments (unrealized)	(13,195)	—
Loss on derivative financial instruments (realized)	(102,049)	—
Others	321	3,123
	600,588	(81,213)

9.1 Impairment losses under ECL model

	Year ended 31/12/2018 RMB'000
Impairment losses under ECL model on	
— trade receivables	9,747
— contract assets	6,481
— other receivables	—
— amounts due from related parties	(5,707)
	10,521

9.2 Other impairment losses, net of reversal

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Impairment losses, net of reversal, on		
— trade receivables (i)	—	8,153
— other receivables (i)	—	20
— amounts due from related parties (i)	—	5,707
— intangible assets	—	81,077
— goodwill	—	45,237
	—	140,194

Note:

(i) On January 1, 2018, the Group adopted IFRS 9. Therefore the impairment losses on financial assets and other items subject to IFRS 9 were subsequently measured under ECL model which are disclosed in Note 9.1.

10. Finance costs

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Interest expense on borrowings	81,119	40,587
Interest expense on loans from related parties	—	2,119
Imputed interest expense on payable for acquisition of a property	11,288	5,841
	92,407	48,547

11. Income tax expense

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Current tax:		
— PRC	**284,623**	265,252
— Hong Kong	**1,247**	19,459
— USA	**1,072**	12,332
— Rest of world	**1,321**	12,355
	288,263	309,398
(Over) under provision in respect of prior years:		
— PRC	**(18,853)**	382
— Hong Kong	**20**	2,046
— USA	**(28,659)**	(706)
	(47,492)	1,722
Deferred tax:		
— Current year	**6,372**	(15,220)
	247,143	295,900

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 gazette on the following day.

Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The two-tiered profits tax rates regime is applicable to the Group's Hong Kong subsidiaries with estimated assessable profits for its years of assessment beginning on or after April 1, 2018.

The group entities incorporated in USA are subject to the federal corporate tax rate at 35% and state income tax rate at a range from 4% to 10 % for the year ended December 31, 2017. On December 22, 2017, the 2017 Tax Cuts and Jobs Act was enacted, which reduces the federal corporate tax rate to 21% from 35% and is effective on January 1, 2018. The state income tax rate remains at a range from 4% to 10 % for the year ended December 31, 2018.

11. Income tax expense (continued)

The Company and other group entities incorporated in Cayman Islands are not subject to income or capital gains tax under the law of Cayman Islands. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

The group entities established in British Virgin Islands ("BVI") are not subject to income tax or capital gains tax under the law of BVI.

The group entities incorporated in Korea, Netherlands, Germany and United Kingdom are subject to the tax rate at 24%, 25%, 27.64% and 19%, respectively during the reporting period.

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% during the reporting period unless subject to tax concession set out below.

Certain subsidiaries operating in the PRC were accredited as "High and New Technology Enterprise" or "Advanced Technology Enterprise" for a period of three or four years, and therefore are entitled to a preferential EIT rate of 15% for the reporting period. The qualification as a High and New Technology Enterprise will be subjected to review by the relevant tax authority in the PRC for every three years. According to the Notice 2018 No.76 of the Ministry of Finance, from January 1, 2018, the enterprises that have the qualifications as High and New Technology Enterprise or Advanced Technology Enterprise (hereinafter collectively referred to as qualifications) will be able to make up for the losses that have not been completed in the previous five years before the qualification year. The longest carry-over period is extended from 5 years to 10 years.

11. Income tax expense (continued)

The tax charge for the reporting period can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Profit before tax	**2,580,824**	1,592,620
Tax at the applicable tax rate of 25%	**645,206**	398,155
Tax effect of expenses not deductible for tax purpose	**22,931**	76,308
Tax effect of income that is exempt from taxation	**(45,966)**	(9,056)
(Over) under provision in respect of prior years	**(47,492)**	1,722
Effect of unused tax losses and other deductible temporary differences not recognised as deferred tax assets	**24,333**	18,125
Utilization of tax losses and other deductible temporary differences previously not recognised as deferred tax assets	**(16,688)**	(17,597)
Effect on opening deferred tax assets or liabilities resulting from change in applicable tax rate	**(734)**	3,528
Effect of different tax rate of subsidiaries operating in other jurisdictions and tax concession	**(327,169)**	(183,603)
Others	**(7,278)**	8,318
Income tax expense	**247,143**	295,900

12. Profit for the year

Profit for the year has been arrived at after charging:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Depreciation for property, plant and equipment	601,441	439,896
Amortization of other intangible assets	39,692	34,384
Amortization of prepaid lease payments	4,052	3,400
Staff cost (including directors' emoluments):		
— Salaries and other benefits	2,569,159	1,920,725
— Retirement benefit scheme contributions	309,506	233,627
— Equity-settled share-based payments	43,992	41,733
— Cash-settled share-based payments	7,015	10,593
Less: capitalised in inventories and contract costs	(357,925)	(242,826)
	3,216,932	2,441,532
Auditor's remuneration	7,468	1,590
Minimum operating lease payment in respect of rented premises	226,753	182,663

13. Directors', chief executive's and employees' emoluments

Details of the emoluments paid or payable to the directors and the Chief Executive of the Company for the service provided to the Group during the reporting period are as follows:

	Fees RMB'000	Salaries RMB'000	Performance related bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Share-based compensation RMB'000	Total RMB'000
For the year ended December 31, 2018						
Chief Executive and executive directors						
Dr. Ge LI	—	7,711	9,869	66	—	17,646
Mr. Edward HU (i)	—	3,253	1,199	66	319	4,837
Executive directors						
Mr. Xiaozhong LIU	—	2,201	1,166	96	—	3,463
Mr. Zhaohui ZHANG	—	1,981	840	96	—	2,917
Dr. Ning ZHAO	—	1,610	546	—	—	2,156
Non-executive directors						
Mr. Xiaomeng TONG	—	—	—	—	—	—
Dr. Yibing WU	—	—	—	—	—	—
Independent non-executive directors						
Dr. Jiangnan CAI	200	—	—	—	—	200
Dr. Hetong LOU	200	—	—	—	—	200
Mr. Xiaotong ZHANG	200	—	—	—	—	200
Ms. Yan LIU	200	—	—	—	—	200
Mr. Dai FENG (ii)	10	—	—	—	—	10
Total	810	16,756	13,620	324	319	31,829

13. Directors', chief executive's and employees' emoluments (continued)

	Fees RMB'000	Salaries RMB'000	Performance related bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
For the year ended December 31, 2017					
Chief Executive and executive director					
Dr. Ge LI	—	7,242	9,869	57	17,168
Executive directors					
Mr. Edward HU	—	2,307	1,155	57	3,519
Mr. Xiaozhong LIU	—	1,983	1,100	84	3,167
Mr. Zhaohui ZHANG	—	1,785	792	84	2,661
Dr. Ning ZHAO	—	1,343	644	—	1,987
Non-executive directors					
Mr. Xiaomeng TONG	—	—	—	—	—
Dr. Yibing WU	—	—	—	—	—
Independent non-executive directors					
Dr. Jiangnan CAI	200	—	—	—	200
Dr. Hetong LOU	200	—	—	—	200
Mr. Xiaotong ZHANG	200	—	—	—	200
Ms. Yan LIU	200	—	—	—	200
Total	800	14,660	13,560	282	29,302

Notes:

(i) Mr. Edward HU was appointed as Co-CEO of the Company on August 22, 2018.

(ii) Mr. Dai FENG was appointed as a director of the Company on December 13, 2018.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as the directors of the Company.

13. Directors', chief executive's and employees' emoluments (continued)

Five highest paid individuals' emoluments

The five individuals with the highest emoluments in the Group for the years ended December 31, 2018 include two directors (2017: three directors) disclosed above, details of whose remuneration are set out as above. The emoluments of the remaining three highest paid individuals for the years ended December 31, 2018 (2017: two) were as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Salaries and other benefits	10,035	4,716
Performance-based bonus	4,324	2,690
Share-based compensation	559	—
Total	14,918	7,406

The emoluments of the five highest paid individuals were within the following bands:

	Number of individuals	
	Year ended 31/12/2018	Year ended 31/12/2017
HK$3,500,001 to HK$4,000,000	—	1
HK$4,000,001 to HK$4,500,000	—	3
HK$4,500,001 to HK$5,000,000	1	—
HK$5,500,001 to HK$6,000,000	2	—
HK$7,000,001 to HK$7,500,000	1	—
HK$19,500,001 to HK$20,000,000	—	1
HK$20,500,001 to HK$21,000,000	1	—
HK$31,000,001 to HK$31,500,000	—	—
Total	5	5

During the year, restricted A shares were granted to an executive director in respect of his services to the Group, further details of which are included in the disclosures in Note 44 to the financial statements. The fair value of these restricted A shares, which has been recognised in the consolidated statement of profit or loss over the lock-up period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above executive director's remuneration disclosures.

14. Earnings per share

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

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Earnings:		
Earnings for the purpose of calculating basic earnings per share	**2,260,523**	1,227,093
Effect of share options issued by a subsidiary	**(15,444)**	(9,539)
Earnings for the purpose of calculating diluted earnings per share	**2,245,079**	1,217,554
Number of Shares ('000):		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,013,506**	937,787
Effect of restricted shares issued by the Company	**85**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,013,591**	937,787

The earnings for the purpose of calculating diluted earnings per share has been adjusted on the effect of share options issued by a subsidiary.

The computation of diluted earnings per share for the year ended December 31, 2018 is based on weighted average number of shares assumed to be in issue after taking into account the effect of restricted shares issued by the Company.

The computation of diluted earnings per share in current year does not assume the exercise of the Company's over-allotment options granted pursuant to the listing of the Company's shares in the Hong Kong Stock Exchange as the exercise price of the options was higher than the average market price for the shares during the outstanding period.

15. Dividends

During the reporting period, a subsidiary of the Company, declared and paid cash dividends to non-controlling shareholders as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Dividends declared and paid by the Company's subsidiaries to non-controlling shareholders	**19,205**	18,834

No dividend was paid or declared by the Company during the year ended December 31, 2018 (2017: nil).

Subsequent to the end of the reporting period, the Board proposes the 2018 Profit Distribution Plan as follows: (1) a dividend in an aggregate amount of RMB678,636,125.88 (inclusive of tax) to be paid to Shareholders of the Company on the record date for determining the Shareholders' entitlement to the 2018 Profit Distribution Plan (which amounts to a dividend of RMB5.80 (inclusive of tax) for every 10 Shares of the Company based on the total issued Shares of the Company as of the date of this annual report), and (2) 4 new Shares for every 10 existing Shares of the Company to be issued out of reserve to all Shareholders. The 2018 Profit Distribution Plan is subject to, amongst others, approval by Shareholders of the Company at the forthcoming AGM and application be made to and approved by the Hong Kong Stock Exchange for the listing of and permission to deal in the new H Shares (in respect of the capitalization issue).

16. Property, plant and equipment

	Building RMB'000	Machinery RMB'000	Furniture, fixtures and equipment RMB'000	Transportation equipment RMB'000	Others RMB'000	Leasehold improvement RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
COST								
At January 1, 2017	1,232,239	866,757	1,562,431	20,083	3,007	435,043	712,220	4,831,780
Additions	246,861	41,042	98,539	1,097	1,891	22,823	1,307,347	1,719,600
Transfers from CIP	305,996	75,970	397,815	569	1,342	388,055	(1,169,747)	—
Transfer to intangible assets	—	—	—	—	—	—	(7,825)	(7,825)
Acquisition of a subsidiary	—	39,867	378	785	—	13,253	1,670	55,953
Other additions	50,817	—	—	—	—	—	—	50,817
Other decreases	—	—	—	—	—	(50,817)	—	(50,817)
Disposals	—	(43,169)	(47,339)	(638)	(2,723)	—	—	(93,869)
Effect of foreign currency exchange difference	(29)	(21,812)	(797)	—	(45)	—	—	(22,683)
At December 31, 2017	1,835,884	958,655	2,011,027	21,896	3,472	808,357	843,665	6,482,956
Additions	**85**	**189,355**	**53,716**	**352**	**859**	**148,410**	**2,007,722**	**2,400,499**
Transfers from CIP	**150,735**	**358,609**	**408,456**	**1,215**	**3,949**	**389,117**	**(1,312,081)**	**—**
Transfer to intangible assets	**—**	**—**	**—**	**—**	**—**	**—**	**(12,323)**	**(12,323)**
Acquisition of a subsidiary	**—**	**—**	**2,234**	**—**	**—**	**—**	**—**	**2,234**
Disposals	**(30,034)**	**(56,219)**	**(42,439)**	**(2,582)**	**(4,100)**	**(978)**	**—**	**(136,352)**
Effect of foreign currency exchange difference	**29**	**18,547**	**1,164**	**—**	**53**	**30,039**	**—**	**49,832**
At December 31, 2018	**1,956,699**	**1,468,947**	**2,434,158**	**20,881**	**4,233**	**1,374,945**	**1,526,983**	**8,786,846**
DEPRECIATION								
At January 1, 2017	485,525	468,170	746,202	12,410	1,168	167,903	—	1,881,378
Provided for the year	98,974	89,291	173,329	2,127	1,278	74,897	—	439,896
Other additions	12,688	—	—	—	—	—	—	12,688
Other decreases	—	—	—	—	—	(12,688)	—	(12,688)
Eliminated on disposals	—	(39,508)	(39,388)	(573)	(771)	—	—	(80,240)
Effect of foreign currency exchange difference	(28)	(12,943)	(547)	—	(28)	—	—	(13,546)
At December 31, 2017	597,159	505,010	879,596	13,964	1,647	230,112	—	2,227,488
Provided for the year	**96,599**	**191,062**	**209,097**	**2,732**	**1,169**	**100,782**	**—**	**601,441**
Eliminated on disposals	**(29,975)**	**(48,438)**	**(33,448)**	**(2,563)**	**(1,239)**	**(277)**	**—**	**(115,940)**
Effect of foreign currency exchange difference	**23**	**10,776**	**545**	**—**	**25**	**4,877**	**—**	**16,246**
At December 31, 2018	**663,806**	**658,410**	**1,055,790**	**14,133**	**1,602**	**335,494**	**—**	**2,729,235**
Carrying Value								
At December 31, 2017	1,238,725	453,645	1,131,431	7,932	1,825	578,245	843,665	4,255,468
At December 31, 2018	**1,292,893**	**810,537**	**1,378,368**	**6,748**	**2,631**	**1,039,451**	**1,526,983**	**6,057,611**

16. Property, plant and equipment (continued)

The above items of plant and equipment except for construction in progress are depreciated on a straight-line basis after taking into account of the residual value as follows:

	Depreciation rate
Building	4.5%–20% per annum
Machinery	9%–20% per annum
Furniture, fixtures and equipment	14.29%–20% per annum
Transportation equipment	9%–20% per annum
Others	40% per annum
Leasehold improvement	over the shorter of the lease term or five years

17. Goodwill

	31/12/2018 RMB'000	31/12/2017 RMB'000
COST		
At the beginning of year	**1,055,071**	381,338
Effect of foreign currency exchange difference	**13,207**	(14,989)
Acquisition of a subsidiary (Note 43)	**175,439**	688,722
At the end of year	**1,243,717**	1,055,071
IMPAIRMENT		
At the beginning of year	**97,033**	55,052
Effect of foreign currency exchange difference	**2,608**	(3,256)
Impairment loss recognised during the year	**—**	45,237
At the end of year	**99,641**	97,033
CARRYING VALUES		
At the end of year	**1,144,076**	958,038

Particulars regarding impairment assessment on goodwill are disclosed in Note 19.

18. Other intangible assets

	Trademark RMB'000	Software RMB'000	Customer relationship RMB'000	Patent RMB'000	Total RMB'000
COST					
At January 1, 2017	29,729	132,403	126,556	—	288,688
Additions	—	10,502	—	—	10,502
Acquisition of a subsidiary	—	—	176,000	61,000	237,000
Transfer from CIP	—	7,825	—	—	7,825
Disposals	—	(17,705)	—	—	(17,705)
Effect of foreign currency exchange difference	(1,746)	(1,911)	(12,360)	—	(16,017)
At December 31, 2017	27,983	131,114	290,196	61,000	510,293
AMORTIZATION					
At January 1, 2017	4,375	63,623	28,897	—	96,895
Charge for the year	897	17,303	11,499	4,685	34,384
Eliminated on disposals	—	(7,947)	—	—	(7,947)
Effect of foreign currency exchange difference	(449)	(593)	(1,406)	—	(2,448)
At December 31, 2017	4,823	72,386	38,990	4,685	120,884
IMPAIRMENT					
At January 1, 2017	12,561	—	—	—	12,561
Provided for the year	5,969	—	75,108	—	81,077
Effect of foreign currency exchange difference	(743)	—	—	—	(743)
At December 31, 2017	17,787	—	75,108	—	92,895

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18. Other intangible assets (continued)

	Trademark RMB'000	Software and others RMB'000	Customer relationship RMB'000	Patent RMB'000	Total RMB'000
COST					
At January 1, 2018	27,983	131,114	290,196	61,000	510,293
Additions	—	14,772	—	—	14,772
Acquisition of a subsidiary	8,452	6,757	46,829	—	62,038
Transfer from CIP	—	12,323	—	—	12,323
Disposals	—	(918)	—	—	(918)
Effect of foreign currency exchange difference	1,207	1,904	6,051	—	9,162
At December 31, 2018	37,642	165,952	343,076	61,000	607,670
AMORTIZATION					
At January 1, 2018	4,823	72,386	38,990	4,685	120,884
Charge for the year	1,015	18,262	13,388	7,027	39,692
Eliminated on disposals	—	(786)	—	—	(786)
Effect of foreign currency exchange difference	164	592	1,602	—	2,358
At December 31, 2018	6,002	90,454	53,980	11,712	162,148
IMPAIRMENT					
At January 1, 2018	17,787	—	75,108	—	92,895
Effect of foreign currency exchange difference	896	—	3,782	—	4,678
At December 31, 2018	18,683	—	78,890	—	97,573
CARRYING VALUES					
At December 31, 2018	12,957	75,498	210,206	49,288	347,949
At December 31, 2017	5,373	58,728	176,098	56,315	296,514

18. Other intangible assets (continued)

The above intangible assets have finite useful lives. Such intangible assets are amortized on a straight-line basis over the following periods:

Items	Periods
Trademark	7–20 years
Software and others	2–5 years
Customer relationship	10–15 years
Patent	10 years

19. Impairment assessment on goodwill

The cash flows generated from each subsidiary acquired are independent from those of the other subsidiaries of the Group. Therefore, each of these acquired subsidiaries is a separate cash-generating unit. Management of the Group considered that the synergies arising from each acquisition mainly benefited the corresponding acquired subsidiary.

Therefore, for the purposes of impairment assessment, goodwill set out in Note 17 has been allocated to corresponding subsidiaries acquired (six individual cash generating units (CGUs)), comprising Unit A — DMPK/ADME Services (XenoBiotic Laboratories, Inc), Unit B — SMO Services (Shanghai MedKey Med-Tech Development Co., Ltd), Unit C — Testing Services for Medical Devices (WuXi AppTec, Inc), Unit D — Structure-based Drug Discovery Services (Crelux GmbH) ,Unit E — Biology and Preclinical Services (HD Biosciences Co., Ltd.) and Unit F — Clinical research services (Wuxi Clinic Development, Inc). The carrying amounts of goodwill allocated to these units are as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Unit A	**81,757**	81,757
Unit B	**932**	932
Unit C	**164,413**	156,531
Unit D	**31,611**	30,096
Unit E	**688,722**	688,722
Unit F	**176,641**	—
	1,144,076	958,038

19. Impairment assessment on goodwill (continued)

The Group has recognised impairment loss of RMB45,237,000 in relation to goodwill in Unit A for the year ended December 31, 2017 as the carrying amount of this CGU was higher than their recoverable amounts. No impairment loss in relation to goodwill is recognised for the year ended December 31, 2018 as the recoverable amounts of all CGUs were higher than their carrying amounts.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarized below:

	Unit A	Unit B	Unit C	Unit D	Unit E	Unit F
Growth rate	3%	3%	3%	3%	3%	3%
Discount rate	17%	19%	16%	15%	16%	17%

The recoverable amounts of these units have been determined based on a value in use ("VIU") calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

The management of the Group assessed that any reasonably possible change in any of these assumptions would not cause the carrying amounts of Unit A, B, C, D, E and F to exceed their respective recoverable amounts as at December 31, 2018.

20. Prepaid lease payments

	31/12/2018 RMB'000	31/12/2017 RMB'000
Analyzed for reporting purposes as:		
Current assets	**6,237**	3,400
Non-current assets	**272,306**	126,138
	278,543	129,538

21. Interests in associates

	31/12/2018 RMB'000	31/12/2017 RMB'000
At the beginning of the year	**251,084**	218,072
Addition (Note i & Note ii)	**493,066**	53,922
Disposal and transfer (Note iii)	**(262,753)**	—
Share of post-acquisition gains (losses)	**104,601**	(21,589)
Share of post-acquisition other comprehensive income	**—**	13,634
Exchange effect	**32,738**	(12,955)
At the end of the year	**618,736**	251,084

Notes:

(i) In February 2016, the Group entered into a transfer agreement with WuXi PharmaTech, pursuant to which, WuXi PharmaTech transferred its limited partnership interest in WuXi Healthcare Ventures II L.P. ("Fund II") to the Group at a consideration of USD24,000,000 (equivalent to RMB166,680,000). Fund II is a Cayman Islands Exempted Limited Partnership. The primary purpose of Fund II is to make capital investments, primarily in privately-owned life sciences companies.

According to the limited partnership agreement, the capital contribution by the Group was made in installments. The Group injected USD10,000,000 (equivalent to RMB64,130,000) to the Fund II during the year ended December 31, 2018 (2017: RMB32,048,000).

(ii) In January 2018, the Group acquired 20% equity interest in Clarity Medical Group Limited at a cash consideration of USD10,000,000 (equivalent to RMB63,294,000). Clarity Medical Group Limited is a limited liability company incorporated under the laws of the Cayman Islands.

(iii) In August 2018, the Group subscribed 36.62% limited partner interests of 鷹潭市信銀英利投資有限合夥企業 Yingtanshi Xinyinyingli Investment Limited Partnership ("Xinyinyingli") at a cash consideration of RMB262,753,000. Xinyinyingli is a limited partnership incorporated under the law of the PRC and is formed to indirectly invest in a private healthcare services group incorporated in the PRC ("PRC Investee") through a holding vehicle controlled by Xinyinyingli. The Group's investment in Xinyinyingli was accounted for under the equity method because the Group had significant influence over Xinyinyingli by way of representation in the investment committee of the partnership and participation in the financial and operating policy decisions of Xinyinyingli.

In November 2018, to accommodate the needs of red-chip reorganization of the PRC Investee, the holding vehicle entered into a series of share swap arrangements with PRC Investee to exchange the Group's indirect interests in the PRC Investee for the Group's direct interests in the healthcare services group's offshore entity incorporated in the Cayman Islands ("Cayman Investee"). As the Group had no significant influence over the Cayman Investee, the investment was reclassified from interests in associates to financial assets at FVTPL as at December 31, 2018.

21. Interests in associates (continued)

Details of each of the Group's associates at the end of the reporting period are as follow:

Name of entity	Country of incorporation/ registration	Proportion of ownership interest held by the Group December 31, 2018	Proportion of ownership interest held by the Group December 31, 2017	Proportion of voting rights held by the Group December 31, 2018	Proportion of voting rights held by the Group December 31, 2017	Principal activity
Jing Medicine Technology (Shanghai), Ltd	PRC	**33.33%**	33.33%	**33.33%**	33.33%	Consulting services in pharmaceutical science and technology
PhageLux Inc.	Cayman	**29.78%**	35.72%	**29.78%**	35.72%	Research on new antibacterial agents
Fund II (Note i)	Cayman	**17.31%**	17.31%	**17.31%**	17.31%	Investment platform
PICA Health Technologies Limited	Cayman	**35.80%**	29.69%	**35.80%**	29.69%	Investment holding company
JW Cayman	Cayman	**29.42%**	50%	**29.42%**	50%	CAR-T cell therapy R&D
Clarity Medical Group Limited	Cayman	**20%**	—	**20%**	—	Professional ophthalmic services

Note i: The Group is able to exercise significant influence over Fund II because two of five general partners of Fund II are appointed by the Group who manage the funds' day to day investment and disposition activities on behalf of the fund under the Article of Association of Fund II.

No additional disclosure of financial information of associates as there is no individually material associate.

22. Interests in joint ventures

	31/12/2018 RMB'000	31/12/2017 RMB'000
At the beginning of the year	**131,997**	13,558
Addition	**44,828**	150,190
Transferred to subsidiary (Note 43)	**(117,572)**	—
Share of post-acquisition losses	**(27,770)**	(27,051)
Exchange effect	**5,339**	(4,700)
At the end of the year	**36,822**	131,997

These interests in joint ventures are assessed for impairment loss at the end of each reporting period. No impairment loss was recognised during the reporting period for these interests in joint ventures as their present value of the estimated future cash flows discounted at the current market rate of return for similar assets exceed their carrying values.

22. Interests in joint ventures (continued)

Details of each of the Group's joint ventures at the end of the reporting period are as follows:

Name of entity	Country of incorporation/ registration	Proportion of ownership interest held by the Group December 31, 2018	Proportion of ownership interest held by the Group December 31, 2017	Proportion of voting rights held by the Group December 31, 2018	Proportion of voting rights held by the Group December 31, 2017	Principal activity
JW Therapeutics (Shanghai) Co, Ltd. (Note i)	PRC	**N/A**	50%	**N/A**	50%	CAR-T cell therapy R&D
Wuxi Clinical Development, Inc. (formerly known as Cycle Solutions, Inc.) (Note 43)	USA	**100%**	50%	**100%**	50%	Render of clinical development services
WuXi MedImmune Biopharmaceutical Co. Limited	Hong Kong	**50%**	50%	**50%**	50%	Investment holding company
Shanghai Waigaoqiao WuXi AppTec Incubator Management Co., Ltd.	PRC	**70%**	70%	**50%**	50%	Property leasing
JW Cayman	Cayman	**N/A**	50%	**N/A**	50%	Investment Holding company
CW Data Technologies (Chengdu) Limited	PRC	**47.06%**	N/A	**50%**	N/A	Data analysis
Faxian Therapeutics, LLC	USA	**50%**	N/A	**50%**	N/A	Accelerated Drug Discovery

Note i: After a series of restructuring accomplished in April 2018, JW Therapeutics (Shanghai) Co, Ltd ("JW Shanghai") became a subsidiary of JW Cayman and no longer a joint venture of the Group.

No additional disclosure of financial information of joint ventures as there is no individually material joint venture.

23. Deferred taxation

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is a summary of the deferred tax balances for financial reporting purposes:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Deferred tax assets	**250,175**	244,158
Deferred tax liabilities	**(111,747)**	(103,281)
	138,428	140,877

23. Deferred taxation (continued)

	Deferred tax assets									Deferred tax liabilities			
	Tax losses RMB'000	Impairment allowance RMB'000	Share-based payment RMB'000	Accrued expenses RMB'000	Deferred income RMB'000	Deferred rent RMB'000	Depreciation difference RMB'000	Derivative financial instruments RMB'000	Others RMB'000	Intangible assets arising from acquisition of subsidiaries RMB'000	Depreciation difference RMB'000	Others RMB'000	Total RMB'000
At January 1, 2017	11,117	6,598	25,324	12,958	23,129	6,877	—	—	17,533	(33,822)	(87,180)	(247)	(17,713)
Credit (charge) to profit or loss	17,217	(1,037)	(16,292)	4,703	961	750	—	—	(6,027)	30,914	(15,925)	(44)	15,220
Effect of intragroup transaction	—	—	—	—	—	—	173,531	—	—	—	—	—	173,531
Acquisitions of subsidiaries	—	440	1,912	681	—	—	—	—	—	(35,550)	—	—	(32,517)
Exchange differences	(1,071)	(144)	(868)	(642)	—	(389)	—	—	(705)	1,434	4,726	15	2,356
At December 31, 2017	27,263	5,857	10,076	17,700	24,090	7,238	173,531	—	10,801	(37,024)	(98,379)	(276)	140,877
Credit (charge) to profit or loss	**(1,374)**	**1,307**	**2,948**	**(5,844)**	**3,519**	**(226)**	**(13,719)**	**(53)**	**(5,324)**	**3,233**	**8,674**	**46**	**(6,813)**
Credit to OCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**15,266**	**—**	**—**	**—**	**—**	**15,266**
Acquisitions of a subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(16,748)**	**—**	**—**	**(16,748)**
Effect of intragroup transaction	**—**	**—**	**—**	**—**	**—**	**—**	**13,159**	**—**	**—**	**—**	**—**	**—**	**13,159**
Exchange differences	**412**	**95**	**507**	**291**	**—**	**294**	**—**	**207**	**2,897**	**(93)**	**(4,332)**	**(12)**	**266**
Effect of change in tax rate	**—**	**—**	**—**	**—**	**441**	**—**	**(8,020)**	**—**	**—**	**—**	**—**	**—**	**(7,579)**
At December 31, 2018	**26,301**	**7,259**	**13,531**	**12,147**	**28,050**	**7,306**	**164,951**	**15,420**	**8,374**	**(50,632)**	**(94,037)**	**(242)**	**138,428**

As at December 31, 2018, the Group had unused tax losses of RMB364,973,000 (December 31, 2017: RMB342,684,000), available to offset against future profits. As at December 31, 2018, unused tax loss of RMB110,122,000 (December 31, 2017: RMB116,434,000) had been recognised in deferred tax assets, while RMB254,851,000 (December 31, 2017: RMB226,250,000) had not been recognised due to the unpredictability of future profit streams.

23. Deferred taxation (continued)

Apart from unused tax losses as mentioned above, as at December 31, 2018, the Group had other deductible temporary differences of RMB1,189,279,000 (December 31, 2017: RMB1,088,681,000) relation to impairment allowance, accrued liabilities, depreciation or amortization differences. As at December 31, 2018, deductible temporary differences of RMB1,188,331,000 (December 31, 2017: RMB1,087,964,000) had been recognised in deferred tax assets, while RMB948,000 (December 31, 2017: RMB717,000) had not been recognised as it was not probable that the future taxable profit would be available against these deductible temporary differences.

Balances of deductible temporary differences and unused tax losses for which no deferred tax assets have been recognised due to the unpredictability of future profits stream are as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Impairment allowance	**466**	47
Accrual expenses	**—**	188
Deferred income	**482**	482
Tax losses	**254,851**	226,250
	255,799	226,967

The Group had unrecognised tax losses of and RMB254,851,000 as at December 31, 2018 (December 31, 2017: RMB226,250,000). These tax losses will be carried forward and expire in years as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
2018	**—**	31,982
2019	**15,310**	40,663
2020	**19,535**	20,223
2021	**3,274**	9,625
2022	**8,561**	42,954
2023 and later	**208,171**	66,201
No expiry date	**—**	14,602
	254,851	226,250

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23. Deferred taxation (continued)

At the end of each of the reporting period, no deferred tax liability has been recognised in respect of the temporary differences associated with undistributed earnings of oversea subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

24. Available-for-sale investments

	31/12/2017 RMB'000
Equity Securities listed in USA, at fair value	29,080
Unlisted equity securities, at cost	456,144
Unlisted fund investment, at fair value	198,181
	683,405

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC, USA, Cayman and others, comprising private pharmaceutical industry investment fund and pharmaceutical R&D corporations. The Group does not have significant influence on the equity investees.

On January 1, 2018, the Group adopted IFRS 9 and therefore the above investments held by the Group were subsequently measured at FVTPL which are included in Note 31. The fair value of above equity investments on January 1, 2018 amounted to RMB874,585,000.

25. Other non-current assets

	31/12/2018 RMB'000	31/12/2017 RMB'000
Rental deposits	**35,607**	28,203
Prepaid expenses (non-current)	**131**	579
Issue cost	**—**	10,926
Others	**11,640**	11,166
	47,378	50,874

26. Deposits for acquisition

On October 17, 2017, WuXi AppTec UK Ltd., a subsidiary of the Company and First Shanghai Company, LLC entered into an agreement to acquire 50% equity interest of WuXi Clinical Development, Inc. (formally known as Cycle Solutions, Inc.) for a cash consideration of USD17,227,000 (equivalent to RMB112,570,000 as December 31, 2017) and placed a deposit of USD17,227,000 (equivalent to RMB112,570,000 as December 31, 2017).

27. Inventories

	31/12/2018 RMB'000	31/12/2017 RMB'000
Raw material and consumables	**218,947**	194,103
Work in progress	**314,063**	234,250
Finished goods	**321,751**	221,462
	854,761	649,815

The inventories are net of a write-down of approximately RMB11,703,000 as at December 31, 2018 (December 31, 2017: RMB11,002,000).

28. Contract costs

	31/12/2018 RMB'000	31/12/2017 RMB'000
Costs to fulfill contracts	**97,712**	77,123

29. Trade and other receivables/contract assets

29.1 Trade and other receivables

	31/12/2018 RMB'000	31/12/2017 RMB'000
Trade receivables		
— third parties	**2,015,622**	1,423,194
Allowance for impairment	**(32,353)**	(18,890)
	1,983,269	1,404,304
Other receivables	**39,582**	—
Note receivable	**2,709**	325
Prepayments	**78,279**	51,923
Interest receivables	**1,297**	—
Prepaid expenses	**42,798**	22,015
Value added tax recoverable	**344,760**	265,662
Rental deposits	**6,002**	8,578
	475,845	348,503
Total trade and other receivables	**2,498,696**	1,752,807

At January 1, 2017, trade receivables from contracts with customers amounted to RMB1,161,296,000.

The Group allows a credit period ranging from 30 to 90 days to its customers. The following is an aging analysis of trade receivables (net of allowance for impairment) presented based on the invoice dates, at the end of each reporting period:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within 180 days	**1,806,025**	1,389,408
181 days to 1 year	**122,368**	10,648
1 year to 2 years	**45,547**	4,067
More than 2 years	**9,329**	181
	1,983,269	1,404,304

29. Trade and other receivables/contract assets (continued)

29.1 Trade and other receivables (continued)

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date on which the credit was initially granted up to the reporting date. The credit quality of the trade receivables that are neither past due nor impaired had not changed during the reporting period.

Aging of trade receivables which are past due but not impaired

	31/12/2017 RMB'000
181 to 1 year	10,648
1 year to 2 years	4,067
More than 2 years	181
	14,896

Movement of allowance for doubtful debts on trade receivables before adoption of IFRS 9 on January 1, 2018

	31/12/2017 RMB'000
Opening balance	(20,910)
Impairment losses recognised	(14,123)
Impairment losses reversed	5,970
Write-offs	9,375
Exchange adjustment	798
Closing balance	(18,890)

Included in the allowance for doubtful debts are individually impaired trade receivables.

The Group determines the allowance for impaired debts based on the evaluation of collectability and aging analysis of the receivables and on management's judgement including the assessment of change in credit quality and the past collection history of each customer.

29. Trade and other receivables/contract assets (continued)

29.2 Contract assets

	31/12/2018 RMB'000	31/12/2017 RMB'000
Contract assets	**391,067**	185,676
Allowance for impairment	**(6,537)**	—
	384,530	185,676

The contract assets primarily relate to the Group's right to the consideration for work completed but not billed. The contract assets are transferred to trade receivables when the rights become unconditional. At January 1, 2017, contract assets from contracts with customers amounted to RMB136,291,000.

30. Overview of the group's exposure to credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of each reporting period, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of the financial position.

Credit terms are granted to customers who are in good credit reputation. In order to minimize the credit risk, the Group reviews the recoverable amount of each individual trade debt periodically and the management also has monitoring procedures to ensure the follow-up action is taken to recover overdue debts. In this regard, the management of the Group consider that the Group's credit risk is significantly reduced.

At December 31, 2018, the Group had concentration of credit risk as 6.15% (December 31, 2017: 8.16%) of the total gross trade receivables (including those contract assets and amounts due from related parties of trade nature) was due from the Group's largest customer, and 19.47% (December 31, 2017: 25.44%) of the total gross trade receivables (including those contract assets and amounts due from related parties of trade nature) was due from the five largest customers.

30. Overview of the group's exposure to credit risk (continued)

In order to minimize credit risk, the Group has tasked its finance team to develop and maintain the Group's credit risk grading to categorize exposures according to their degree of risk of default. Management uses publicly available financial information and the Group's own historical repayment records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The aggregate gross carrying amount of the Group's trade receivables, contract assets and amounts due from related parties of trade nature as at December 31, 2018 is RMB2,379,219,000.

For trade receivables, contract assets and amounts due from related parties of trade nature under IFRS 9 since January 1, 2018, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix and categorizes its customers into three types: strategic type customers, normal risk type customers, and high risk type customers, based on the reputation, external credit rating, financial quality of debtors and historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

The following table details the risk profile of trade receivables, contract assets and amounts due from related parties of trade nature:

High risk type customers

	31/12/2018	1/1/2018
Weighted average ECL rate	**100.00%**	100.00%
Total carrying amount (RMB'000)	**17,769**	498
Lifetime ECL (RMB'000)	**(17,769)**	(498)
	—	—

30. Overview of the group's exposure to credit risk (continued)

Strategic type customers

	31/12/2018	1/1/2018
Weighted average ECL rate	0.47%	0.27%
Total carrying amount (RMB'000)	1,993,570	1,044,913
Lifetime ECL (RMB'000)	(9,422)	(2,795)
	1,984,148	1,042,118

Normal risk type customers

	31/12/2018	1/1/2018
Weighted average ECL rate	2.88%	3.18%
Total carrying amount (RMB'000)	406,770	570,311
Lifetime ECL (RMB'000)	(11,699)	(18,156)
	395,071	552,155

Gross carrying amount of trade receivables and amounts due from related parties of trade nature by ECL stages

At December 31, 2018

	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Weighted average ECL rate	0.78%	100.00%	1.60%
Total carrying amount (RMB'000)	2,010,471	16,571	2,027,042
Lifetime ECL (RMB'000)	(15,782)	(16,571)	(32,353)
	1,994,689	—	1,994,689

30. Overview of the group's exposure to credit risk (continued)

Gross carrying amount of contract assets by ECL stages

At December 31, 2018

	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Weighted average ECL rate	**1.37%**	**100.00%**	**1.67%**
Total carrying amount (RMB'000)	**389,869**	**1,198**	**391,067**
Lifetime ECL (RMB'000)	**(5,339)**	**(1,198)**	**(6,537)**
	384,530	**—**	**384,530**

Movement in ECL

Movement in lifetime ECL that has been recognised for trade receivables and contract assets in accordance with the simplified approach set out in IFRS 9 at December 31, 2018.

	Trade receivables (non-credit impaired) RMB'000	Trade receivables (credit impaired) RMB'000	Contract assets (non-credit impaired) RMB'000	Contract assets (credit-impaired) RMB'000	Total RMB'000
At December 31, 2017 under IAS 39					(18,890)
Adjustment upon application of IFRS 9					(2,559)
At January 1, 2018 — after adjustment	**(20,895)**	**(498)**	**(56)**	**—**	**(21,449)**
Changes due to financial instruments recognised at 1 January:					
— Impairment losses recognised	**(4,472)**	**(16,190)**	**(5,309)**	**(1,172)**	**(27,143)**
— Impairment losses reversed	**10,915**	**—**	**—**	**—**	**10,915**
— Transfers	**816**	**(816)**	**26**	**(26)**	**—**
— Write-offs	**—**	**951**	**—**	**—**	**951**
— Exchange adjustment	**(2,146)**	**(18)**	**—**	**—**	**(2,164)**
At December 31, 2018	**(15,782)**	**(16,571)**	**(5,339)**	**(1,198)**	**(38,890)**

30. Overview of the group's exposure to credit risk (continued)

Movement in ECL (continued)

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

Category	Description	Trade receivables/ contract assets	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past due amounts.	Lifetime ECL — not credit-impaired	12-months ECL
Watch list	Debtor frequently repays after due date but usually settle after due date	Lifetime ECL — not credit-impaired	12-months ECL
Doubtful	There has been a significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

For the purposes of impairment assessment, other receivables and amounts due from related parties of non-trade nature are considered to have low credit risk as the counterparties to these financial assets are mainly related parties and other parties with good reputation. Accordingly, for the purpose of impairment assessment for these financial assets, the loss allowance is measured at an amount equal to 12-months ECL. In determining the ECL for other receivables and amounts due from related parties of non-trade nature, the directors of the Company have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of the other receivables occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the 12-months ECL allowance is insignificant at the end of each reporting period.

The Group also expects that there is no significant credit risk associated with pledged bank deposits and cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. The management of the Group does not expect that there will be any significant losses from non-performance by these counterparties.

31. Financial assets at FVTPL

	31/12/2018 RMB'000	31/12/2017 RMB'000
Current assets		
Monetary fund investment	1,019,431	14,739
Structured deposits	1,105,903	—
	2,125,334	14,739
Non-current assets		
Listed equity securities (Note i)	940,958	—
Unlisted equity investments (Note i)	883,925	—
Unlisted fund investments (Note i, ii)	254,428	—
	2,079,311	—

Notes:

i. Upon the adoption of IFRS 9 on January 1, 2018, the equity investments recorded as "available-for-sale financial assets" before January 1, 2018 were subsequently classified to financial assets at FVTPL.

ii. The fair values of the unlisted investment funds are based on the net asset values of the investment funds reported to the limited partners by the general partners at the end of the reporting period.

32. Wealth management products

The Group entered into series of wealth management products with banks and other financial institutions in the PRC. The investments are principal-guaranteed by the relevant financial institutions and contain embedded derivatives, which represents the returns varying with the underlying investment portfolio of the wealth management products and comprises primarily of debt instrument products including bonds. The expected rates of return ranged from 1.00% to 4.95%, per annum for the year ended December 31, 2017, which were determined by reference to the returns of the underlying investment portfolio. The management of the Company considered the amount paid for the wealth management products approximates its fair value at the end of the reporting period and the fair value of the embedded derivative in the wealth management products as of the same date was insignificant.

Beginning from January 1, 2018, the Group has adopted IFRS 9. The wealth management products held by the Group are reclassified as financial assets at FVTPL as set out in Note 31. The fair value of above wealth management products on January 1, 2018 amounted to RMB297,687,000.

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33. Bank balances and cash/pledged bank deposits

At the end of each reporting period, bank balances and cash of the Group comprised of cash and short term bank deposits with an original maturity of three months or less. The short term bank deposits carry interest at market rates which range from 0.3% to 3.38%, per annum as at December 31, 2018 (December 31, 2017: 0.05% to 2.19%).

Pledged bank deposits represent deposits pledged to banks to issue letter of credit and secure note payable in connection with the purchase of raw materials and plant and equipment by the Group. The pledged bank deposits will be released upon the repayment of relevant letter of credit and note payables.

34. Derivative financial instruments

	31/12/2018 RMB'000
Current assets	
Derivatives under hedge accounting	
Cash flow hedges — Foreign currency forward contracts	6,335
Other derivatives (not under hedge accounting)	
Foreign currency forward contracts and collars	30,719
	37,054
Current liabilities	
Derivatives under hedge accounting	
Cash flow hedges — Foreign currency forward contracts	106,065
Other derivatives (not under hedge accounting)	
Foreign currency forward contracts and collars	47,227
	153,292

34. Derivative financial instruments (continued)

Derivatives under hedge accounting

It is the policy of the Group to enter into forward foreign exchange contracts to manage its foreign exchange rate risk arising from anticipated future foreign currency transactions up to 12 months, in particular, the exchange rate between USD and RMB, which are designated into cash flow hedges.

	Average strike rate as 31/12/2018	Foreign currency as 31/12/2018 USD'000	Notional value as 31/12/2018 RMB'000	Fair value assets as 31/12/2018 RMB'000
Sell USD				
Less than 3 months	6.93	10,000	69,323	539
3 to 6 months	6.93	9,000	62,329	412
7 to 12 months	6.90	79,000	545,428	1,947
Buy RMB				
Less than 3 months	6.82	26,500	180,695	1,684
7 to 12 months	6.99	17,000	118,857	1,753

	Average strike rate as 31/12/2018	Foreign currency as 31/12/2018 USD'000	Notional value as 31/12/2018 RMB'000	Fair value liabilities as 31/12/2018 RMB'000
Sell USD				
Less than 3 months	6.65	111,000	738,655	24,435
3 to 6 months	6.64	109,500	727,382	25,806
7 to 12 months	6.68	90,500	604,163	18,170
Buy RMB				
Less than 3 months	6.53	79,000	516,170	27,326
7 to 12 months	6.50	27,000	175,379	10,327

34. Derivative financial instruments (continued)

Derivatives under hedge accounting (continued)

On August 31, 2018, the Group entered into a restructuring agreement with a counter bank to replace several forward contracts with new collar contracts. The hedge accounting has been ceased for those forward contracts. As the hedged future sales are still expected to occur, the accumulated hedging reserve amounted to RMB24,639,000 arising from those replaced forward contracts remains in the hedging reserve until the future cash flows occur. It is anticipated that the sales will take place within next 12 months at which time the amount recognised in other comprehensive income will be reclassified to profit or loss. The new collar contracts do not qualify for hedge accounting as those collar contracts are assessed as net written options. The details of these collar contracts are set our below.

As at December 31, 2018, the aggregate amount of losses after tax under foreign exchange forward contracts recognised in other comprehensive income and accumulated in cash flow hedging reserve relating to the exposure on anticipated future sales transactions denominated in USD of subsidiaries operating in the PRC is RMB65,515,000. It is anticipated that the sales will take place within next 12 months at which time the amount recognised in other comprehensive income will be reclassified to profit or loss.

As at December 31, 2018, the aggregate amount of losses after tax under foreign exchange forward contracts recognised in other comprehensive income and accumulated in cash flow hedging reserve relating to the exposure on anticipated future purchase transactions denominated in RMB of subsidiary operating in Hong Kong is RMB32,962,000. The subsidiary's functional currency is USD. It is anticipated that the purchases will take place in next 12 months at which time the amount deferred in equity will be included in the carrying amount of inventories. It is anticipated that the inventories will be sold soon after purchase, in which period the amount recognised in other comprehensive income will be reclassified to profit or loss.

As at December 31, 2018, no hedging ineffectiveness has been recognised in profit or loss.

34. Derivative financial instruments (continued)

Other derivatives (not under hedge accounting)

The Group also entered into several foreign exchange forward contracts and collar contracts with banks in order to manage the Group's foreign currency exposure in relation to USD against RMB and did not elect to adopt hedge accounting for those contracts. The major terms of these contracts as at December 31, 2018 presented in the consolidated financial statements are as follows:

Outstanding forward contracts	Average strike rate as 31/12/2018	Foreign currency as 31/12/2018 USD'000	Notional value as 31/12/2018 RMB'000	Fair value assets as 31/12/2018 RMB'000
Sell RMB				
Less than 3 months	6.46	63,000	406,890	26,500
Buy RMB				
3 to 6 months	6.89	21,000	144,670	113
7 to 12 months	6.94	77,000	534,032	3,750

Outstanding forward contracts	Average strike rate as 31/12/2018	Foreign currency as 31/12/2018 USD'000	Notional value as 31/12/2018 RMB'000	Fair value liabilities as 31/12/2018 RMB'000
Sell USD				
Less than 3 months	6.43	24,000	154,320	10,788
Buy RMB				
Less than 3 months	6.63	45,000	298,133	11,563
3 to 6 months	6.83	33,000	225,400	1,749
7 to 12 months	6.89	8,000	55,104	25

34. Derivative financial instruments (continued)

Other derivatives (not under hedge accounting) (continued)

Outstanding collar contracts	Average strike rate 1* as 31/12/2018	Average strike rate 2* as 31/12/2018	Foreign currency as 31/12/2018 USD'000	Notional value 1* as 31/12/2018 RMB'000	Notional value 2* as 31/12/2018 RMB'000	Fair value assets as 31/12/2018 RMB'000
Sell USD						
7 to 12 months	6.00	6.51	60,000	360,000	390,360	356

Outstanding collar contracts	Average strike rate 1* as 31/12/2018	Average strike rate 2* as 31/12/2018	Foreign currency as 31/12/2018 USD'000	Notional value 1* as 31/12/2018 RMB'000	Notional value 2* as 31/12/2018 RMB'000	Fair value liabilities as 31/12/2018 RMB'000
Buy RMB						
3 to 6 months	5.80	6.54	12,000	69,600	78,480	4,132
7 to 12 months	5.80	6.54	51,000	295,800	333,540	18,970

* the Group will sell USD and buy RMB at strike rate 1 if the spot rate on the settlement date is at or below the strike rate 1 or no transaction if the spot rate on the settlement date is between the strike rate 1 and the strike rate 2 or the Group will sell USD and buy RMB at strike rate 2 if the spot rate on the settlement date is at or above the strike rate 2.

For the year ended December 31, 2018, gains under forward foreign exchange contracts of RMB26,786,000 and losses under forward foreign exchange contracts and collars of RMB142,030,000 were recognised in other gains and losses, respectively.

35. Trade and other payables

	31/12/2018 RMB'000	31/12/2017 RMB'000
Trade payables	**379,362**	333,238
Salary and bonus payables	**548,389**	442,391
Payables for acquisition of plant and equipment	**770,516**	388,689
Payables for acquisition of a property-current (Note 39)	**234,808**	16,977
Payable for acquisition of subsidiaries and a joint venture	**5,000**	177,129
Accrued expenses	**279,244**	141,209
Other taxes payable	**19,589**	88,301
Interest payable	**166**	2,395
Note payable	**19,363**	—
Others	**80,142**	74,104
Considerations received from employees for subscribing restricted A shares of the Company under the 2018 WuXi AppTec A Share Incentive Scheme (Note 44)	**273,974**	—
	2,610,553	1,664,433

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 and note payable presented based on invoice date at the end of each reporting period:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within one year	**393,163**	328,715
1 year to 2 years	**3,190**	2,082
2 years to 3 years	**883**	1,879
More than 3 years	**1,489**	562
	398,725	333,238

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36. Borrowings

	31/12/2018 RMB'000	31/12/2017 RMB'000
Analyzed as:		
Secured and unguaranteed (Note i)	**15,000**	300,000
Unsecured and unguaranteed	**120,000**	1,318,189
	135,000	1,618,189

	31/12/2018 RMB'000	31/12/2017 RMB'000
Analyzed as:		
Fixed interest rate	**—**	900,000
Variable interest rate	**135,000**	718,189
	135,000	1,618,189

	31/12/2018 RMB'000	31/12/2017 RMB'000
Analyzed as:		
Borrowings from banks	**120,000**	1,618,189
Borrowings from other entities (Note ii)	**15,000**	—
	135,000	1,618,189

	31/12/2018 RMB'000	31/12/2017 RMB'000
The carrying amounts of the above borrowings are repayable:		
Within one year	**120,000**	1,318,189
Within a period of more than one year, but not exceeding two years	**—**	60,000
Within a period of more than two years but not exceeding five years	**15,000**	240,000
	135,000	1,618,189
Less: Amounts due within one year shown under current liabilities	**120,000**	1,318,189
Amounts shown under non-current liabilities	**15,000**	300,000

36. Borrowings (continued)

The ranges of effective interest rates on the Group's fixed and variable-rate borrowings are as follows:

	31/12/2018 %	31/12/2017 %
Effective interest rate:		
Fixed rate borrowings	N/A	3.70 to 4.35
Variable rate borrowings	4.18 to 6.18	4.10 to 4.90

Notes:

(i) As of December 31, 2018, 65% equity interests of WuXi Clinical Development Services (Chengdu) Co., Ltd. ("Chengdu Clinical") held by a subsidiary of the Group were pledged to secure borrowings of RMB15,000,000.

As of December 31, 2017, 100% equity interests held by the Group in WuXi AppTec HDB LLC and Biosciences Co., Ltd were pledged to secure a bank borrowings of RMB300,000,000.

(ii) On January 2018, the Group entered into an entrusted loan agreement with Chengdu Jiulian Investment Co., Ltd. (a non-controlling shareholder who owned 35% equity interest in Chengdu Clinical). The loan was extended to Chengdu Clinical for a term of three years with an interest rate equivalent to 130% of the bank loan benchmark interest rate per annum published by the People's Bank of China.

37. Contract liabilities

	31/12/2018 RMB'000	31/12/2017 RMB'000
Amounts received in advance for delivery of services	681,863	604,132

Revenue of RMB490,121,000 was recognised during the year ended December 31, 2018 (December 31, 2017: RMB325,112,000) that was included in the contract liabilities at the beginning of the relevant year.

At January 1, 2017, contract liabilities from contracts with customers amounted to RMB395,721,000.

38. Deferred income

	31/12/2018 RMB'000	31/12/2017 RMB'000
Government grants related to property, plant and equipment (Note i)	**407,167**	364,311
Other subsidies (Note ii)	**11,676**	13,245
	418,843	377,556

Notes:

i. The Group received government grants for capital expenditure incurred for the acquisition of plant and machines. The amounts are deferred and amortized over the estimated useful lives of the respective assets.

ii. Other subsidies are generally provided in relation to the research and development activities of the Group. The grants were recognised in profit or loss as other income upon the Group complied with the conditions attached to the grants and the government acknowledged acceptance.

39. Other long-term liabilities

	31/12/2018 RMB'000	31/12/2017 RMB'000
Payable for acquisition of a property-non-current (Note i)	**—**	234,808
Deferred rent	**43,130**	11,083
Deferred lease credit	**11,053**	13,788
Long-term tax payable (Note ii)	**126,366**	168,487
Others	**13,774**	14,010
	194,323	442,176

Notes:

i. On June 16, 2017, the Group acquired a property at a consideration of RMB282,654,000 which will be paid in two years after the signing of contract. The payables are measured at amortized cost with imputed interest of 4.75% per annum.

ii. STA, a subsidiary of the Group, issued ordinary shares of STA to WXAT Shanghai to purchase all assets and liabilities of pharmaceutical development services division ("PDS") department of WXAT Shanghai in July 2017. WXAT Shanghai recognised RMB1,404,062,000 gain from the intra group transaction, which is taxable and can be paid in 5-year installment according to the relevant tax regulations.

40. Share capital

	RMB'000
Ordinary shares of RMB1.00 each	
At January 1, 2017, December 31, 2017 and January 1, 2018	937,787
Issue of A shares upon listing on Shanghai Stock Exchange	104,199
Issue of H shares upon listing on Hong Kong Stock Exchange	116,474
Issue of restricted A shares under the 2018 WuXi AppTec A Share Incentive Scheme	6,281
At December 31, 2018	1,164,741

41. Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of debts, which includes borrowings and non-trade nature amounts due to related parties, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group regularly reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends and new shares issues as well as the issue of new debts and redemption of existing debts.

42. Financial instruments

Categories of financial instruments

	31/12/2018 RMB'000	31/12/2017 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	—	4,191,270
Available-for-sale investments	—	683,405
Financial assets at FVTPL	4,241,699	14,739
Financial assets at amortized cost	7,835,371	—
	12,077,070	4,889,414
Financial liabilities		
Financial liabilities measured at amortized cost	1,910,346	3,594,010
Derivative financial instruments	153,292	—
	2,063,638	3,594,010

Financial risk management objectives and policies

The Group's major financial assets and liabilities include financial assets at FVTPL, available-for-sale investments, trade and other receivables, amounts due from related parties, wealth management products, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to related parties, derivative financial instruments, and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk, interest rate risk, liquidity risk and other price risk. There has been no change in the Group's and the Company's exposure to these risks or the manner in which it managed and measured the risks during the reporting period.

42. Financial instruments (continued)

Market risk (continued)

Currency risk

It is the policy of the Group to enter into foreign exchange forward contracts or collar contracts to manage the risk associated with anticipated sales and purchase transactions denominated in USD up to 12 months (as detailed in Note 34).

The carrying amounts of the Group's foreign currency denominated monetary assets (trade and other receivables, bank balances and cash, pledged bank deposits and amounts due from related parties) and liabilities (trade and other payables, borrowings and amount due to related parties) at the end of each reporting period are summarized as follows:

	31/12/2018	31/12/2017
	RMB'000	RMB'000
Assets		
USD	**3,717,665**	1,026,835
HKD	**925,605**	1,776
Liabilities		
USD	**16,472**	627,359
HKD	**77**	17
Inter-company balances		
USD	**1,674,596**	1,044,344
HKD	**140**	17

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD, the foreign currency with which the Group may have a material exposure. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rate. A negative/positive number below indicates a decrease/increase in profit where RMB strengthens 5% against USD. For a 5% weakening of RMB against USD, there would be an equal and opposite impact on profit.

42. Financial instruments (continued)

Sensitivity analysis (continued)

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Impact on profit or loss		
USD	160,757	51,671
HKD	33,246	73

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Forward foreign exchange contracts

In addition, the Group has elected hedge accounting for certain foreign exchange forward contracts as set out in Note 34 during 2018. As at December 31, 2018, the Group has assessed the hedge effectiveness and concluded that all the hedge contracts are highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk and therefore there is no effect on profit or loss as the fair value change of the hedging instruments is recorded in other comprehensive income for the year ended December 31, 2018. For certain foreign exchange forward contracts that the Group has elected not to adopt hedge accounting. As at December 31, 2018, the fair value change of those hedging instruments are amounted to RMB16,508,000. The Group has assessed that the exposure of 5% foreign exchange rate changes on those hedging instruments not under hedge accounting is insignificant.

Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate short-term bank deposits and bank borrowings. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

42. Financial instruments (continued)

Sensitivity analysis (continued)

Interest rate risk (continued)

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

The variable rate borrowings are RMB135,000,000 at the year ended December 31, 2018 (December 31, 2017: RMB718,189,000). If the interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's profit would decrease/increase by RMB291,000 for the years ended December 31, 2018 (2017: RMB2,767,000).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Other price risk

The Group is also exposed to equity price risk arising from available-for-sale investments, financial assets at FVTPL and derivative financial instruments.

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date for available-for-sale investments, financial assets at FVTPL and derivative financial instruments.

If the prices of the respective equity instruments had been changed based on the 5% higher/lower:

- The profit for the year ended December 31, 2018 would increase/decrease by RMB146,638,000 (2017: RMB576,000), as a result of the changes in fair value of financial assets at FVTPL.

- The profit for the year ended December 31, 2018 would increase and decrease by RMB1,971,000 as a result of the changes in fair value of financial liabilities at FVTPL.

- Other comprehensive income for the year ended December 31, 2017 would increase and decrease by RMB9,909,000 as a result of the changes in fair value of available-for-sale shares.

42. Financial instruments (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and unused banking facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average interest rate %	On demand or less than one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at December 31, 2018						
Trade and other payables	**N/A**	**1,528,522**	**—**	**—**	**1,528,522**	**1,528,522**
Amounts due to related parties	**N/A**	**4,806**	**7,209**	**—**	**12,015**	**12,015**
Consideration payable on purchase of a property	**4.75**	**245,961**	**—**	**—**	**245,961**	**234,808**
Borrowings						
— Fixed interest rate	**N/A**	**—**	**—**	**—**	**—**	**—**
— Variable interest rate	**4.41**	**122,299**	**16,839**	**—**	**139,138**	**135,000**
Total		**1,901,588**	**24,048**	**—**	**1,925,636**	**1,910,345**
As at December 31, 2017						
Trade and other payables	N/A	884,474	—	—	884,474	884,474
Amounts due to related parties	N/A	839,562	—	—	839,562	839,562
Consideration payable on purchase of a property	4.75	17,376	251,735	—	269,111	251,785
Borrowings						
— Fixed interest rate	3.99	916,569	—	—	916,569	900,000
— Variable interest rate	4.45	432,656	348,510	—	781,166	718,189
Total		3,090,637	600,245	—	3,690,882	3,594,010

42. Financial instruments (continued)

Fair value measurement

This note provides information about how the Group determines fair value of the following financial assets that are measured at fair value on a recurring basis.

(i) Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

Financial assets	Fair value at 12/31/2018 RMB'000	Fair value at 12/31/2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Money fund Investment	**1,019,431**	14,739	Level 2	Open market transaction price	N/A	N/A
Structured Deposits	**1,105,903**	—	Level 2	Discounted cash flow — Future cash flows are estimated based on expected return, discounted at a rate that reflects the risk of underlying assets	N/A	N/A
Listed investment companies at fair value	**940,958**	29,080	Level 1	Active market quoted transaction price	N/A	N/A
Investment on unlisted funds at fair value	**254,428**	198,181	Level 3	Net asset value of underlying investments	Net assets	The higher net asset value, the higher the fair value (Note a)
Unlisted equity investments at fair value	**611,866**	—	Level 3	Backsolve from recent transaction price	IPO probability	The higher the probability, the higher the fair value (Note b)
Unlisted equity investments at fair value	**272,059**	—	Level 3	Comparable company method	The ratio of equity value/net profit	The higher the ratio, the higher the fair value
					The ratio of equity value/EBIT	The higher the ratio, the higher the fair value

42. Financial instruments (continued)

Fair value measurement (continued)

(i) Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (continued)

Financial assets	Fair value at 12/31/2018 RMB'000	Fair value at 12/31/2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Foreign currency forward contracts	36,698	—	Level 2	Discounted cash flow — Future cash flows are estimated based on observable forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A
Collars	356	—	Level 3	Option pricing model with forward exchange rates and expected volatility as key inputs	Expected volatility	The higher the expected volatility, the higher the fair value

Financial liabilities	Fair value at 12/31/2018 RMB'000	Fair value at 12/31/2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Foreign currency forward contracts	130,190	—	Level 2	Discounted cash flow — Future cash flows are estimated based on observable forward exchange rates and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A
Collars	23,102	—	Level 3	Option pricing model with forward exchange rates and expected volatility as key inputs	Expected volatility	The higher the expected volatility, the higher the fair value

42. Financial instruments (continued)

Fair value measurement (continued)

(i) Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (continued)

There were no transfers between level 1 and level 2 during the year.

Notes:

(a) A slight increase in the net asset value of underlying investments of unlisted funds used in isolation would result in a slight increase in the fair value of unlisted funds. A 5% increase/decrease in the net assets while holding all other variables constant would increase the fair value of the unlisted funds by RMB12,721,000 (December 31, 2017: RMB9,909,000) or decrease the fair value of the unlisted funds by RMB12,721,000 (December 31, 2017: RMB9,909,000) as at December 31, 2018.

(b) A slight increase in the expected IPO probability used in isolation would result in a slight increase in the fair value of unlisted companies. A 5% increase/decrease in the IPO probability while holding all other variables constant would increase/decrease the fair value of the unlisted companies by RMB7,920,000 as at December 31, 2018. With consideration that the fair value are derived from backsolve method with actual transaction prices and the IPO probability for the unlisted companies is relatively low at this stage, the slight increase/decrease in the IPO probability has no significant impacts for the fair value of such investments.

42. Financial instruments (continued)

Fair value measurement (continued)

(ii) Reconciliation of level 3 fair value measurements

Details of reconciliation of financial assets at FVTPL measured at Level 3 fair value measurement are set out as below:

	Unlisted fund investments at fair value RMB'000
At January 1, 2017	107,206
Acquisitions	73,951
Changes in fair value	26,659
Effect of exchange rate change	(9,635)
At December 31, 2017	198,181
Acquisitions	63,012
Changes in fair value	(11,648)
Effect of exchange rate change	4,883
At December 31, 2018	254,428

	Unlisted equity investments RMB'000
At January 1, 2018 at cost	**456,144**
IFRS 9 adoption adjustment	**191,180**
At January 1, 2018 at fair value	**647,324**
Transferred to level 1 (Note)	**(258,715)**
Changes in fair value	**516,735**
Acquisition	**37,255**
Disposal	**(79,846)**
Effect of exchange rate change	**21,172**
At December 31, 2018	**883,925**

42. Financial instruments (continued)

Fair value measurement (continued)

(ii) Reconciliation of level 3 fair value measurements (continued)

	Collars RMB'000
At January 1, 2018	—
Changes in fair value	**(22,746)**
At December 31, 2018	**(22,746)**

Note:

Unity Biotechnology, Inc. was listed on May 3, 2018 on the NASDAQ Global Select Market, and its open market transaction price can be obtained from the active market. Therefore, the Group changed its fair value hierarchy from the level 3 to the level 1.

Hua Medicine was listed on September 14, 2018 on The Hong Kong Stock Exchange, and its open market transaction price can be obtained from the active market. Therefore, the Group changed its fair value hierarchy from the level 3 to the level 1.

Twist Bioscience was listed on October 31, 2018 on the NASDAQ Global Select Market, and its open market transaction price can be obtained from the active market. Therefore, the Group changed its fair value hierarchy from the level 3 to the level 1.

Of the total gains or losses for the year ended December 31, 2018, included in profit or loss, RMB2,861,000 was unrealized fair value gains related to financial assets at FVTPL on Level 3 fair value measurement held at December 31, 2018. Fair value gains or losses on financial assets at FVTPL are included in "other gains and losses". Included in other comprehensive income are amounts of RMB39,127,000 relating to unlisted fund investments or equity securities held at December 31, 2017 and are reported as changes of "investment revaluation reserve".

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amount of the Group's financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate to their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

43. Acquisitions of subsidiaries

For the year ended December 31, 2018

On July 31, 2018, WuXi AppTec UK Ltd., a subsidiary of the Company entered into an agreement to acquire the remaining 50% equity interest of a joint venture, WuXi Clinical Development, Inc. ("WuXi Clinical", formerly known as Cycle Solutions, Inc.) for a cash consideration of USD17,227,000 (equivalent to RMB117,434,000). The acquisition is to enhance clinical development capabilities of the Group in the USA market.

Name of subsidiary acquired	Vendor	Percentage of interest acquired	Principal activity	Fair value of purchase consideration RMB'000	Date of completion	Nature of acquisition
WuXi Clinical	A joint venture partner	50%	Render of clinical development services	117,434	July 31, 2018	Business combination

Assets acquired and liabilities assumed at the date of acquisition

	RMB'000
Bank balances and cash	**23,789**
Trade and other receivables	**12,022**
Property, plant and equipment	**2,234**
Other intangible assets	**62,038**
Trade and other payables	**(15,242)**
Contract liabilities	**(8,137)**
Income tax payables	**(389)**
Deferred tax liabilities	**(16,748)**
Net assets acquired	**59,567**

The fair value of trade and other receivables at the date of acquisition amounted to RMB12,022,000. The gross contractual amounts of those receivables acquired amounted to RMB12,022,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

43. Acquisitions of subsidiaries (continued)

For the year ended December 31, 2018 (continued)

Fair value of consideration transferred

	RMB'000
Cash	117,434

Goodwill arising on acquisition

	RMB'000
Fair value of consideration transferred, satisfied by cash	117,434
Previously held interest in a joint venture before the acquisition	117,572
Less: Net assets acquired	(59,567)
Goodwill arising on acquisition	175,439

The acquisition will enhance clinical development capabilities of the Group in the USA market. These assets are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Goodwill arising on this acquisition is not expected to be deductible for tax purposes.

Net cash inflow on acquisition of subsidiaries

	RMB'000
Consideration transferred	117,434
Less: those included in deposits for acquisition	(117,434)
Cash consideration paid	—
Less: Bank balances and cash acquired	(23,789)
	(23,789)

No material acquisition related costs were incurred.

43. Acquisitions of subsidiaries (continued)

For the year ended December 31, 2018 (continued)

Net cash inflow on acquisition of subsidiaries (continued)

WuXi Clinical contributed revenue of RMB49,522,000 and loss of RMB3,942,000 for the period from the date of acquisition to December 31, 2018. If the acquisition had been completed on January 1, 2018, total revenue of the Group for the year ended December 31, 2018 would have been RMB9,685,902,000 and profit for the year ended December 31, 2018 would have been RMB2,332,245,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

For the year ended December 31, 2017

Name of subsidiary acquired	Vendor	Percentage of interest acquired	Principal activity	Fair value of purchase consideration RMB'000	Date of Completion	Nature of Acquisition
HD Biosciences Co., Ltd. and its subsidiary (輝源生物科技(上海)有限公司) ("HDB")	Independent third parties	100%	Render of CRO Services	1,027,875	May 15, 2017	Business combination

Assets acquired and liabilities assumed at the date of acquisition

	Amount RMB'000
Bank balances and cash	67,942
Trade and other receivables	62,413
Inventories	5,823
Property, plant and equipment	55,953
Other intangible assets	237,000
Deferred tax assets	3,033
Trade and other payables	(57,399)
Other non-current liabilities	(62)
Deferred tax liabilities	(35,550)
Net assets acquired	339,153

43. Acquisitions of subsidiaries (continued)

For the year ended December 31, 2017 (continued)

Assets acquired and liabilities assumed at the date of acquisition (continued)

The trade and other receivables acquired in the acquisition of RMB62,413,000 carried a fair value of RMB62,413,000. The gross contractual amounts of those receivables acquired amounted to RMB62,413,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

Fair value of consideration transferred

	Amount RMB'000
Cash	1,027,875

Goodwill arising from acquisition of subsidiaries

	Amount RMB'000
Fair value of consideration transferred, satisfied by cash	1,027,875
Net assets acquired	(339,153)
Goodwill arising on acquisition	688,722

Goodwill arose in the acquisition of HDB and its subsidiary because the acquisition will further strengthen the Group's R&D capability from target validation to lead discovery and optimization, improving and expanding open-access enabling service platform of the Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Goodwill arising on this acquisition is not expected to be deductible for tax purposes.

43. Acquisitions of subsidiaries (continued)

For the year ended December 31, 2017 (continued)

Net cash outflow on acquisitions of subsidiaries for the year ended December 31, 2017

	Amount RMB'000
Consideration transferred	1,027,875
Less: those included in other payables	(108,722)
Cash consideration paid	919,153
Less: Bank balances and cash acquired	(67,942)
	851,211

No material acquisition related costs were incurred.

HDB contributed a revenue of RMB173,536,000 and a profit of RMB37,646,000 for the period from the date of acquisition to December 31, 2017. If the acquisition had been completed on January 1, 2017, total revenue of the Group for the year ended December 31, 2017 would have been RMB7,822,571,000 and profit for the year ended December 31, 2017 would have been RMB1,228,139,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on January 1, 2017, nor is it intended to be a projection of future results.

44. Share option scheme

WuXi PharmaTech stock units and options plan

Prior to the reorganization, the Company was wholly owned by WuXi PharmaTech, which once listed on the New York Stock Exchange and had an employee stock incentive plan ("WuXi PharmaTech Stock Units and Options Plan"). Pursuant to the WuXi PharmaTech Stock Units and Options Plan, certain employees of the Group were granted the restricted stock units and options of the shares of WuXi PharmaTech as the Group was a part of WuXi PharmaTech.

44. Share option scheme (continued)

WuXi PharmaTech stock units and options plan (continued)

The Group recognised share-based compensation expense of RMB2,713,000 during the year ended December 31, 2018 (2017: RMB16,583,000), in relation to WuXi PharmaTech Stock Units and Options Plan.

STA share units and options incentive scheme

STA, as a listed company on NEEQ, has also adopted different employee incentive schemes to provide incentives for its eligible employees since 2015. STA Group has established equity-settled share units and options incentive schemes including the (i) STA Share Option Incentive Scheme (2015); (ii) STA Overseas Employees Incentive Scheme and (iii) STA Share Option Incentive Scheme (2016). None of the eligible STA employees are the Chief Executive or directors of the Company.

On September 13, 2017, the STA shareholders' meeting approved to capitalise 20 ordinary STA Shares for every 10 STA Shares standing to the credit of the share premium account of STA ("Conversion of Capital Reserve"). In May 2017 and April 2018, the STA Shareholders' meeting approved to distribute RMB10.0 and RMB3.5 for every 10 STA Shares. As a result, the number of STA Shares and exercise price per share granted under the STA Share Option Incentive Scheme (2015), STA Oversea Employees Incentive Scheme, and STA Share Option Incentive Scheme (2016) presented herein have been adjusted to reflect the Conversion of Capital Reserve and dividend adjustment.

(1) Details of specific categories of options are as follows:

STA Share Units and Options Incentive Scheme	Date of grant	Number of options shares	Exercise price
STA Share Option Incentive Scheme (2015)	May 13, 2015	16,200,000	RMB8.00
STA Overseas Employees Incentive Scheme	June 2, 2015	6,330,000	RMB1.79
STA Share Option Incentive Scheme (2016)			
— 1st batch	May 23, 2016	889,200	RMB8.00
— 2nd batch	July 17, 2017	635,940	RMB8.00

44. Share option scheme (continued)

STA share units and options incentive scheme (continued)

(2) Options granted under the STA Share Option Incentive Scheme (2015), STA Overseas Employees Incentive Scheme and STA Share Option Incentive Scheme (2016) shall have a contractual term of 10 years and vest over a four-year period, with 20%, 20%, 20% and 40% of total options vesting on the first, second, third and fourth anniversary date two years after the vesting commencement date upon meeting certain annual performance conditions.

Set out below are details of the movements of the outstanding units and options granted under the STA Share Units and Options Incentive Scheme throughout the reporting period:

STA Share Unites and Options Incentive Scheme	Outstanding at 1/1/2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2018
STA Share Option Incentive Scheme (2015)	12,516,000	—	3,129,000	270,000	9,117,000
STA Overseas Employees Incentive Scheme	5,028,792	—	1,197,198	—	3,831,594
STA Share Option Incentive Scheme (2016) — 1st batch	670,500	—	105,300	174,240	390,960
STA Share Option Incentive Scheme (2016) — 2nd batch	597,300	—	—	120,840	476,460
Total	18,812,592	—	4,431,498	565,080	13,816,014
Exercisable at the end of the year	4,332,198				8,763,696
Weighted average exercise price	RMB6.34	N/A	RMB6.32	RMB8.00	RMB6.28

44. Share option scheme (continued)

STA share units and options incentive scheme (continued)

STA Share Unites and Options Incentive Scheme	Outstanding at 1/1/2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2017
STA Share Option Incentive Scheme (2015)	15,675,000	—	3,135,000	24,000	12,516,000
STA Overseas Employees Incentive Scheme	5,985,990	240,000	1,197,198	—	5,028,792
STA Share Option Incentive Scheme (2016) — 1st batch	738,900	—	—	68,400	670,500
STA Share Option Incentive Scheme (2016) — 2nd batch	—	635,940	—	38,640	597,300
Total	22,399,890	875,940	4,332,198	131,040	18,812,592
Exercisable at the end of the year	—				4,332,198
Weighted average exercise price	RMB6.34	RMB6.30	RMB6.28	RMB8.00	RMB6.34

The fair value of the incentive scheme granted was determined using the Binomial model. These fair values and corresponding inputs into the model were as follows:

	STA Share Incentive Option Scheme (2015)	STA Overseas Employees Incentive Scheme	STA Share Option Incentive Scheme (2016) – 1st batch	STA Share Option Incentive Scheme (2016) – 2nd batch
Grant date option fair value per STA share (RMB)	2.11–3.35	6.98	15.74–16.03	36.39–43.30
Grant date STA Shares price (RMB)	7.74	7.74	22.53	43.48
Exercise price (RMB)	8.00	1.79	8.00	8.00
Expected volatility	33.48%–36.77%	42.07%	32.53%–35.30%	29.90%–34.40%
Expected life (years)	3–6	10	3–6	3–6
Risk-free interest rate	3.08–3.67%	3.67%	2.61–2.91%	3.50–3.55%

44. Share option scheme (continued)

STA share units and options incentive scheme (continued)

Expected volatility was determined by using the historical volatility of the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of behavioral considerations. The Group recognised share-based compensation expense of RMB21,726,000 during the year ended 31, 2018 (2017: RMB26,916,000), in relation to STA Share Option Incentive Scheme.

STA share appreciation incentive scheme

On May 16, 2016 and July 12, 2017, STA Share Appreciation Incentive Scheme (2016) and STA Share Appreciation Incentive Scheme (2017) were approved at the STA shareholders' meeting. As a result of the Conversion of Capital Reserve, the total number of STA units granted under the STA Share Appreciation Incentive Scheme (2016) and the STA Share Appreciation Incentive Scheme (2017) to eligible STA foreign employees were 1,350,000 and 123,000 respectively. Stock appreciation rights have been awarded in units, with each unit representing the value of one STA Shares. Upon the exercise of stock appreciation rights, exercising recipients will receive payments in RMB from STA, subject to any withholding tax, equal to the number of stock appreciation rights exercised times the difference between the subscribe price and market price of the STA Shares on the exercise day. The number of STA Shares and subscribe price per STA share granted under the STA Share Appreciation Incentive Scheme presented herein has been adjusted to reflect the Conversion of Capital Reserve and dividend adjustment.

(1) Details of specific categories of STA Share Appreciation Incentive Scheme are as follows:

STA Share Appreciation Incentive Scheme	Date of grant	Number of units	Exercise price
STA Share Appreciation Incentive Scheme (2016)			
— 1st batch	May 23, 2016	1,071,000	RMB8.00
— 2nd batch	July 17, 2017	279,000	RMB8.00
STA Share Appreciation Incentive Scheme (2017)	July 17, 2017	123,000	RMB8.00

(2) Units granted under the STA Share Appreciation Incentive Scheme shall have a contractual term of 10 years and generally vest over a four year period, with 20%, 20%, 20% and 40% of total options vesting on the first, second, third and fourth anniversary date two years after the vesting commencement date.

44. Share option scheme (continued)

STA share appreciation incentive scheme (continued)

Set out below are details of the movements of the outstanding units granted under the STA Share Appreciation Incentive Scheme throughout the reporting period:

STA Share Appreciation Incentive Scheme	Outstanding at 1/1/2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2018
STA Share Appreciation Incentive Scheme (2016)					
— 1st batch	720,000	—	144,000	21,600	554,400
— 2nd batch	279,000	—	—	30,000	249,000
STA Share Appreciation Incentive Scheme (2017)	99,000	—	—	12,000	87,000
Total	1,098,000	—	144,000	63,600	890,400
Exercisable at the end of the year	—				144,000
Weighted average exercise price	RMB8.00	N/A	RMB8.00	RMB8.00	RMB8.00

STA Share Appreciation Incentive Scheme	Outstanding at 1/1/2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12/31/2017
STA Share Appreciation Incentive Scheme (2016)					
— 1st batch	936,000	—	—	216,000	720,000
— 2nd batch	—	279,000	—	—	279,000
STA Share Appreciation Incentive Scheme (2017)	—	123,000	—	24,000	99,000
Total	936,000	402,000	—	240,000	1,098,000
Exercisable at the end of the year	—				—
Weighted average exercise price	RMB8.00	RMB8.00	N/A	RMB8.00	RMB8.00

44. Share option scheme (continued)

STA share appreciation incentive scheme (continued)

The fair value of the units granted under STA Share Appreciation Incentive Scheme at each reporting date was determined using the Binomial model. These fair values and corresponding inputs into the model were as follows:

STA Share Appreciation Incentive Scheme (2016) — 1st batch	December 31, 2017	**December 31, 2018**
STA Share price (RMB)	45.50	**39.50**
Exercise price (RMB)	8.00	**8.00**
Expected volatility	23.30%–31.10%	**27.10%–31.10%**
Expected life (years)	1.39~4.39	**0.39~3.39**
Risk-free interest rate	3.72–3.82%	**2.50–2.70%**

STA Share Appreciation Incentive Scheme (2016) — 2nd batch and STA Appreciation Incentive Scheme (2017)	December 31, 2017	**December 31, 2018**
STA Share price (RMB)	45.50	**39.50**
Exercise price (RMB)	8.00	**8.00**
Expected volatility	26.00%–31.10%	**26.50%–29.50%**
Expected life (years)	2.54~5.54	**1.54~4.54**
Risk-free interest rate	3.79–3.85%	**2.70–2.70%**

The Group recognised share-based compensation expense of RMB6,422,000 during the year ended 2018 (2017: RMB8,827,000) in relation to STA Scheme Appreciation Incentive Scheme.

44. Share option scheme (continued)

2018 WuXi AppTec A share incentive scheme

On August 22, 2018, the shareholders' meeting of the Company passed a resolution to issue up to 8,856,900 A Shares of the Company under the 2018 WuXi AppTec A Share Incentive Scheme. On August 28, 2018, 7,085,500 restricted A shares of the Company were approved for a director of the Company and eligible employees to subscribe at the price of RMB45.53 per A Share and the remaining 1,771,400 A shares will be reserved for future distribution. In October 2018, 6,281,330 number of A Shares were subscribed by a director of the Company and eligible employees and RMB285,989,000 consideration were received by the Company. These granted restricted A Shares have a contractual term of no more than four years and unlock over a three year period, with 40%, 30% and 30% of the awards unlocking on the first, second and third anniversary date of the A Shares registration date upon meeting certain annual performance conditions. Pursuant to the black-out period provisions of the 2018 WuXi AppTec A Share Incentive Scheme, directors and employees shall not transfer the A Shares which fulfill the unlocking conditions to any third party in any form within the six months from each unlocking anniversary date.

Details of specific categories of restricted shares are as follows:

Categories	Date of grant	Number of restricted A shares	Subscribe price per share
Mr. Edward HU	October 31, 2018	91,000	RMB45.53
Employees	October 31, 2018	6,190,330	RMB45.53

For the year ended December 31, 2018, no share has been forfeited since granted.

44. Share option scheme (continued)

2018 WuXi AppTec A share incentive scheme (continued)

The fair value of the restricted A shares granted under 2018 WuXi AppTec A Share Incentive Scheme as at the grant date was determined using the Black-Scholes model by factoring the black-out period into the option pricing model. The fair value and corresponding inputs into the model were as follows:

	2018 WuXi AppTec A Share Incentive Scheme
Grant date A Share price (RMB)	87.15
Subscribe price (RMB)	45.53
Expected volatility in the black-out period	39.80%–57.50%
Expected life (years)	0.83~2.84
Risk-free interest rate	2.81%–3.26%

For the year ended December 31, 2018, the Group has recorded share-based expenses of RMB20,145,000 in relation to 2018 WuXi AppTec A Share Incentive Scheme.

45. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Dividends payable RMB'000	Payable for issue cost RMB'000	Amounts due to Loans from related parties RMB'000	Amounts due to related parties non-trade related RMB'000	Withholding tax payable related to acquisition of partial interest of subsidiaries from non-controlling shareholders RMB'000	Considerations received for subscribing restricted A shares RMB'000	Payables for acquisition of a property RMB'000	Borrowings RMB'000	Interest payables RMB'000	Total RMB'000
At January 1, 2017	—	—	129,356	1,142,966	426,622	—	—	489,385	—	2,188,329
Financing cash flows	(18,834)	(10,926)	(129,356)	(1,200,564)	(426,622)	—	(14,133)	1,141,152	(40,311)	(699,594)
Non-cash changes										
— Accrued interest expense	—	—	—	—	—	—	5,841	—	42,706	48,547
— Dividends declared	18,834	—	—	—	—	—	—	—	—	18,834
— Payables for acquisition of a property	—	—	—	—	—	—	260,077	—	—	260,077
— Payables for acquisition of partial interest of subsidiaries from non-controlling shareholders	—	—	—	650,500	—	—	—	—	—	650,500
— Foreign exchange effects	—	—	—	(18,872)	—	—	—	(12,348)	—	(31,220)
— Deferred issue costs	—	10,926	—	—	—	—	—	—	—	10,926
At December 31, 2017	—	—	—	574,030	—	—	251,785	1,618,189	2,395	2,446,399
Financing cash flows	**(19,205)**	**(36,850)**	**—**	**(574,030)**	**—**	**285,989**	**(28,265)**	**(1,518,054)**	**(83,348)**	**(1,973,763)**
Non-cash changes										
— Accrued interest expense	**—**	**—**	**—**	**—**	**—**	**—**	**11,288**	**—**	**81,119**	**92,407**
— Dividends declared	**19,205**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**19,205**
— Deferred issue costs	**—**	**76,386**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**76,386**
— Foreign exchange effects	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**34,865**	**—**	**34,865**
At December 31, 2018	**—**	**39,536**	**—**	**—**	**—**	**285,989**	**234,808**	**135,000**	**166**	**695,499**

46. Operating leases

The Group as lessees

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within one year	**189,428**	121,013
In the second to fifth year inclusive	**537,897**	371,657
Over five years	**532,731**	158,904
	1,260,056	651,574

Operating lease payments represent rental payables by the Group for certain of its office premises, factories and laboratories.

47. Capital commitments

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Commitments for the acquisition of property, plant and equipment	**342,586**	221,281
Commitments for the investments in associates and joint ventures	**118,390**	243,399
	460,976	464,680

48. Retirement benefit plans

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

48. Retirement benefit plans (continued)

The total cost charged to profit or loss in respect of the above-mentioned schemes amounted to approximately RMB287,838,000 for the years ended December 31, 2018 (2017: RMB217,684,000).

The Group has a defined contribution plan in the USA where participating employees may contribute to the plan 1% to 99% of their eligible annual compensation as defined in the Plan, up to the Internal Revenue Service contribution (the "IRS contribution") limit of USD18,000 for the years ended December 31, 2018 and 2017.

The Group makes a matching contribution of participants' elective deferral contribution of 100% of the first 1% and 50% for the next 5% of eligible participant contributions, with a maximum matching contribution of 3.5% of eligible participant compensation.

The total cost charged to expense in respect to the above mentioned defined contribution plan amounted to approximately USD3,147,000, equivalent to RMB21,668,000 (2017: USD2,360,000, equivalent to RMB15,943,000) for the years ended December 31, 2018.

49. Contingent liabilities

The Group had no significant contingent liabilities as at December 31, 2018 (December 31, 2017: nil).

50. Related party transactions and balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the years presented. In the opinion of the Directors, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

50. Related party transactions and balances (continued)

(1) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the reporting period.

Company	Relationship
WuXi PharmaTech (Note a)	Investor
WuXi AppTec (BVI) Inc. ("WXAT BVI") (Note b)	Investor
WX (BVI) Limited ("BVI Limited")	Fellow subsidiary
PhageLux Inc.	Associate
WuXi AppTec (Shanghai) Testing Co., Ltd.	Fellow subsidiary
WuXi HealthNet (Shanghai) Co., Ltd	Fellow subsidiary
WuXi MedImmune Biopharmaceutical Co. Limited	Joint venture
WuXi MedImmune Biopharmaceutical Co. Ltd.	Joint venture
JW Shanghai (Note c)	Joint venture/associate
Shanghai Mingju Biologics Technology Co., Ltd.	Associate
Shanghai Waigaoqiao WuXi AppTec Incubator Management Co., Ltd.	Joint venture
WuXi Biologics Holdings Co., Ltd.	Fellow subsidiary
WuXi AppTec Biopharmaceuticals Co., Ltd.	Fellow subsidiary
WuXi Biologics (Shanghai) Co., Ltd.	Fellow subsidiary
WuXi Biologics (Hong Kong) Limited.	Fellow subsidiary
WuXi AppTec (Suzhou) Testing Technology Co., Ltd.	Fellow subsidiary
WuXi Biologics Investment Limited	Fellow subsidiary
WuXi NextCode Genomics (Shanghai) Co., Ltd.	Fellow subsidiary
Shanghai Lecheng Technology Co., Ltd. (Note d)	Entities controlled by close family members of Controlling Shareholder
Shanghai Lechen International Trade Co., Ltd. (Note d)	Entities controlled by close family members of Controlling Shareholder
Hua Medicine and its subsidiaries	Entities significantly influenced by a Controlling Shareholder

Notes:

(a) WuXi PharmaTech was the ultimate holding company of the Company before the completion of reorganization. After the completion of reorganization, WuXi PharmaTech remained to be an intermediate investor of the Group since it was the sole shareholder of WXAT BVI.

(b) WXAT BVI was the intermediate holding company of the Company before the completion of reorganization. After the completion of reorganization, WXAT BVI remained to be a direct investor of the Group.

(c) JW Shanghai was a joint venture of the Group before April 2018. After a series of restructuring accomplished in April 2018, JW Shanghai became the subsidiary of JW Cayman, an associate of the Group.

(d) These companies are controlled by close family members of Dr. Ning Zhao, one of the ultimate Controlling Shareholders of the Group.

50. Related party transactions and balances (continued)

(2) Related party transactions:

(a) Provision of research and development service

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Associates	**4,994**	30
Joint ventures	**6,825**	7,152
Entities significantly influenced by a Controlling Shareholder	**39,142**	25,402
Fellow subsidiaries	**8,998**	18,256
Entities controlled by close family members of a Controlling Shareholder	**—**	2,057
	59,959	52,897

(b) Sales of products

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Entities significantly influenced by a Controlling Shareholder	**—**	9,911

(c) Provision of labor secondment services

	Year ended 31/12/2018 RMB’000	Year ended 31/12/2017 RMB’000
Fellow subsidiaries	**—**	1,334

50. Related party transactions and balances (continued)

(2) Related party transactions: (continued)

(d) Provision of administrative service

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Joint ventures	**4,551**	4,837
Fellow subsidiaries	**259**	6,271
	4,810	11,108

(e) Sales of raw materials

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
A joint venture	**—**	349
Fellow subsidiaries	**—**	16,037
An associate	**171**	—
	171	16,386

(f) Provision of premises sub-leasing services

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
A fellow subsidiary	**1,431**	1,431

50. Related party transactions and balances (continued)

(2) Related party transactions: (continued)

(g) Provision of purchase agency service

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Fellow subsidiaries	—	3,670

(h) Labor secondment service received

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Fellow Subsidiaries	—	4,932

(i) Genetic testing services received

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Fellow subsidiaries	—	3,962

(j) Sales agency service received

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Entities controlled by close family members of a Controlling Shareholder	—	340

For the year ended December 31, 2018

50. Related party transactions and balances (continued)

(2) Related party transactions: (continued)

(k) Interest expense

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
A fellow subsidiary	—	744
An investor	—	1,375
	—	2,119

(l) Sales of property and equipment

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Fellow subsidiaries	—	1,333

(m) Sales of other intangible assets

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
A fellow subsidiary	80	—

(n) Finance lease income

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
A fellow subsidiary	—	530

50. Related party transactions and balances (continued)

(2) Related party transactions: (continued)

(o) Rental expenses

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
A fellow subsidiary	—	830
A joint venture	348	—
	348	830

(p) Purchase of property and equipment

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Fellow subsidiaries	—	10

(3) Related party balances:

Amounts Due from Related Parties

	31/12/2018 RMB'000	31/12/2017 RMB'000
Trade receivables	11,420	6,852
Non-trade related		
Other receivables	2,462	15,418
Allowance for impairment losses of other receivables	—	(5,707)
	2,462	9,711
Total amounts due from related parties	13,882	16,563

50. Related party transactions and balances (continued)

(3) Related party balances: (continued)

Amounts due from related parties (continued)

The Group allows a credit period within 90 days to its customers. The following is an aging analysis of trade related amounts due from related parties (net of allowance for impairment losses) presented based on the invoice dates, at the end of each year in the reporting period:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within 90 days	**11,420**	6,852

In determining the recoverability of the trade related amounts due from related parties, the Group considers any change in the credit quality of the trade related amount due from related parties from the date on which the credit was initially granted up to December 31, 2018. The credit quality of the trade related amounts due from related parties that are neither past due nor impaired had not changed during the reporting period.

Details of amounts due from related parties are set out in below:

Trade related	**31/12/2018 RMB'000**	31/12/2017 RMB'000
Trade receivables		
Associates	**1,903**	25
Joint ventures	**623**	3,127
Fellow subsidiaries	**8,894**	—
Entities significantly influenced by a Controlling Shareholder	**—**	3,700
	11,420	6,852

50. Related party transactions and balances (continued)

(3) Related party balances: (continued)

Amounts due from related parties (continued)

Non-trade related	31/12/2018 RMB'000	31/12/2017 RMB'000
Other receivable		
A joint venture	—	15,418
An associate	2,462	—
Allowance for doubtful debts	—	(5,707)
	2,462	9,711

Amounts Due to Related Parties

Non-trade related	31/12/2018 RMB'000	31/12/2017 RMB'000
Considerations received from key management personnel for subscribing restricted A shares of the Company under the 2018 WuXi AppTec A Share Incentive Scheme (Note 44)	12,015	—
Investor	—	839,562
	12,015	839,562

As at December 31, 2018, included in the contract liabilities of the Group is RMB2,568,000 (December 31, 2017: RMB29,361,000) received from related parties in advance of delivery of services.

50. Related party transactions and balances (continued)

(4) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management of the Group during the reporting period were as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Salaries and other benefits	**26,460**	22,386
Performance-based bonus	**17,687**	17,176
Share-based compensation	**925**	—
	45,072	39,562

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

51. Particulars of principal subsidiaries of the company

51.1 General information of subsidiaries

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Full Name of subsidiaries	Place and date of incorporation/ establishment	Authorized share capital/ Registered capital	Attributable equity interest held by the Company as at December 31, 2018 Direct	December 31, 2018 Indirect	December 31, 2017 Direct	December 31, 2017 Indirect	Principal activities
WXAT Shanghai (上海藥明康德新藥開發有限公司)	PRC/April 2, 2002	RMB2,212,710,000	**100.00%**	**—**	100%	—	Discovery, research and development of small molecule
Shanghai SynTheAll Pharmaceutical Co., Ltd. (上海合全藥業股份有限公司) ("STA")	PRC/January 23, 2003	RMB442,060,881	**—**	**86.58%**	—	87.50%	Process development, improvement and production services for small molecule drugs
Shanghai STA Pharmaceutical R&D Co., Ltd. (上海合全藥物研發有限公司) ("STARD")	PRC/April 15, 2011	RMB30,000,000	**—**	**86.58%**	—	87.50%	Process development services for small molecule drugs
Changzhou SynTheAll Pharmaceutical Co., Ltd. (常州合全藥業有限公司) ("STACZ")	PRC/ September 29, 2013	RMB945,000,000	**—**	**86.58%**	—	87.50%	Process development, improvement and production services for small molecule drugs
STA Pharmaceutical Hong Kong Limited (合全藥業香港有限公司) ("STAHK")	Hong Kong (the "HK")/April 12, 2011	HK$10,000	**—**	**86.58%**	—	87.50%	Business development and trade services

51. Particulars of principal subsidiaries of the company (continued)

51.1 General information of subsidiaries (continued)

Full Name of subsidiaries	Place and date of incorporation/ establishment	Authorized share capital/ Registered capital	Attributable equity interest held by the Company as at				Principal activities
			December 31, 2018		December 31, 2017		
			Direct	**Indirect**	Direct	Indirect	
WuXi AppTec (Wuhan) Co., Ltd (武漢藥明康德新藥開發有限公司) ("WXAT Wuhan")	PRC/ November 12, 2010	RMB196,239,000	**60.00%**	**40.00%**	60.00%	40.00%	Discovery, research and development of small molecule drugs
WuXi AppTec (Suzhou) Co., Ltd. (蘇州藥明康德新藥開發股份有限公司) ("WXAT Suzhou")	PRC/October 8, 2006	RMB600,000,000	**80.06%**	**19.94%**	54.29%	45.71%	Pharmacology, Toxicology and Safety Evaluation Research Services
WuXi AppTec (Tianjin) Co., Ltd. (天津藥明康德新藥開發有限公司) ("WXAT Tianjin")	HK/March 26, 2012	RMB600,000,000	**100.00%**	**—**	100.00%	—	Discovery, research and development of small molecule drugs
WuXi AppTec (HongKong) Limited (藥明康德(香港)有限公司) ("WXAT HK")	HK/March 26, 2012	HK$10,000	**100.00%**	**—**	100.00%	—	Business development and trade services
WuXi AppTec International Holdings Limited 藥明康德國際控股有限公司 ("WXAT International")	BVI/ December 17, 2015	2,000,000 authorized shares, no par value	**100.00%**	**—**	100.00%	—	Holding Company
WuXi AppTec (Hong Kong) Holding Limited	HK/ January 6, 2015	HK$10,000	**—**	**100.00%**	—	100.00%	Holding Company
WuXi AppTec (Chengdu) Co., Ltd. (成都藥明康德新藥開發有限公司)	PRC/ September 20, 2017	RMB550,000,000	**100.00%**	**—**	100.00%	—	Discovery, research and development of small molecule drugs

51. Particulars of principal subsidiaries of the company (continued)

51.1 General information of subsidiaries (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

51.2 Details of non-wholly subsidiaries that have material non-controlling interests

	Principal place of business and place of incorporation	Proportion of ownership interests as at		Profit (loss) allocated to non-controlling Interests for the year ended		Accumulated non-controlling interests as at	
		31/12/2018	31/12/2017	**31/12/2018**	31/12/2017	**31/12/2018**	31/12/2017
				RMB'000	RMB'000	**RMB'000**	RMB'000
STA Group	PRC	**86.58%**	87.50%	**77,003**	70,555	**476,733**	391,308
Individually immaterial subsidiaries with non-controlling interests				**(3,845)**	(928)	**477**	4,323
Total				**73,158**	69,627	**477,210**	395,631

Summarized financial information in respect of STA Group is set out below. The summarized information below represents amounts before intragroup eliminations.

51. Particulars of principal subsidiaries of the company (continued)

51.2 Details of non-wholly subsidiaries that have material non-controlling interests (continued)

STA Group

	31/12/2018 RMB'000	31/12/2017 RMB'000
Current assets	**2,269,729**	2,254,800
Non-current assets	**2,541,180**	1,865,171
Current liabilities	**1,156,226**	918,760
Non-current liabilities	**102,308**	71,846
Equity attributable to owners of the Company	**3,075,642**	2,738,057
Non-controlling interests	**476,733**	391,308

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue	**2,705,885**	2,125,062
Expenses	**(2,103,547)**	(1,648,845)
Profit attributable to owners of the Company	**525,335**	405,662
Profit attributable to the non-controlling interests of STA Group	**77,003**	70,555
Profit for the year	**602,338**	476,217
Other comprehensive (expense) income attributable to owners of the Company	**(40,419)**	9,824
Other comprehensive (expense) income attributable to the non-controlling interests of STA Group	**(5,984)**	1,733
Other comprehensive (expense) income for the year	**(46,403)**	11,557

51. Particulars of principal subsidiaries of the company (continued)

51.2 Details of non-wholly subsidiaries that have material non-controlling interests (continued)

STA Group (continued)

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Total comprehensive income attributable to owners of the Company	**484,916**	415,486
Total comprehensive income attributable to the non-controlling interests	**71,019**	72,288
Total comprehensive income for the year	**555,935**	487,774
Dividends paid to non-controlling interests of STA Group	**(19,205)**	(18,834)
Net cash inflow from operating activities	**674,945**	552,052
Net cash (outflow) inflow from investing activities	**(810,748)**	132,900
Net cash outflow from financing activities	**(379,946)**	(106,131)
Net cash (outflow) inflow	**(515,749)**	578,821

51.3 Change in ownership interest in subsidiaries

For the year ended December 31, 2018

In February 2018, STA acquired 100% equity interests in WuXi STA Pharmaceutical Co., Ltd. (無錫合全藥業有限公司) formerly known as Jiangsu Xinfu Pharmaceutical Co., Ltd. (江蘇信孚藥業有限公司) and WuXi AppTec Pharmaceutical Co., Ltd. (無錫藥明康德藥業有限公司) ("Xin Fu") from WXAT Shanghai, parent company of STA, for a cash consideration of RMB58,649,000 to integrate resources for the CMO/CDMO services. This reorganization adjusted down the Group's equity interest in STA by RMB2,353,000 and increased corresponding non-controlling interests by RMB2,353,000 to reflect the changes in their relative interests in STA.

51. Particulars of principal subsidiaries of the company (continued)

51.3 Change in ownership interest in subsidiaries (continued)

For the year ended December 31, 2018 (continued)

In June 2018, totalling 1,197,000 ordinary STA Shares were exercised under the STA Overseas Employees Incentive Scheme (details set out in Note 44), which diluted the Company's indirect equity interest in STA from 87.50% to 87.22%.

In September 2018, totalling 3,234,000 ordinary STA Shares were vested under the STA Share Option Incentive Scheme (details set out in Note 44), which diluted the Company's indirect equity interest in STA from 87.22% to 86.58%.

For the year ended December 31, 2017

In May 2017, the Group acquired additional equity interest of 7.56% of STA at a total consideration of RMB650,500,000, increasing its equity interest in STA from 79.72% to 87.28%. The difference of RMB454,335,000 between the aggregate decrease in the non-controlling interests of RMB196,165,000 and the total consideration of RMB650,500,000 paid by the Group has been credited to capital reserve.

In June 2017, totalling 1,197,000 ordinary STA Shares were exercised under the STA Overseas Employees Incentive Scheme (details set out in Note 44).

In July 2017, STA issued 12,960,000 ordinary shares to WXAT Shanghai to acquire the entire business of pharmaceutical development services division ("PDS") of WXAT Shanghai.

In November 2017, totalling 3,135,000 ordinary STA Shares were vested under the STA Share Option Scheme (details set out in Note 44).

Those transactions occurred during 2017 increased the Company's indirect interests in STA from 79.72% to 87.50%.

52. Statement of financial position and reserves of the company

	31/12/2018 RMB'000	31/12/2017 RMB'000
Non-current Assets		
Interests in subsidiaries	6,006,474	2,803,424
Prepaid lease payments	88,690	—
Other non-current assets	—	10,926
	6,095,164	2,814,350
Current Assets		
Amounts due from subsidiaries	2,203,028	1,136,136
Prepaid lease payments	1,810	—
Trade and other receivables	10,820	511
Income tax recoverable	1,959	—
Financial assets at FVTPL	570,724	—
Bank balances and cash	4,472,838	120,215
	7,261,179	1,256,862
Current Liabilities		
Amounts due to subsidiaries	24,763	18,804
Amounts due to related parties	12,015	574,030
Trade and other payables	332,482	15,957
Income tax payables	—	14,226
	369,260	623,017
Net Current Assets	6,891,919	633,845
Total Assets Less Current Liabilities	12,987,083	3,448,195
Capital and Reserves		
Share capital	1,164,741	937,787
Reserves	11,822,342	2,510,408
Total Equity	12,987,083	3,448,195

52. Statement of financial position and reserves of the company (continued)

Movement in the Company's reserves

	Share premium RMB'000	Treasury shares RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Share-based payment reserve RMB'000	Accumulated (deficit) Retained earnings RMB'000	Total RMB'000
At January 1, 2017	2,311,714	—	—	(8)	—	(14,261)	2,297,445
Profit and total comprehensive income for the year	—	—	—	—	—	212,963	212,963
Transferred to statutory reserve	—	—	21,296	—	—	(21,296)	—
Retained earnings transferred to share premium in relation to conversion into a joint stock limited company	282	—	—	—	—	(282)	—
At December 31, 2017	2,311,996	—	21,296	(8)	—	177,124	2,510,408
Profit and total comprehensive income for the year	—	—	—	—	—	664,130	664,130
Issue of A Shares upon Listing on Shanghai Stock Exchange	2,146,490	—	—	—	—	—	2,146,490
Issue of H Shares upon listing on The Hong Kong Stock Exchange	6,853,104	—	—	—	—	—	6,853,104
Issue of restricted A Shares (Note 44)	279,708	(285,989)	—	—	—	—	(6,281)
Transferred to statutory reserve	—	—	66,413	—	—	(66,413)	—
Transaction costs attributable to issue of new shares	(365,654)	—	—	—	—	—	(365,654)
Equity-settled share-based payment	—	—	—	—	20,145	—	20,145
At December 31, 2018	11,225,644	(285,989)	87,709	(8)	20,145	774,841	11,822,342

53. Subsequent events

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

The over-allotment option granted pursuant to the listing of the Company's shares in The Hong Kong Stock Exchange has been partially exercised by the joint global coordinators, on behalf of the international underwriters, on January 4, 2019, in respect of an aggregate of 5,321,200 H Shares, which representing approximately 4.57% of the total number of offer shares initially available under the global offering before any exercise of the over-allotment option to cover over-subscription in the international offering. The portion of the over-allotment option which has not been exercised by the joint global coordinators (on behalf of the international underwriters) lapsed on January 5, 2019. The over-allotment shares was issued and allotted by the Company at HK$68.0 per H Share on January 9, 2019 and HKD361,842,000 total proceeds were received by the Company.

Subsequent to the end of the reporting period, the Board proposes the 2018 Profit Distribution Plan as follows: (1) a dividend in an aggregate amount of RMB678,636,125.88 (inclusive of tax) to be paid to Shareholders of the Company on the record date for determining the Shareholders' entitlement to the 2018 Profit Distribution Plan (which amounts to a dividend of RMB5.80 (inclusive of tax) for every 10 Shares of the Company based on the total issued Shares of the Company as of the date of this annual report), and (2) 4 new Shares for every 10 existing Shares of the Company to be issued out of reserve to all Shareholders. The 2018 Profit Distribution Plan is subject to, amongst others, approval by Shareholders of the Company at the forthcoming AGM and application be made to and approved by the Hong Kong Stock Exchange for the listing of and permission to deal in the new H Shares (in respect of the capitalization issue).

The board of directors of the Company has proposed to seek delisting of STA from the National Equities Exchange and Quotations (全國中小企業股份轉讓系統) ("NEEQ") (the "Proposed Delisting"). The board of directors of the Company believes that the Proposed Delisting would allow STA to focus on long-term development strategy and enhance operational efficiency, and save unnecessary administrative and other listing-related costs and expenses.

As at the date of the issuance of the consolidated financial statements, no material terms concerning the Proposed Delisting have been agreed and the Company has not entered into any definitive agreement in relation to the Proposed Delisting.

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

"2018 AGM"	the annual general meeting of the Company to be held on June 3, 2019
"2018 WuXi AppTec A Share Incentive Scheme"	the share incentive scheme adopted by the Company on August 22, 2018, the principal terms of which are summarized in the Prospectus
"A Share(s)"	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed for trading on the Shanghai Stock Exchange and traded in Renminbi
"AGM"	annual general meeting of the Company
"Articles" or "Articles of Association"	the articles of association of the Company as amended from time to time
"Audit Committee"	the audit committee of the Board
"ADME"	Absorption, Distribution, Metabolism and Excretion, the analysis of the body's processes of altering, utilizing and eliminating ingested and administered drugs and xenobiotics
"API"	active pharmaceutical ingredient
"Board Committees"	the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy Committee
"Board of Directors" or "Board"	our board of Directors
"BVI"	British Virgin Islands
"CAGR"	Compound annual growth rate
"CDMO"	Contract Development and Manufacturing Organization, a CMO that in addition to comprehensive drug manufacturing services, also provide process development and other drug development services in connection with its manufacturing services

"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules
"cGMP"	Current Good Manufacturing Practice regulations, regulations enforced by the FDA on pharmaceutical and biotech firms to ensure that the products produced meet specific requirements for identity, strength, quality and purity
"China" or "PRC"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
"CMC"	chemistry, manufacturing and controls, an important and detailed section in a dossier to support clinical studies and marketing applications
"CMO"	Contract Manufacturing Organization, a company that serves other companies in the pharmaceutical industry on a contract basis to provide comprehensive drug manufacturing services
"Company", "our Company", "WuXi AppTec", "Group", "our Group", "we", "our" or "us"	WuXi AppTec Co., Ltd.* (無錫藥明康德新藥開發股份有限公司), a joint stock limited company incorporated under the laws of the PRC, the predecessor of which, WuXi AppTec Ltd. (無錫藥明康德新藥開發有限公司) (formerly known as WuXi PharmaTech Co., Ltd. (無錫藥明康德組合化學有限公司)), was established under the laws of the PRC as an enterprise legal person in December 2000, the A Shares of which are listed on the Shanghai Stock Exchange (stock code: 603259) and the H shares of which are listed on the Hong Kong Stock Exchange (stock code: 02359) and if the context requires, includes its predecessor
"CRO"	Contract Research Organization

"DMPK"	Drug Metabolism and Pharmacokinetics, refers to studies designed to determine the absorption and distribution of an administered drug, the rate at which a drug takes effect, the duration a drug maintains its effects and what happens to the drug after being metabolized by the body
"Director(s)"	the director(s) of the Company or any one of them
"FDA"	Food and Drug Administration
"Founding Individuals"	Dr. Ge Li, Dr. Ning Zhao, Mr. Xiaozhong Liu and Mr. Zhaohui Zhang
"Global Offering"	the Hong Kong public offering and the international offering of H Shares as described in the Prospectus
"GLP"	Good Laboratory Practice, a qualify system of management controls for research laboratories and organizations to try to ensure the uniformity, consistency, reliability, reproducibility, quality and integrity of chemical and pharmaceuticals non-clinical safety tests
"GMP"	Good Manufacturing Practice, a quality system imposed on pharmaceutical firms to ensure that products produced meet specific requirements for identity, strength, quality and purity, and enforced by public agencies, for example the U.S. FDA
"H Share(s)"	overseas-listed foreign shares in the share capital of our Company with nominal value of RMB1.00 each, which are listed on the Stock Exchange
"HK$" or "Hong Kong dollars"	Hong Kong dollars and cents, both are the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IPO"	the initial public offering of the Company on the Hong Kong Stock Exchange, having become unconditional in all aspects on December 13, 2018

"Listing"	the listing of the H Shares on the Main Board of the Stock Exchange
"Listing Date"	December 13, 2018, on which the H Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Prospectus"	the prospectus of the Company dated December 3, 2018
"Remuneration and Appraisal Committee"	the remuneration and appraisal committee of the Board
"RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the year ended December 31, 2018
"Restricted A Shares"	the restricted A Shares granted by the Company under the 2018 WuXi AppTec A Share Incentive Scheme
"SFO"	Securities and Futures Ordinance (Chapter 571 of The Laws of Hong Kong)
"Share(s)"	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	the strategy committee of the Board
"Supervisor(s)"	member(s) of our Supervisory Committee
"Supervisory Committee"	the supervisory committee of our Company

"U.S."	the United States of America, its territories, its possession and all areas subject to its jurisdiction
"U.S. dollars", "USD" or "US$"	United States dollars, the lawful currency of the United States
"WuXi Biologics"	WuXi Biologics (Cayman) Inc. (藥明生物技術有限公司) (stock code: 2269), a company incorporated under the laws of Cayman Islands with limited liability on February 27, 2014, the shares of which were listed on the Main Board of the Stock Exchange on June 13, 2017
"%"	percentage

* For identification purposes only

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