



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

INTERIM REPORT 2020



*For identification purpose only



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Ge Li (李革)
(Chairman and Chief Executive Officer)
Mr. Edward Hu (胡正國)
(Vice Chairman and Global Chief Investment Officer)
Dr. Steve Qing Yang (楊青)
(Co-chief Executive Officer)
(appointed on May 15, 2020)
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. Siu Wing Kit (蕭穎潔)
(appointed on March 24, 2020)

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

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STOCK CODE

A Share: 603259
H Share: 02359

COMPANY'S WEBSITE

www.wuxiapptec.com.cn

Financial Highlights

	Six months ended June 30,		Change
	2020 <i>RMB million</i> (except for percentages)	2019 <i>RMB million</i> (except for percentages)	
Operating Results			
Revenue	7,231.4	5,894.4	22.7%
Gross Profit	2,658.6	2,283.6	16.4%
<i>Gross Profit Margin</i>	36.8%	38.7%	
Net Profit Attributable to the Owners of the Company	1,717.2	1,056.8	62.5%
<i>Margin of Net Profit Attributable to the Owners of the Company</i>	23.7%	17.9%	
Adjusted Non-IFRS Net Profit Attributable to the Owners of the Company	1,518.7	1,178.7	28.9%
<i>Margin of Adjusted Non-IFRS Net Profit Attributable to the Owners of the Company</i>	21.0%	20.0%	
	RMB	RMB	
Earnings per Share			
— Basic	0.75	0.46	63.0%
— Diluted	0.74	0.46	60.9%
Adjusted Non-IFRS Earnings per Share			
— Basic	0.67	0.52	28.8%
— Diluted	0.66	0.51	29.4%
	Jun 30, 2020	December 31, 2019	Change
	RMB million (except for percentages)	<i>RMB million</i> (except for percentages)	
Financial Position			
Total Assets	30,875.4	29,239.1	5.6%
Equity Attributable to the Owners of the Company	18,532.5	17,312.3	7.0%
Total Liabilities	12,222.3	11,829.4	3.3%
Bank Balances and Cash	2,848.5	5,223.3	-45.5%
Gearing Ratio	39.6%	40.5%	

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

A. Analysis on Principal Operations

During the Reporting Period, we realized revenue of RMB7,231.4 million, representing a YoY growth of 22.7%. Our China-based laboratory services realized revenue of RMB3,780.0 million, representing a YoY growth of 26.5%. Our CDMO/CMO service realized revenue of RMB2,161.5 million, representing a YoY growth of 25.8%. Our U.S.-based laboratory services realized revenue of RMB781.7 million, representing a YoY growth of 10.1% while our clinical research and other CRO services realized revenue of RMB500.0 million, representing a YoY growth of 5.9%.

- **Revenue**

During the Reporting Period, we achieved solid growth in spite of the COVID-19 impact on our China-based laboratory services (first quarter), U.S.-based laboratory services (second quarter) and clinical research and other CRO services (first and second quarters) business. Our growth was broadly spread across all our business segments, and was attributable to the timely implementation of our Business Continuity Plan and increased demand from customers.

Our “long-tail” strategy and CDMO business model continued to perform very well. During the Reporting Period, we added nearly 600 new customers and the number of our active customers exceeded 4,000. By leveraging our integrated end-to-end R&D services platform, we were able to create further synergies across all our segments and continuously expand our scope of services through our “follow the project” and “follow the molecule” strategies.

We continued to enhance our capacity and capabilities across all segments globally. During the Reporting Period, the large-scale oligonucleotide API production workshop, high potency API production workshop and large-scale peptide API production workshop of STA Pharmaceutical Co., Ltd., a subsidiary of the Group, were put into use one after another, to better meet the growing demands of customers. In January 2020, we started the construction of a new drug product development and production facility in STA Wuxi site. This facility will not only improve the development and production capacity of solid dosages, but also has the capability of sterile drug product development, clinical trial material production and commercial scale manufacturing. Our Philadelphia cell and gene therapies facility expanded its service capabilities by offering a fully integrated AAV Vector Suspension Platform and a fully integrated Closed Process CAR-T Cell Therapy Platform, which will help our customers to accelerate the timeline for cell and gene therapy development, manufacturing and release. In July 2020, our newly built Chengdu R&D center began operation, and will become an extension of our China-based laboratory services.

(1) *China-based Laboratory Services*

During the Reporting Period, our China-based laboratory services realized revenue of RMB3,780.0 million, representing a YoY growth of 26.5%. We have one of the largest and most experienced small molecule chemical drug R&D teams globally. On one hand, we assisted our global customers in pushing forward the R&D process for innovative pharmaceutical products; on the other hand, we continued to enable the small molecule new drug R&D industry in China with our market leading expertise. In the second quarter, our China-based laboratories resumed full operation and benefitted from increased demand from overseas customers.

In relation to small molecule drug discovery services, we performed over 11,000 chemical reactions daily. During the Reporting Period, we assisted global customers in developing multiple pre-clinical candidate molecules and applied for patents with various academic papers published. We have built a DEL with approximately 90 billion compounds. To optimize our resources, during the Reporting Period, we integrated DEL, protein production business unit and structure-based drug design business unit to build a target-to-hit platform for drug discovery. With comprehensive integration of technology and customer resources, our target-to-hit platform will be able to attract new long-tail customers and create incremental business opportunities for downstream services. During the Reporting Period, over 300 customers globally have used our integrated target-to-hit compound discovery platform to discover innovative small molecule drugs.

In relation to laboratory testing, our services include analytical chemistry, DMPK, ADME, toxicology and bioanalytical testing. In addition, we fully leverage the power of the platform and combine our technical experience, program management and regulatory expertise to facilitate submission of our customers' IND package. During the Reporting Period, we signed 50 integrated WIND (WuXi IND Program) packages which combined our technical experience, program management and regulatory expertise with our customers, helping many of our global and China customers submit their IND packages and obtain FDA clinical trial approval under eCTD format.

During the Reporting Period, we strengthened the sales team of our China-based cell and gene therapies CDMO services, and the number of our customers and contracts grew rapidly. In addition, we developed a long-term partnership with our first customer for its commercial manufacturing project. In relation to business operation, we increased the efficiency and utilization of our facilities, sustaining project delivery timelines during COVID-19. We optimized the process development of plasmid and lentivirus, which further reduced manufacturing cost. During the Reporting Period, we provided cell therapy CDMO services to multiple customers. We launched our AAV adherent manufacturing platform and started to build an AAV Vector Suspension Platform in China.

In addition, we provided integrated drug discovery and R&D services to Chinese customers which span from early stage drug discovery to completion of IND filings with NMPA. These projects have success-based agreements that provide us with a milestone and/or royalty fee. During the Reporting Period, we assisted Chinese customers in making 13 IND filings with NMPA for new-chemical entities and assisted our customers in obtaining 9 CTA from NMPA. As at June 30, 2020, in total, we assisted Chinese customers in submitting 98 new-chemical entities IND filings and obtained 66 CTAs from NMPA, with 1 project in Phase III clinical trials, 8 projects in Phase II clinical trials, and 54 projects in Phase I clinical trials.

(2) CDMO/CMO Services

During the Reporting Period, our CDMO/CMO services realized revenue of RMB2,161.5 million, representing a YoY growth of 25.8%. We have one of the largest R&D process teams in China with strong R&D capabilities. It is China's first chemical process development and production platform that has passed the FDA's pre-approval inspection of innovative drugs. Meanwhile, we were approved by the drug regulatory authorities of the United States, China, the European Union, Japan, Canada, Switzerland, Australia and New Zealand, providing innovative drug APIs and GMP intermediates commercial supply for the above countries and regions.

We continued to implement our strategy of “expanding services along with the development of drugs”. By establishing close collaborative relationships with our customers during the pre-clinical stage, we are able to seek opportunities for new projects from pre-clinical stage to the commercialization stage, facilitating sustainable and rapid growth in revenue from our CDMO/CMO services. During the Reporting Period, our small molecule CDMO/CMO pipeline has grown to about 1,100 active projects, including 42 projects in Phase III and 26 projects in the commercial manufacturing stage. In terms of serving Chinese customers, we have 26 MAH projects in progress, including 4 commercial projects.

During the Reporting Period, our CDMO/CMO services made considerable progress in a number of new technical capabilities and capacity. We continued to improve our flow chemistry technology platform, and have applied flow chemistry technology to large-scale production in several late clinical stage and commercialization projects. We have further expanded the production capacity of high potency APIs, the newly built high potency lab and workshop have been put into operation in our Changzhou site, which is the second R&D and production site of high potency APIs after Jinshan, which will boost our annual production capacity of high potency APIs to 100 kg level. We continue to strengthen the CDMO capability building of oligonucleotide and peptide drugs. In January 2020, our kilogram grade oligonucleotide commercial production workshop in Changzhou was officially put into operation, and the maximum scale of single batch of oligonucleotide APIs increased to 1 mole, which can better meet the growing demands of customers. In June 2020, STA large-scale peptide API production workshop was officially put into operation in Changzhou, with a total of 7 production lines, to meet the demands from preclinical stage to commercial supply. In January 2020, we started the construction of a new drug product development and production facility in STA Wuxi site. This facility will not only improve the development and production capacity of solid dosages, but also has the capability of sterile drug product development, clinical trial material production and commercial scale manufacturing.

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

During the Reporting Period, Our U.S.-based laboratory services realized revenue of RMB781.7 million, representing a YoY growth of 10.1%. This segment comprises our US cell and gene therapies CDMO services and medical device testing services. In the second quarter of 2020, our U.S.-based laboratory operations were negatively impacted by the COVID-19 environment resulting in slower growth.

Cell and gene therapies CDMO services is an emerging business with strong market opportunities. During the Reporting Period, the revenue of our cell and gene therapies CDMO services grew by about 4%. The main reasons are: (1) due to the impact of COVID-19, the operation efficiency of our laboratories and factories has declined periodically; (2) the COVID-19 environment is also impacting our customer base as on-site visits were delayed or cancelled due to government mandated lockdowns and travel restrictions. We have been working to utilize digital technology to mitigate impacts on both our workforce and customers; and (3) select projects were terminated due to unsuccessful customers' clinical trials.

During the Reporting Period, we continued to strengthen the capacity of our cell and gene therapies CDMO services. We launched a fully integrated AAV Vector Suspension Platform and a fully integrated Closed Process CAR-T Cell Therapy Platform, which will help our customers to accelerate the timeline for cell and gene therapy development, manufacturing and release. As at June 30, 2020, we provided CDMO services for 31 clinical phase cell and gene therapy projects, including 22 phase I clinical trials and 9 phase II/III clinical trials. In July 2020, we signed a late phase manufacturing deal with a customer for their allogeneic cell therapy product, which is currently under FDA priority review. As more customer projects go into late stage clinical trials, we expect our capacity utilization rate will continue to ramp up in 2021.

During the Reporting Period, our medical device testing service was also affected by COVID-19, resulting in declined efficiency. Despite the operational challenges we continue to see increased business demand as the European Union Medical Devices Regulation (REGULATION (EU) 2017/745) has greatly enhanced the standards on the certification of medical devices, and our revenue grew by about 18% during the Reporting Period.

(4) Clinical research and other CRO Services

During the Reporting Period, our clinical research and other CRO services realized revenue of RMB500.0 million, representing a YoY growth of 5.9%. Our clinical research and other CRO services were dramatically impacted by COVID-19 and revenue growth slowed. Since the acquisition of Pharmapace, Inc., our biometrics business has maintained strong momentum and achieved rapid growth in both U.S. and China. During the Reporting Period, we continued to strengthen our global clinical research network. By the end of the Reporting Period, our clinical development services team had more than 830 employees in China and overseas. Our SMO team had more than 2,800 clinical research coordinators based across more than 135 cities throughout China and provided SMO services in more than 900 hospitals.

During the Reporting Period, our clinical development team provided services to more than 130 projects for our clients in China and U.S. Among these, the highlight of our achievements included assisting the registration trials of 5 products in China including a customer's first-in-class drug for the treatment of type II diabetes which obtained positive results in a pivotal trial, a global customer's new drug for the treatment of pulmonary arterial hypertension which obtained FDA approval, as well as other drugs for the treatment of tumor and chronic diseases, which successfully completed NDA/BLA submissions.

During the Reporting Period, our SMO team assisted in the market approval of 12 products for our customers, including a surgical implant for the treatment of glaucoma under real world evidence, the first bevacizumab biosimilar in China, and vedolizumab for the treatment of ulcerative colitis. Since the NMPA released its announcement on self-checking and inspection of clinical trial data of drugs on July 22, 2015, over 50 projects undertaken by our clinical research services were inspected, all of which passed inspections, fully demonstrating the high-quality standard of our SMO services.

- **Gross Profit**

During the Reporting Period, we realized a comprehensive gross profit of RMB2,658.6 million, representing a YoY growth of 16.4%. The gross profit of core business was RMB2,655.9 million, representing a YoY growth of 16.4%. The gross profit of China-based laboratory services was RMB1,562.7 million, representing a YoY growth of 20.1%. The gross profit of CDMO/CMO services was RMB851.4 million, representing a YoY growth of 22.0%. The gross profit of U.S.-based laboratory services was RMB187.4 million, representing a YoY decrease of 1.7%. The gross profit of clinical research and other CRO services was RMB54.3 million, representing a YoY decrease of 40.7%. The main reasons are as follows: (1) we paid more incentives, including share-based compensation, to our employees, which led to increased costs of RMB126.7 million; and (2) the gross margin of U.S.-based laboratory services, clinical research and other CRO services was impacted by COVID-19.

(1) *China-based Laboratory Services*

During the Reporting Period, our China-based laboratory service realized gross profit of RMB1,562.7 million, representing a YoY growth of 20.1%. Gross profit rate decreased by 2.2 percentage points, mainly due to our increasing incentive for key talents, including a restricted stock plan, which resulted in a cost increase of RMB83.4 million.

(2) *CDMO/CMO Services*

During the Reporting Period, our CDMO/CMO service realized a gross profit of RMB851.4 million, representing a YoY growth of 22.0%, and the gross profit rate decreased by 1.2 percentage points mainly due to our increasing incentive for key talents, including the restricted stock plan, resulting in a cost increase of RMB25.6 million over the same period last year.

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

During the Reporting Period, our U.S.-based laboratory services realized a gross profit of RMB187.4 million, representing a YoY decrease of 1.7%, and a decrease of 2.9 percentage points in gross profit rate. This was mainly due to the aggravation of the COVID-19 epidemic situation in the United States and our increasing incentive for key talents, including restricted stock plan, resulting in a cost increase of RMB9.3 million over the same period last year.

(4) Clinical research and other CRO Services

During the Reporting Period, our clinical research and other CRO services realized a gross profit of RMB54.3 million, representing a YoY decrease of 40.7% and a decrease of 8.5 percentage point in gross profit margin. The main reasons are: (1) our increasing incentive for key talents, including restricted stock plan, which resulted in an increase of RMB8.5 million compared with the same period last year; and (2) the clinical development business in China and the United States was seriously affected by the COVID-19 pandemic, resulting in a decrease in gross profit.

- **Other Income**

Other income increased from RMB124.9 million for the six months ended June 30, 2019 to RMB128.0 million for the Reporting Period, representing YoY growth of 2.5%. The increase in other income was primarily due to: (1) an increase in government grants and subsidies of RMB25.9 million; (2) an increase in dividend income arising from financial assets at FVTPL of RMB3.4 million which was offset by (3) a decrease in interest income of RMB26.2 million.

- **Other Gains and Losses**

Other gains and losses experienced a turnaround from loss to gain, from a loss of RMB22.5 million for the six months ended June 30, 2019 to a gain of RMB721.8 million for the Reporting Period. The turnaround from loss to gain in other gains and losses was primarily due to: (1) an increase in fair value change on non-current financial assets of approximately RMB587.7 million, which mainly resulted from the increase of stock price of Schrödinger, Inc., Hua Medicine and Hygeia Healthcare Holdings Co., Limited; (2) an unrealized gain of RMB351.5 million was recognized due to change of accounting method of a non-listed company investment from equity method to financial asset at FVTPL; (3) an increase in fair value of biological assets of RMB133.0 million; (4) an increase in disposal gain of financial assets of RMB77.6 million; and (5) an increase in net foreign exchange gain of RMB114.7 million which was partially offset by (6) the fair value loss of RMB486.8 million from the derivative component of the Convertible Bonds.

- **Selling and Marketing Expenses**

Selling and marketing expenses increased from RMB208.5 million for the six months ended June 30, 2019 to RMB274.5 million for the Reporting Period, representing a YoY growth of 31.6%. The increase in selling and marketing expenses was primarily due to increased personnel costs from the execution of share incentive plans of the Group.

- **Administrative Expenses**

Administrative expenses increased from RMB671.2 million for the six months ended June 30, 2019 to RMB829.3 million for the Reporting Period, representing a YoY growth of 23.5%. The increase in administrative expenses was primarily due to: (1) an increase in personnel costs from the execution of share incentive plans of the Group; (2) an increase in depreciation and amortization expenses; and (3) an increase in equipment and software maintenance fees.

- **R&D Expenses**

R&D expenses of the Company increased from RMB243.6 million for the six months ended June 30, 2019 to RMB333.4 million for the Reporting Period, representing a YoY growth of 36.9%. The Group is committed to investing in new capabilities and technologies to better serve our customers. During the Reporting Period, the Group mainly invested in the DEL platform, protein production and drug discovery platform based on protein structure, increased the research of new mechanism and animal model, new process chemistry technologies, new product and new technology platform (oligonucleotides, peptides, enzyme catalyzed asymmetric synthesis, etc.) and gene therapy R&D platform.

- **Share of (Losses) Profits of Associates**

Share of (losses) profits of associates experienced a turnaround from gain to loss, from a gain of RMB73.0 million for the six months ended June 30, 2019 to a loss of RMB17.9 million for the Reporting Period. The turnaround from gain to loss in share of (losses) profits of associates was primarily due to: (1) a decrease in net equity income picked up from our associate, WuXi Healthcare Ventures II, L.P.; (2) an increase in net equity loss picked up from VW Clinical Innovations Limited, which was invested in September 2019.

- **Share of Losses of Joint Ventures**

Share of losses of joint ventures decreased from RMB20.2 million for the six months ended June 30, 2019 to RMB12.4million for the Reporting Period, which mainly resulted from decrease in net equity loss picked up from WuXi MedImmune Biopharmaceutical Co. Limited.

- **Finance Costs**

Finance costs increased from RMB32.8 million for the six months ended June 30, 2019 to RMB110.8 million for the Reporting Period, representing a YoY growth of 238.3%. The increase in finance costs was primarily due to: (1) an increase in interest expense of bank borrowings for daily operations, capital investments and acquisition projects; (2) an increase in effective interest expenses on Convertible Bonds; and (3) an increase in lease financing costs.

- **Income Tax Expense**

Income tax expenses increased from RMB176.5 million for the six months ended June 30, 2019 to RMB194.5 million for the Reporting Period, representing a YoY growth of 10.2%. The increase in income tax expense was primarily due to the increase in tax assessable profit.

- **Profit for the Period**

Profit for the Period increased from RMB1,105.0 million for the six months ended June 30, 2019 to RMB1,727.5 million for the Reporting Period, representing a YoY increase of 56.3%. Net profit margin increased from 18.7% to 23.9% primarily due to: (1) strong revenue growth during the Reporting Period and (2) an increase in fair value gain from invested portfolio companies (mainly Schrödinger, Inc., Hua Medicine and Hygeia Healthcare Holdings Co., Limited).

- **Cash Flows**

	Six months ended June 30,	
	2020	2019
	RMB million	<i>RMB million</i>
Net cash from operating activities	1,399.6	877.7
Net cash used in investing activities	(2,531.0)	(2,590.7)
Net cash used in financing activities	(1,293.2)	(307.5)

For the Reporting Period, net cash flows from operating activities of the Group amounted to RMB1,399.6 million, representing an increase of 59.5% over the six months ended June 30, 2019. The increase was mainly due to the increase in revenue, effective cost control and timely collection of receivables.

For the Reporting Period, net cash flows used in investing activities of the Group amounted to RMB2,531.0 million, representing a decrease of 2.3% over the six months ended June 30, 2019. The decrease was primarily due to an increase in receipt of cash due to equity investment disposal.

For the Reporting Period, net cash flows used in financing activities of the Group amounted to RMB1,293.2 million, representing an increase of 320.6% over the six months ended June 30, 2019. The increase was primarily due to the decrease of net borrowing inflow of RMB1,415.0 million.

- **Indebtedness**

As at June 30, 2020, total liabilities of the Group amounted to RMB12,222.3 million (December 31, 2019: RMB11,829.4 million), the composition of which was 22.3% being the Convertible Bonds, 19.2% being borrowings, 10.1% being lease liabilities, and 26.5% being trade and other payables.

(1) *Borrowings*

As at June 30, 2020, the Group had aggregate borrowings of RMB2,344.7 million. Among the total borrowings, RMB1,787.0 million will be due within one year and RMB557.7 million will be due after one year. Floating interest rate borrowings amounted to RMB1,464.7 million and fixed rate borrowings amounted to RMB880.0 million.

65% equity interests in WuXi Clinical Development Services (Chengdu) Co., Ltd., which are held by its parent company WuXi Clinical Development Services (Shanghai) Co., Ltd., one of the Group's subsidiaries, were pledged to secure the borrowings of RMB15.0 million of WuXi Clinical Development Services (Chengdu) Co., Ltd.. In addition, bank acceptance notes and letters of credit issued by STA were pledged to secure the borrowings of RMB380.0 million for Changzhou SynTheAll Pharmaceutical Co., Ltd. (both are subsidiaries of the Group).

(2) *Charges on Assets*

Other than the equity interest, bank acceptance notes and letters of credit pledged to secure the borrowings mentioned in the section headed 'Borrowings' above, as at June 30, 2020, the Group pledged bank deposits in the amount of approximately RMB3.4 million, which was decreased by 13.5% from approximately RMB4.0 million as at December 31, 2019. The balance mainly represented deposits placed in banks as collateral for banks to issue bank acceptance notes, letters of credit and letters of guarantee for the Group's raw material purchasing and domestic construction projects.

(3) *Contingent Liabilities*

As at June 30, 2020, the Group has no significant contingent liabilities as disclosed in Note 31 to the condensed consolidated financial statements in this interim report.

(4) *Gearing Ratio*

As at June 30, 2020, the gearing ratio, calculated as total liabilities over total assets, was 39.6%, as compared with 40.5% as at December 31, 2019. During the Reporting Period, there was no significant change in the asset and liability structure of the Group.

- **Treasury Policies**

Currently, the Group follows a set of funding and treasury policies to manage its capital resources, foreign currencies and cash flows and prevent related risks. The Group applied its cash flows generated from operations, bank loans and proceeds from the issuance of the bonds to satisfy its operational and investment needs.

Certain entities in the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. In addition, certain entities in the Group also have receivables and payables which are denominated in currencies other than their respective functional currencies. The Group is mainly exposed to the foreign currency of the U.S. dollar. During the Reporting Period, the Group used derivative contracts to hedge against part of our exposure to foreign currency risk.

B. Non-IFRS Measure

To supplement our condensed consolidated financial statements which are presented in accordance with the IFRS, we use adjusted EBITDA and adjusted non-IFRS net profit attributable to the owners of the Company as additional financial measures. EBITDA represents net profit before interest expenses, income tax expenses and depreciation and amortization, while adjusted EBITDA further exclude certain expenses and gains or losses as set out in the table below. We define adjusted non-IFRS net profit attributable to the owners of the Company as profit/(loss) for the period before certain expenses and depreciation and amortization as set out in the table below. Adjusted EBITDA and adjusted non-IFRS net profit attributable to the owners of the Company are not an alternative to (i) profit before income tax or profit for the period (as determined in accordance with the IFRS) as a measure of our operating performance, (ii) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs, or (iii) any other measures of performance or liquidity.

The Company believes that the adjusted EBITDA and adjusted non-IFRS net profit attributable to the owners of the Company are useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these adjusted non-IFRS financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual, non-recurring, non-cash and/or non-operating items that the Group does not consider indicative of the performance of the Group's business. Such adjusted EBITDA and adjusted non-IFRS net profit attributable to the owners of the Company, as the management of the Group believes, is widely accepted and adopted in the industry in which the Group is operating in. However, the presentation of the adjusted EBITDA and adjusted non-IFRS net profit attributable to the owners of the Company are not intended to be (and should not 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 adjusted non-IFRS measures 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.

Management Discussion and Analysis

Adjusted EBITDA

	Six months ended June 30,	
	2020 <i>RMB million</i> (except for percentages)	2019 <i>RMB million</i> <i>(except for</i> <i>percentages)</i>
Profit before tax	1,922.0	1,281.5
Add:		
Interest expense	110.8	32.8
Depreciation and amortization	567.6	444.2
EBITDA	2,600.3	1,758.5
<i>EBITDA margin</i>	36.0%	29.8%
Add:		
Share-based compensation expense	334.7	76.6
Convertible Bonds issuance expense	3.3	—
Fair value loss from derivative component of Convertible Bonds	486.8	—
Foreign exchange related losses	25.8	229.4
Realized and unrealized gains from venture investments	(1,013.2)	(54.7)
Realized and unrealized share of losses of joint ventures	12.4	20.2
Adjusted EBITDA	2,450.0	2,030.0
<i>Adjusted EBITDA margin</i>	33.9%	34.4%

Note: The sum of the data above may not add up to the total amount due to rounding.

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

	Six months ended June 30,	
	2020	2019
	RMB million	<i>RMB million</i>
Profit attributable to the owners of the Company	1,717.2	1,056.8
Add:		
Share-based compensation expense	275.3	62.7
Convertible Bonds issuance expense	2.5	—
Fair value loss from derivative component of convertible bonds	486.8	—
Foreign exchange related losses	20.3	81.3
Amortization of acquired intangible assets from merge and acquisition	17.6	12.4
Non-IFRS net profit attributable to the owners of the Company	2,519.6	1,213.2
Add:		
Realized and unrealized gains from venture investments	(1,013.2)	(54.7)
Realized and unrealized share of losses from joint ventures	12.4	20.2
Adjusted non-IFRS net profit attributable to the owners of the Company	1,518.7	1,178.7

Note: The sum of the data above may not add up to the total amount due to rounding.

C. Assets and Liabilities Analysis

In RMB million

Items	Amount as at June 30, 2020	Percentage of the amount to the total assets as at June 30, 2020 (%)	Amount as at June 30, 2019	Percentage of the amount to the total assets as at June 30, 2019 (%)	Ratio of change for the amount as at June 30, 2020 as compared with the amount as at June 30, 2019 (%)	Reasons
Assets						
Right-of-use assets	1,524.1	4.9	1,111.8	4.6	37.1	Primarily due to the new leases in Shanghai and US sites.
Biological assets (current and non-current)	764.9	2.5	—	—	/	Primarily due to the Group increased biological assets for experiments and breeding through direct purchase and acquisition of subsidiaries.
Financial assets at FVTPL (non-current)	5,762.5	18.7	2,516.4	10.3	129.0	Primarily due to the additional equity investment in companies of drug R&D and fair value gain from investment portfolios.
Other non-current assets	578.3	1.9	62.1	0.3	830.8	Primarily due to the increased investments in the certificates of deposit.
Inventories	1,690.5	5.5	972.5	4.0	73.8	Primarily due to the growth in business and increased orders from customers.
Trade and other receivables	4,033.9	13.1	3,014.0	12.3	33.8	Primarily due to the growth in business.
Contract assets	454.7	1.5	322.4	1.3	41.0	Primarily due to the growth in business.
Financial assets at FVTPL (current)	1,804.8	5.8	3,152.4	12.9	-42.7	Primarily due to the redemption of wealth management products.
Liabilities						
Trade and other payables	3,238.5	10.5	2,476.8	10.1	30.8	Primarily due to the increased purchasing in inventories.
Amounts due to related parties	20.4	0.1	11.9	—	71.0	Primarily due to amounts received from Directors for restricted A Share incentive plans.

Management Discussion and Analysis

In RMB million

Items	Amount as at June 30, 2020	Percentage of the amount to the total assets as at June 30, 2020 (%)	Amount as at June 30, 2019	Percentage of the amount to the total assets as at June 30, 2019 (%)	Ratio of change for the amount as at June 30, 2020 as compared with the amount as at June 30, 2019 (%)	Reasons
Derivative financial instruments	55.6	0.2	103.3	0.4	-46.2	Primarily due to the fair value change in derivative financial instruments.
Contract liabilities	1,244.6	4.0	697.2	2.9	78.5	Primarily due to the increased advance payment received for new projects.
Borrowings (current and non-current)	2,344.7	7.6	1,309.9	5.4	79.0	Primarily due to the increased borrowings for daily operations, capital investments and acquisition projects.
Income tax payables	254.5	0.8	167.2	0.7	52.2	Primarily due to the increase of assessable income.
Financial liabilities at FVTPL (current and non-current)	43.7	0.1	32.4	0.1	34.9	Primarily due to increase in fair value of the contingent consideration from acquisition of Pharmapace, Inc..
Lease liabilities (current and non-current)	1,228.7	4.0	842.3	3.4	45.9	Primarily due to the new leases in Shanghai and U.S. sites.
Convertible bonds	2,726.9	8.8	—	—	/	In September 2019, the Group issued USD300 million zero coupon convertible bonds overseas due 2024.
Deferred tax liabilities	211.9	0.7	158.1	0.6	34.0	Primarily due to deferred tax liabilities recognized upon acquisition of Suzhou Kanglu Biotechnology Co., Ltd..
Deferred income	660.4	2.1	404.3	1.7	63.3	Primarily due to the increase of government grants related to assets received for drug R&D platform construction.
Other long-term liabilities	192.5	0.6	95.9	0.4	100.8	Primarily due to the payable recognized for the acquisition of Suzhou Kanglu Biotechnology Co., Ltd..

D. Analysis on Investments

Investment on wealth management products

The Group adopted a prudent financial management approach towards its treasury policy and maintained a healthy financial position throughout the Reporting Period. To better utilize surplus cash generated from operating and financing activities, we have engaged in treasury management activities by investing in wealth management products issued by financial institutions of the PRC. All the short-term investments should have a proper tenor to match funding needs generated from operating and investing activities, with a view to strike a balance among principal guaranteed, liquidity and yield.

As at June 30, 2020, the balance of current financial assets at FVTPL amounted to RMB1,804.8 million, representing 5.8% of total assets. Products associated with 88.9% of the investment balance have a maturity date within 30 days. During the Reporting Period, the Group invested wealth management products mainly in the following three categories:

- a) Monetary fund investments, which are primarily investments in conservatively constructed portfolios of income-generating securities globally of low-volatility that are flexible and of high liquidity, such as treasury bonds and certificate of deposits.
- b) Structured deposits, which are conservative products with guaranteed principals and the amount of yields contingent on the indicative performance of the financial market and derivative, such as interest rate derivative, foreign exchange and commodity.
- c) Financial products, which are primarily conservatively-constructed portfolios of income with high liquidity and outstanding yield, such as bonds, inter-banking deposits, notes and trust financial products.

In RMB million

Maturity days	Monetary fund investment	Structured deposits	Financial products	Total
0 day – 30 days	213.5	668.0	722.7	1,604.2
30 days – 90 days	—	200.6	—	200.6
Total	213.5	868.6	722.7	1,804.8

Investment in companies

As part of our efforts to foster the 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.

During the Reporting Period, investment in joint ventures and associates amounted to a total of RMB134.3 million.

In March 2020, the Company invested in an associate, M6P Therapeutics (“M6P”), which is an early stage biotech R&D company aiming to develop new gene therapies and enzyme replacement therapies for lysosomal storage disorders. M6P will help the Company understand the development of the treatment on orphan diseases, and provide opportunities to the Company to provide CRO and CDMO services at a proper time.

During the Reporting Period, the Company continues to make additional investment in existing joint ventures and associates, so as to strengthen the Company’s synergy and promote the development of core business, obtain customers and enhance service ability.

During the Reporting Period, investment in other equities aside from joint ventures and associates amounted to a total of RMB1,046.5 million. Our investments of financial assets at FVTPL mainly include three categories, the movements of which during the Reporting Period are listed below:

In RMB million

	Listed companies	Fund investments	Non-listed companies	Total
Opening Balance	1,156.9	289.0	2,563.1	4,009.1
Addition	—	20.2	1,026.2	1,046.5
Transfer from non-listed companies/(transfer to listed companies)	174.4	—	(174.4)	—
Gain resulting from transfer of an investment in associates to financial assets at FVTPL	—	—	351.5	351.5
Fair value change during the Reporting Period	539.0	11.8	36.9	587.7
Disposals of shares	(262.2)	(4.4)	(11.1)	(277.7)
Dividend	—	(0.1)	—	(0.1)
Foreign exchange effect	14.8	1.9	28.9	45.6
Ending Balance	1,622.9	318.5	3,821.1	5,762.5

Note: The sum of the data above inconsistent with the total is caused by rounding.

We primarily invest using our own funds through our venture capital arm, WuXi PharmaTech Healthcare Fund I L.P., which is expected to play an increasingly significant role in contributing to the ecosystem. The followings are some of our largest investments across several different areas in the healthcare industry as at June 30, 2020.

Lyell Immunopharma, Inc. (“Lyell”)

Lyell is a pre-revenue biopharmaceutical company addressing unsolved problems of creating reliable, curative adoptive cell therapy for solid tumors. As of June 30, 2020, our Group held approximately 3.2% equity interests in Lyell with fair value amounting to RMB665.5 million (representing 2.2% of our total assets). The Company participated in Lyell's Series C preferred shares in March 2020, and there has been no investment gains or dividends during the Reporting Period.

Lyell brings together an unrivalled scientific team with a collection of novel technologies aimed at tackling these three unsolved barriers:

- Redefining the cell preparations for cell-based immunotherapy following the decades-long work of two of Lyell scientific leaders, Stan Riddell and Nick Restifo;
- Modulating T cells to maintain their functionality within the solid tumor microenvironment; and
- Controlling the specificity and safety of solid tumor-directed T cells armed with TCRs, CARs or other targeting modalities using state-of-the-art protein engineering.

Hua Medicine (“Hua”, HKEX: 02552)

Hua is a China-based, pre-revenue biopharmaceutical company focusing on developing Dorzagliatin, a first-in-class oral drug for the treatment of Type 2 diabetes. Hua is listed on the Main Board of the Hong Kong Stock Exchange. As at June 30, 2020, our Group held approximately 7.0% equity interests in Hua with fair value amounting to RMB478.8 million (representing 1.6% of our total assets). During the Reporting Period, the Company recognized an unrealized gain of RMB143.7 million, along with the fluctuation of Hua's stock price.

On July 1, 2020, Hua reported that Phase III study (DAWN/HMM0302) of Dorzagliatin/metformin combo vs Placebo/metformin in type 2 diabetes patients met the primary endpoint: HbA1c reduction of 1.02% from baseline, representing a statistically significant reduction of 0.66% over placebo at week 24 ($p < 0.0001$), substantially better HbA1c response rate than the placebo group (44.4% vs. 10.7% control $< 7\%$ HbA1c at week 24), and statistically significant improvements over the placebo group in beta-cell function (HOMA2- β and HOMA2-IR), 2hPPG and FPG. Safety profile was good and consistent with the Phase III data from the monotherapy study (SEEED/HMM0301), with $< 1\%$ hypoglycemia.

Hua expects multiple catalysts in the next 12 months, including:

- 52-week data for HMM301 trial;
- Potential partnership with global and China diabetes-focused companies relating to Dorzagliatin; and
- NDA filing in China of Dorzagliatin.

Further details of the business and financial performance of Hua for the Reporting Period are set out in its 2020 interim report to be published in due course.

iKang Healthcare Group (“iKang”)

iKang is a leading medical examination and health management group in China, providing high-quality medical services including medical examination, disease detection, dental services, private doctors, vaccination and anti-aging. As at June 30, 2020, our Group held approximately 3.7% equity interests in iKang with fair value amounting to RMB472.3 million (representing 1.5% of our total assets).

iKang was formerly listed in The New York Stock Exchange and subsequently privatized in January 2019. At the time of privatization, iKang operated 119 medical examination centers in 35 cities. iKang also cooperated with over 700 medical institutions in over 200 cities in China to provide one-stop countrywide medical examination and health management services.

Genesis Medtech Group Limited (“Genesis”)

Genesis provides high-quality research, production and sales services on medical device. As at June 30, 2020, our Group held 14.8% equity interests in Genesis with fair value amounting to RMB391.0 million (representing 1.3% of our total assets).

Genesis aspires to become China's largest med-tech company, an integrated platform with comprehensive product portfolio and extensive sales network with a business focus in the high-value medical device area. As at June 30, 2020, Genesis has more than 1,000 employees and covered 2,500 county hospitals.

JW (Cayman) Therapeutics Co. Ltd (“JW Cayman”)

JW Cayman is a cell therapy company driven by scientific and technological innovation. As at June 30, 2020, the Group held 14.2% equity interests in JW Cayman. The fair value of the investment was about 1% of the Group's total assets as at June 30, 2020. During the Reporting Period, the Company changed its accounting method for the investment from equity method to financial asset at FVTPL, and recognised an unrealized fair value gain of RMB351.5 million.

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. We provide comprehensive services that meet diversified customers' demands. 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, enabling us to deploy our latest know-how and capabilities whenever possible to fulfill our customers' demands and enable them to transform ideas into reality. 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. 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. Leveraging 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.

(3) *Leveraging our knowledge of the industry and customer needs, further strengthening our platform through organic growth and M&A*

We have accumulated extensive industry experience after 20 years of rapid growth. We have provided services to and established trusted partnerships with leading international and China pharmaceutical companies. We have a deep understanding of the customers' demands and are aware of the latest development trends. Through ongoing strengthening of capabilities and expansion of scale as well as strategic M&As, we continue to provide more premium, and comprehensive services to our customers.

In terms of organic growth, we continued to enhance our capacities and capabilities across all segments and facilities globally. During the Reporting Period, the large-scale oligonucleotide API production workshop, high potency API production workshop and large-scale peptide API production workshop of STA, a subsidiary of the Group, were put into use one after another, which can better meet the growing demands of customers. In January 2020, we started the construction of a new drug product development and production facility in STA Wuxi site. This facility will not only improve the development and production capacity of solid dosages, but also has the capability of sterile drug product development, clinical trial material production and commercial scale manufacturing. Our Philadelphia cell and gene therapies facility expanded its service capabilities by offering a fully integrated AAV Vector Suspension Platform and a fully integrated Closed Process CAR-T Cell Therapy Platform, which will help our customers to accelerate the timeline for cell and gene therapy development, manufacturing and release. In July, 2020, our newly built Chengdu R&D center began operation, and will become an extension of our China-based laboratory services.

In terms of M&A, we have made a number of high-quality transactions such as AppTec Inc., Abgent Inc., Crelux GmbH, HD Biosciences Inc. and WuXi Clinical Development Inc., Pharmapace Inc., etc. successively and integrated their businesses with our existing business to optimize our industry chain while creating synergies. Should there be any appropriate opportunities in the future, we will continue to enhance CRO and CDMO/CMO service capabilities through M&A.

(4) *Strong, loyal and expanding customer base and continual growth to our network within the healthcare ecosystem*

We have a strong, loyal and expanding customer base. During the Reporting Period, we added nearly 600 new customers and provided services to more than 4,000 active customers in over 30 countries, including all of the top 20 global pharmaceutical companies, according to Frost & Sullivan. During the Reporting Period, the top 20 global pharmaceutical companies contributed to 31.9% of our revenue. We also enjoyed 100% retention for our top 10 customers from 2015 to June 30, 2020. During the Reporting Period, 94.5% of our revenue came from repeat customers and 5.5% of our revenue came from newly added customers. As our service capabilities continue to expand, the number of our customers continue to grow. 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.

(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) Proposed Issuance of H Shares and Proposed Non-public Issuance of A Shares

On March 24, 2020, the Board resolved to approve (i) the Proposed Issuance of H Shares pursuant to which the Company will issue not more than 95,487,500 New H Shares as the Capitalization of Reserve is completed before the completion of the Proposed Issuance of H Shares, representing not more than 40% of the then total issued H Shares following the completion of the Capitalization of Reserve to not less than six specific places; and (ii) the Proposed Non-public Issuance of A Shares pursuant to which the Company will issue not more than 105,000,000 A Shares as the Capitalization of Reserve is completed before the completion of the Proposed Non-public Issuance of A Shares, representing not more than 5.07% of the then total issued A Shares of the Company following the completion of the Capitalization of Reserve, to not more than 35 specific subscribers. The Proposed Issuance of H Shares and the Proposed Non-public Issuance of A Shares have been approved by the Shareholders at the 2019 annual general meeting, the first A Share class meeting of 2020 and the first H Share class meeting of 2020 of the Company held on May 15, 2020. The implementation of the Proposed Issuance of H Shares and the Proposed Non-public Issuance of A Shares are subject to certain conditions precedent. Please refer to the announcements of the Company dated March 24, 2020 and May 15, 2020 and the circular of the Company dated March 31, 2020 for further details.

(2) Capitalization of Reserve pursuant to the 2019 Profit Distribution Plan

On May 15, 2020, the 2019 Profit Distribution Plan of the Company was approved at the 2019 annual general meeting, the first A Share class meeting of 2020 and the first H Share class meeting of 2020 of the Company. Pursuant to the 2019 Profit Distribution Plan, four (4) Capitalization Shares of the Company were issued for every ten (10) Shares of the Company held by the Shareholders on the relevant record date (i.e. June 3, 2020) by way of Capitalization of Reserve. Accordingly, the total number of Shares of the Company has changed from 1,651,126,531 Shares to 2,311,577,143 Shares. Please refer to the circular of the Company dated March 31, 2020 for further details.

(3) Repurchase and cancellation of part of the Restricted A Shares and cancellation of part of the Share Options granted under the 2018 A Share Incentive Plan and/or the 2019 A Share Incentive Plan

2018 A Share Incentive Plan

The “Proposal on the Repurchase and Cancellation of Part of the Restricted A Shares Granted under the Restricted A Shares and Stock Option Incentive Plan of 2018 of the Company” was approved at the second meeting of the second session of the Board. Pursuant to the such proposal, due to (i) the departure of 57 incentive participants under the 2018 A Share Incentive Plan before the expiry of the lock-up period for the initial grant and/or the reserved grant under the 2018 A Share Incentive Plan; (ii) a total of 18 incentive participants under the 2018 A Share Incentive Plan being unable to satisfy the performance appraisal target at the individual level for 2018 and 2019; and (iii) the implementation of the 2019 Profit Distribution Plan, the Company shall repurchase a total of 367,960 Restricted A Shares granted under the initial grant of the 2018 A Share Incentive Plan at the repurchase price of RMB22.75 per A Share and a total of 172,625 Restricted A Shares granted under the reserved grant under the 2018 A Share Incentive Plan at the repurchase price of RMB22.95 per A Share after relevant adjustments to the repurchase price. Please refer to the relevant announcement of the Company dated June 10, 2020 for further details.

2019 A Share Incentive Plan

The “Proposal on the Repurchase and Cancellation of Part of the Restricted A Shares Granted under the Initial Grant and the Cancellation of Part of the Share Options Granted under the Initial Grant of the Restricted A Shares and Stock Option Incentive Plan of 2019 of the Company” was approved at the second meeting of the second session of the Board. Pursuant to such proposal, due to (i) the departure of 32 Incentive Participants before the expiry of the lock-up period under the 2019 A Share Incentive Plan and 22 Incentive Participants before the expiry of the vesting period under the 2019 A Share Incentive Plan; (ii) 20 Incentive Participants being unable to satisfy the performance appraisal target of 2019; and (iii) the implementation of the 2019 Profit Distribution Plan, the Company shall repurchase a total of 357,379 Restricted A Shares granted under the 2019 Initial Grant at the repurchase price of RMB22.95 per A Share and cancel 474,255 units of Share Options granted under the 2019 Initial Grant. Please refer to the relevant announcement of the Company dated June 10, 2020 for further details.

(4) Grant of the Reserved Interests to the Incentive Participants of the 2019 A Share Incentive Plan

The Board is of the view that the conditions for the grant of the Reserved Interests under the 2019 A Share Incentive Plan have been fulfilled, and has resolved to grant (i) 427,000 Restricted A Shares to 18 Incentive Participants; and (ii) 29,131 Share Options to one Incentive Participant, with June 10, 2020 confirmed as the date of the 2019 Reserved Grant. The underlying shares of the 2019 Reserved Grant are ordinary A shares to be issued by the Company to the Incentive Participants. Pursuant to the terms of the 2019 A Share Incentive Plan, the grant price of the reserved Restricted A Shares to be granted under the 2019 Reserved Grant shall be RMB40.59 per A Share and the exercise price of the reserved Share Options to be granted under the 2019 Reserved Grant shall be RMB81.17 per A Share. Please refer to the relevant announcement of the Company dated June 10, 2020 for further details.

(5) Adjustments to the conversion price of US\$300 million zero coupon convertible bonds due 2024

Pursuant to the terms and conditions of the Bonds, the price at which H Shares will be issued upon conversion is subject to adjustment for, among other things, capital distributions and capitalization of profits or reserves made by the Company. Therefore, the conversion price of the Bonds has been adjusted from HK\$111.80 per H Share, being the initial conversion price to HK\$79.85 per H Share as a result of the Profit Distribution and the Capitalization of Reserve by the Shareholders at the 2019 annual general meeting of the Company with effect from June 4, 2020, being the day immediately after the record date for determining the entitlement of holders of H Shares to the Capitalization of Reserve and the Profit Distribution. Save as disclosed above, all other terms of the Bonds remain unchanged.

(6) WuXi Biologics ceased to be a connected person of the Company

Subsequent to the completion of the placing of 60,000,000 existing shares of WuXi Biologics held by WuXi Biologics Holdings Limited on May 25, 2020, (i) the shareholding held by WuXi Biologics Holdings Limited in WuXi Biologics decreased from approximately 31.49% to 26.89% of the total issued share capital of the WuXi Biologics; and (ii) WuXi Biologics Holdings Limited ceased to be a controlling shareholder of WuXi Biologics.

Since Dr. Ge Li, together with the Founding Individuals who are also Directors, control 58.42% of the voting power of WuXi Biologics Holdings Limited, they are deemed to be interested in the shares of WuXi Biologics held by WuXi Biologics Holdings Limited.

As a result, as at the date of this interim report, WuXi Biologics is no longer a 30%-controlled company (as defined under the Listing Rules) of Dr. Ge Li and the other Founding Individuals. Accordingly, WuXi Biologics is no longer an associate of Dr. Ge Li and the other Founding Individuals and hence no longer a connected person of the Company under Chapter 14A of the Listing Rules.

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. With industry-leading capabilities such as CRO, small molecule CDMO and cell and gene therapies CDMO services, we enable or assist our customers to carry out new drug R&D in a faster and better way through our platform.

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 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 R&D service platforms can provide services along with the value chain of new 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 win the trust 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 "follow the project" to "follow the molecule".

The global pharmaceutical R&D and manufacturing service market is expected to maintain rapid growth in the foreseeable future, driven by increased R&D outsourcing penetration of large pharmaceutical companies and increased demands from small and medium biotechnology companies. On the one hand, the innovative drug R&D industry has the characteristics of large investment, long cycle and high risk. As a result of the decline of R&D returns together with the "patent cliff" faced by drug manufacturers, an increasing number of large pharmaceutical companies 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. These small pharmaceutical companies usually seek for external R&D and manufacturing platforms to accelerate their R&D projects. As a result, integrated end-to-end R&D service platforms are well-positioned to meet their R&D service needs from concept verification to product launching out.

The China pharmaceutical R&D and manufacturing service market is expected to maintain high speed growth going forward, driven by increased demands from oversea and China customers. On one hand, China CRO and CDMO/CMO can provide high quality and cost effective services and will continue to benefit from increased outsourcing demands from international pharmaceutical and biotechnology companies. On the other hand, policies such as accelerated approval, Marketing Authorization Holder, consistency evaluation of generic drugs, centralized procurement and inclusion of innovative drugs into the National Reimbursement Drug List, encourage pharmaceutical innovation in China. China CRO and CDMO/CMO demands will continue to grow. R&D service providers with market leading expertise are well-positioned to capture the trend.

B. 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 and 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 and the increase of R&D budgets and demand for outsourcing services of our customers, the 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, resulting in adverse impact on 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. Aside from the aforementioned incumbents, we also face competition from new entrants, which either have more capital, more business accesses or stronger R&D expertise 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 comprehensive 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 a 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 acquired 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 a 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 following 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 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 invest in 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 achieve the goals despite spending significant amount of time and resources on pursuing such expansion. 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 USD 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 USD 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 six months ended June 30, 2020 and 2019 were RMB81.4 million gain and RMB33.3 million loss, respectively. If RMB appreciates significantly against USD, our margins might be pressured, a portion of cost denominated in USD might be increased and the size of our international customers' orders might be contracted due to increase of unit prices of services denominated in USD, which may adversely impact our profitability as a result.

(9) Risk of impact on our assets at FVTPL by market fluctuation

Value of our assets or liabilities measured at FVTPL, such as investments in listed companies and other non-listed portfolios, derivative component of Convertible Bonds, foreign currency forward contract and biological assets, are determined at the fair value at the end of each Reporting Period, with the changes in fair value recognized in current profit and loss. Among which the value of our investments in listed companies and other non-listed portfolios is recorded as other non-current financial assets measured at FVTPL, the value of which could be greatly affected by market fluctuations. At the end of the Reporting Period, the balance of our investments in listed companies and other non-current financial assets measured at FVTPL was RMB5,762.5 million. In the six months ended June 30, 2020 and June 30, 2019, fair value change of our investments in listed companies and other non-current financial assets measured at FVTPL was RMB587.7 million in gains and RMB55.2 million in losses, respectively, with a variance of RMB642.9 million. The Company pays close attention to the investee listed companies with a view to making timely and ongoing investment decisions with these investee companies. As we mark-to-market the fair value of certain of our investments on a periodic basis, we expect the fair value of our financial assets at FVTPL, especially our investments in publicly-traded companies, may be negatively affected by capital market fluctuations which will further bring significant negative effect to our net profit.

(10) Risks of impact of emergencies and force majeure on the Company's operation

Public health emergencies, earthquakes, typhoons and other force majeure may affect the operation of the Company. In response to these situations, we have developed business continuity plans across all sites to facilitate the resumption of the critical operations, functions, and technology in a timely and organized manner. However, if our business continuity plans fail to cope with the impact of relevant emergencies and force majeure, it may have an adverse impact on the Company's business, finance, performance and prospects.

USE OF NET PROCEEDS FROM THE A SHARE LISTING

The total net proceeds from the issue of A Shares by the Company in its A Share Listing amounted to approximately RMB2,130.3 million and the balance of net proceeds was approximately RMB846.8 million as at June 30, 2020.

The net proceeds from the A Share Listing have been and will be utilized in accordance with the purpose set out in the A Share Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2020:

Use of proceeds from the A Share Listing	Percentage of net proceeds from the A Share Listing	Allocation of net proceeds as disclosed in the A Share Prospectus (RMB million)	Balance of the utilized amount (as at June 30, 2020) (RMB million)	Balance of the unutilized amount (as at June 30, 2020) (RMB million)	Actual and expected timeline for utilizing the remaining net proceeds from the A Share Listing ⁽¹⁾
Suzhou drug safety evaluation centre expansion project ⁽²⁾	34%	727.2	226.9	500.3	Expected to be fully utilized by December 31, 2020
Tianjin chemical R&D laboratory expansion and upgrade project ⁽³⁾	26%	564.0	290.7	273.3	Expected to be fully utilized by December 31, 2020
Expansion of Company's headquarter and analytical diagnostic service R&D centre ⁽⁴⁾	9%	200.0	200.0	—	Have been fully utilized as at December 31, 2018
Working capital uses	30%	639.1	639.1	—	Have been fully utilized as at December 31, 2018
Total⁽⁵⁾	100%	2,130.3	1,356.6	773.7	

Notes:

- (1) The expected timeline for utilizing the remaining proceeds is set based on the best estimation of the Company taking into account, among other factors, prevailing and future market conditions and business developments and needs, and therefore is subject to change.
- (2) As at June 30, 2020, the Suzhou drug safety evaluation centre expansion project is still under construction and is expected to be completed and fully utilized proceed from the A Share Listing by December 31, 2020.
- (3) As at June 30, 2020, the Tianjin chemical R&D laboratory expansion and upgrade project is still under construction and is expected to be completed and fully utilized proceed from the A Share Listing by December 31, 2020.
- (4) The expansion of Company's headquarter and analytical diagnostic service R&D centre has completed as at May 31, 2018. The Group's revenue was increased by RMB200.4 million due to this expansion for the period ended Jun 30, 2020.
- (5) Any discrepancies in the sum of amounts listed in the tables with the breakdown of use of net proceeds in this interim report are due to rounding.

FUND RAISING

During the Reporting Period, there was no fund raising activity carried out by the Company.

USE OF NET PROCEEDS FROM THE H SHARE LISTING

The total proceeds from the issuance of H Shares by the Company in its Listing (after deducting the underwriting fees and related Listing expenses) amounted to approximately RMB7,285.9 million⁽¹⁾ and the balance of unutilized net proceeds amounted to approximately RMB824.6 million as at June 30, 2020.

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 June 30, 2020:

Use of proceeds from the H Share Listing	Percentage of net proceeds from the H Share Listing	Original allocation of net proceeds from the H Share Listing (HKD million)	Original allocation of net proceeds from the H Share Listing (RMB million)	Revised allocation of net proceeds from the H Share Listing (RMB million) ⁽²⁾	Balance of utilized amount from the H Share Listing (as at June 30, 2020) (RMB million)	Balance of unutilized amount from the H Share Listing (as at June 30, 2020) (RMB million)	Expected timeline for utilizing the remaining balance of net proceeds from the H Share Listing ⁽³⁾
To expand our capacity and capabilities across all business units globally	37%	2,798.0	2,462.2	2,602.1	1,777.5	824.6	
— invest in PRC projects ⁽³⁾	22%	1,663.1	1,463.5	1,547.2	1,278.5	268.7	Expected to be fully utilized by December 31, 2021
— invest in U.S. projects ⁽⁴⁾	8%	570.1	501.7	562.6	499.0	63.6	Expected to be fully utilized by December 31, 2020
— invest in Hong Kong project ⁽⁵⁾	7%	564.8	497.0	492.3	—	492.3	Expected to be fully utilized by December 31, 2021
To fund the acquisition of CRO and CMO/CDMO companies	27%	2,000.0	1,759.9	1,863.6	1,863.6	—	Have been fully utilized as at December 31, 2019
To invest in our ecosystem	4%	300.0	264.0	281.3	281.3	—	Have been fully utilized as at June 30, 2019
To develop cutting-edge technology⁽⁶⁾	3%	200.0	176.0	182.8	182.8	—	Have been fully utilized at June 30, 2020

Management Discussion and Analysis

Use of proceeds from the H Share Listing	Percentage of net proceeds from the H Share Listing	Original allocation of net proceeds from the H Share Listing (HKD million)	Original allocation of net proceeds from the H Share Listing (RMB million)	Revised allocation of net proceeds from the H Share Listing (RMB million) ⁽²⁾	Balance of utilized amount from the H Share Listing (as at June 30, 2020) (RMB million)	Balance of unutilized amount from the H Share Listing (as at June 30, 2020) (RMB million)	Expected timeline for utilizing the remaining balance of net proceeds from the H Share Listing ⁽³⁾
To repay our bank loans	20%	1,500.0	1,320.0	1,399.5	1,399.5	—	Have been fully utilized as at December 31, 2018
Working capital and general corporate uses	10%	755.3	664.6	703.3	703.3	—	Have been fully utilized as at June 30, 2019
Total⁽⁷⁾	100%	7,553.3	6,646.7	7,032.6	6,208.0	824.6	

Notes:

- (1) The total proceeds included approximately RMB6,969.6 million from the Global Offering in December 2018 and RMB316.3 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 RMB7,032.6 million. Net H Share Listing proceeds were received in Hong Kong dollar and translated to RMB 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. As at June 30, 2020, 82.6% allocated net proceeds for the seven PRC projects have been utilized.
- (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. As at June 30, 2020, 88.7% allocated net proceeds for US projects have been utilized.
- (5) Invest in Hong Kong project, including establishing a Hong Kong-based R&D Innovation Center. As at June 30, 2020, the Hong Kong project is still in the preparation stage.
- (6) Invest in developing cutting-edge technology, including AI-empowered drug discovery platform and lab automation, healthcare data platform and robotic chemistry capability. As at June 30, 2020, 100% allocated net proceeds for developing cutting-edge technology have been utilized.
- (7) Any discrepancies in the sum of amounts listed in the tables with the breakdown of use of net proceeds in this interim report are due to rounding.

THE CONVERTIBLE BONDS

On September 17, 2019, the Company issued US\$300 million zero coupon Convertible Bonds due 2024, convertible at the option of the holders thereof into fully paid ordinary H Shares of the Company of par value RMB1.0 each at the initial conversion price of HK\$111.8 per H Share. The Board considers that the issue of the Convertible Bonds represents an opportunity to obtain a pool of readily available funds that can better support business expansion of the Company in the long run. The net proceeds from the issue and subscription of the Bonds pursuant to the subscription agreement dated September 3, 2019 of the Bonds, after the deduction of fees, commissions and expenses payable, were approximately USD294 million.

The Company has distributed cash dividends for the year ended December 31, 2019 and conducted the Capitalization of Reserve. As a result of the approval of the payment of the Profit Distribution and the Capitalization of Reserve by the Shareholders at the 2019 annual general meeting of the Company with effect from June 4, 2020, the conversion price of the Bonds has been adjusted to HK\$79.85 per H Share (the “Adjusted Conversion Price”) pursuant to the terms and conditions of the Bonds.

Assuming full conversion of the Bonds at the Adjusted Conversion Price, the H Shares that may be convertible and issuable under the Bonds will increase from approximately 21,048,032 H Shares to approximately 29,469,881 H Shares, representing 12.35% of the total issued H share capital of the Company as at June 30, 2020 and approximately 10.99% of the enlarged total issued H share capital of the Company resulting from the full conversion of the Bonds. The additional 8,421,849 H Shares issuable in the event of a full conversion of the Bonds after the adjusted conversion price becoming effective will be allotted and issued by the Company pursuant to the general mandate sought and granted at the 2019 annual general meeting of the Company held on May 15, 2020. Please refer to the announcement of the Company dated June 3, 2020 for further details.

There had not been any redemption or conversion of the Bonds during the Reporting Period.

Management Discussion and Analysis

The following table sets out the shareholding structure of the Company upon full conversion of the Bonds with reference to the shareholding structure of the Company as at June 30, 2020 and assuming no further issuance of Shares by the Company:

Shareholder	Class of Shares	As at June 30, 2020		Upon full conversion of the Bonds at the Adjusted Conversion Price of HK\$79.85 per H Share	
		Number of Shares	Approximate percentage of the total issued share capital (Note)	Number of Shares	Approximate percentage of the total issued share capital (Note)
The Founding Individuals	A	633,784,587	27.42%	633,784,587	27.07%
Sub total		633,784,587	27.42%	633,784,587	27.07%
Public Shareholders	A	1,439,073,572	62.26%	1,439,073,572	61.47%
	H	238,718,984	10.33%	238,718,984	10.20%
Subscribers of the Bonds	H	—	—	29,469,881	1.26%
Sub total		1,677,792,556	72.58%	1,707,262,437	72.93%
Total		2,311,577,143	100%	2,341,047,024	100%

Note:

The approximate percentage of the total issued share capital are rounded to the nearest two decimal places and may not add up to 100% due to rounding.

For principal terms of the Bonds, please refer to the relevant announcements dated September 3, 2019, September 4, 2019, September 5, 2019 and September 17, 2019 published by the Company on the websites of the Shanghai Stock Exchange and the Stock Exchange. An analysis of the impact on the earnings per share if the Bonds were fully converted into H Shares of the Company as at June 30, 2020 is set out in Note 10 to the condensed consolidated financial statements in this interim report.

Use of Net Proceeds from the Issuance of the Bonds

The net proceeds from the Subscription of the Bonds have been utilized in accordance with the purposes set out in the paragraph headed “Use of Proceeds” of the Company’s announcement dated September 4, 2019. The table below sets out the planned applications of the net proceeds and actual usage up to the six months ended June 30, 2020:

Use of proceeds	Percentage of net proceeds from the Subscription of the Bonds %	Balance of utilized amount (as at June 30, 2020) (RMB million)	Balance of unutilized amount (as at June 30, 2020) (RMB million)	Expected timeline for utilizing the remaining balance of net proceeds from the Subscription of the Bonds ⁽¹⁾
Mergers and acquisitions and Business expansion	74.40%	1,547.1	—	Have been fully utilized as of June 30, 2020
Working capital and general corporate purposes	26.60%	532.3	—	Have been fully utilized as of June 30, 2020
Total	100.00%	2,079.5	—	

Note:

(1) The sum of the data above may not add to the total amount due to rounding.

Statutory Disclosures

RESULTS AND DIVIDENDS

The Group's profit for the Reporting Period and the state of affairs of the Group as at June 30, 2020 are set out in the interim condensed consolidated financial statements and the accompanying notes on pages 65 to 127.

The Board does not recommend the distribution of any interim dividend for the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Repurchase and cancellation of part of the Restricted A Shares granted under the 2018 A Share Incentive Plan

Due to (i) the departure of 57 incentive participants under the 2018 A Share Incentive Plan before the expiry of the lock-up period for the initial grant and/or the reserved grant under the 2018 A Share Incentive Plan; (ii) a total of 18 incentive participants under the 2018 A Share Incentive Plan being unable to satisfy the performance appraisal target at the individual level for 2018 and 2019; and (iii) the implementation of the 2019 Profit Distribution Plan, the Company shall repurchase a total of 367,960 Restricted A Shares granted under the initial grant of the 2018 A Share Incentive Plan at the repurchase price of RMB22.75 per A Share and a total of 172,625 Restricted A Shares granted under the reserved grant under the 2018 A Share Incentive Plan at the repurchase price of RMB22.95 per A Share after relevant adjustments to the repurchase price. Please refer to the relevant announcement of the Company dated June 10, 2020 for further details.

Repurchase and cancellation of part of the Restricted A Shares granted under the 2019 A Share Incentive Plan

Due to (i) the departure of 32 Incentive Participants before the expiry of the lock-up period under the 2019 A Share Incentive Plan and 22 Incentive Participants before the expiry of the vesting period under the 2019 A Share Incentive Plan; (ii) 20 Incentive Participants being unable to satisfy the performance appraisal target of 2019; and (iii) the implementation of the 2019 Profit Distribution Plan, the Company shall repurchase a total of 357,379 Restricted A Shares granted under the 2019 Initial Grant at the repurchase price of RMB22.95 per A Share and cancel 474,555 units of Share Options granted under 2019 Initial Grant. Please refer to the relevant announcement of the Company dated June 10, 2020 for further details.

Save as disclosed above, 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 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.

DIRECTORS

As at the end of the Reporting Period, the Board was constituted by 12 Directors, of which 5 are executive Directors, 2 non-executive Directors and 5 are independent non-executive Directors. The Directors are as follows:

Executive Directors

Dr. Ge Li (李革) (*Chairman and Chief Executive Officer*)
Mr. Edward Hu (胡正國) (*Vice Chairman and Global Chief Investment Officer*)
Dr. Steve Qing Yang (楊青) (*Co-chief Executive Officer*)
Mr. Zhaohui Zhang (張朝暉)
Dr. Ning Zhao (趙寧)

Non-executive Directors

Mr. Xiaomeng Tong (童小蒙)
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

As at the end of the Reporting Period, the Supervisors are as follows:

Mr. Harry Liang He (賀亮)
Mr. Jichao Wang (王繼超)
Ms. Minfang Zhu (朱敏芳)

CHANGE OF INFORMATION OF DIRECTORS AND SUPERVISORS

Changes in information of the Directors since the publication of the annual report of the Company for the year ended December 31, 2019 are set out below:

- (1) Mr. Xiaozhong Liu ceased to be the executive Director and vice president of the Company on May 15, 2020 and May 21, 2020, respectively;
- (2) Dr. Steve Qing Yang was appointed as an executive Director and co-chief executive officer of the Company with effect from May 15, 2020 and May 21, 2020 respectively;
- (3) Mr. Edward Hu was appointed as the vice Chairman to the Board and the global chief investment officer of the Company with effect from May 21, 2020;
- (4) Mr. Jichao Wang resigned as a Supervisor of the Company with effect from August 31, 2020;
- (5) Mr. Boyang Wu* was appointed as a Supervisor of the Company with effect from August 31, 2020;
- (6) Dr. Jiangnan Cai ceased to be an independent director of Zhejiang DIAN Diagnostics Co., Ltd. (浙江迪安診斷技術股份有限公司) in July 2020, a company listed on the Shenzhen Stock Exchange (stock code: 300244);
- (7) The remuneration of Dr. Jiangnan Cai, Ms. Yan Liu, Mr. Dai Feng, Dr. Hetong Lou and Mr. Xiaotong Zhang has been increased from RMB200,000 per year for the first session of the Board to RMB300,000 per year for the second session of the Board.

Save as disclosed above, there is no other information which was required to be disclosed by Directors and Supervisors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51B(1) of the Listing Rules.

SHARE INCENTIVE SCHEMES

The Group's share incentive schemes effective during the Reporting Period are as follows:

1. 2019 A Share Incentive Plan

In order to establish and improve the long-term incentive mechanism of the Company, attract and retain talents, fully motivate the core personnel of the Company and effectively integrate the interests of the Shareholders, the Company and core team members so that the parties will make joint efforts for the sustainable development of the Company, on September 20, 2019, the Shareholders' meeting of the Company passed a resolution to approve the adoption of the 2019 A Share Incentive Plan, pursuant to which the Company may issue up to 21,055,530 units of Restricted A Shares or Share Options of the Company and of which (i) the 2019 Initial Grant of 13,657,803 Restricted A Shares with a grant price of RMB32.44 per share and 5,292,174 Share Options, representing 90% of the total interests to be granted under the 2019 A Share Incentive Plan; and (ii) the remaining 2,105,553 units, representing 10% of the total interests to be granted under the 2019 A Share Incentive Plan will be reserved for future distribution.

Following the implementation of the 2019 Profit Distribution Plan on June 4, 2020, 4 new Shares were issued for every existing 10 Shares held by the Shareholders on June 3, 2020 (being the relevant record date) by way of capitalization of reserve and a cash dividend of RMB3.37 (inclusive of tax) for every 10 Shares will be distributed to the Shareholders. As a result, the number of Restricted A Shares and exercise price per Share, and the number of Share Options and subscribe price granted under the 2019 A Share Incentive Plan presented herein have been adjusted to reflect the capitalization of reserve and dividend distribution. Please refer to the relevant announcement of the Company dated June 10, 2020 for further details.

As at June 30, 2020, the total number of Shares available for issue under the 2019 A Share Incentive Plan was 7,385,427 (of which options to subscribe for 6,929,296 had been granted and were outstanding), representing approximately 0.32% of the Shares in issue.

Amongst the 2019 Initial Grant, 124,443 Restricted A Shares were granted as special grant (the "**Special Grant**") and are subject to different conditions and restrictions. As disclosed in the Company's announcement dated November 25, 2019, due to departure of 67 Incentive Participants, the total participants of the 2019 A Share Incentive Plan was adjusted from 2,534 to 2,467; the number of Restricted A Shares granted under the 2019 Initial Grant was adjusted from 13,657,803 to 13,400,273 while the number of Share Options were changed from 5,292,174 to 5,039,904. As 43 and 5 Incentive Participants did not subscribe for the Restricted A Shares and Share Options granted under the 2019 Initial Grant, a total of 12,942,744 Restricted A Shares were granted to 1,965 Incentive Participants and a total of 5,014,854 Share Options were granted to 455 Incentive Participants under the 2019 A Share Incentive Plan as at December 31, 2019.

Statutory Disclosures

The Incentive Participants include the Directors, senior management, middle management and other technical and management key personnel of the Company. The total number of units to be granted under the 2019 A Share Incentive Plan to any one of the Incentive Participants will not exceed 1% of the Company's total share capital as at the date on which the plan is proposed to the general meeting. Further, under the Listing Rules, unless otherwise approved by the Shareholders, no Incentive Participant shall be granted Share Option if the total number of A Shares issued and to be issued upon exercise of the Share Options (including exercised, cancelled and outstanding Share Options) granted and to be granted to such Incentive Participant in any 12-month period up to the date of the latest grant would exceed 1% of the outstanding A Shares of the Company in issue from time to time.

The validity period of the 2019 A Share Incentive Plan shall commence from the date of 2019 Initial Grant of the incentive shares to the date on which all the Restricted A Shares granted are unlocked or repurchased and cancelled and all the Share Options are exercised or otherwise cancelled subject to a maximum of 66 months.

The 2019 Initial Grant of the Share Option under the A Share Incentive Plan is valid from the date on which the Share Options is granted under the 2019 Initial Grant to the date on which all the options granted to the participants under the 2019 Initial Grant have been vested or cancelled, but in any event shall not be more than 54 months. The withholding period of each tranche of the Share Options granted under the 2019 Initial Grant shall be 18, 30 and 42 months from the date of the 2019 Initial Grant, respectively. Subject to fulfillment of the conditions as set out in the rules of the 2019 A Share Incentive Plan, the exercisable periods and arrangements of each tranche of the Share Options granted under the 2019 Initial Grant are as follows:

	Exercisable Period	Proportion of exercise
First exercisable period	From the first trading day after 18 months from the date of the 2019 Initial Grant to the last trading day within 30 months from the date of the 2019 Initial Grant	40%
Second exercisable period	From the first trading day after 30 months from the date of the 2019 Initial Grant to the last trading day within 42 months from the date of the 2019 Initial Grant	30%
Third exercisable period	From the first trading day after 42 months from the date of the 2019 Initial Grant to the last trading day within 54 months from the date of the 2019 Initial Grant	30%

The validity period of the reserved Share Options shall be from the date of grant of the reserved Share Options to the date on which the reserved Shares Options granted to the participants are all exercised or otherwise cancelled, which shall not be longer than 54 months. The conditions for the grant of the reserved interests, the unlocking and exercise of the reserved Restricted A Shares and reserved Share Options shall follow that of the Restricted A Shares and Share Options granted under the 2019 Initial Grant, respectively, in addition to certain performance indicators as set out in the rules of the 2019 A Share Incentive Plan. The exercisable periods and arrangements of each tranche of the Share Options granted under the 2019 Reserved Grant are as follows:

	Exercisable Period	Proportion of exercise
First exercisable period	From the first trading day after 18 months from the date of the 2019 Reserved Grant to the last trading day within 30 months from the date of the 2019 Reserved Grant	40%
Second exercisable period	From the first trading day after 30 months from the date of the 2019 Reserved Grant to the last trading day within 42 months from the date of the 2019 Reserved Grant	30%
Third exercisable period	From the first trading day after 42 months from the date of the 2019 Reserved Grant to the last trading day within 54 months from the date of the 2019 Reserved Grant	30%

Such options shall only be exercised by the participants within the vesting period.

The exercise price of the Share Options under the 2019 Initial Grant of the 2019 A Share Incentive Plan shall not be lower than the par value of the shares, and shall not be lower than the highest of the following:

- (1) the average trading price of the Company's A Shares on the trading day preceding the date of announcement of the 2019 A Share Incentive Plan (total trading amount/total trading volume on the preceding trading day), i.e. RMB64.88 per share;
- (2) the average trading price of the Company's A Shares for the last 60 trading days preceding the date of announcement of the 2019 A Share Incentive Plan (total trading amount for the last 60 trading days/total trading volume traded on the last 60 trading days), i.e. RMB60.56 per share.

Statutory Disclosures

The exercise price of the Share Options under the 2019 Reserved Grant was determined based on the average trading price of the A Shares prior to the date of grant and shall not be lower than the par value of the A Shares, and shall be the higher of the following:

- (1) the average price of the A Shares of the Company for the last trading day preceding the date of announcement of the 2019 Reserved Grant (total trading amount/total trading volume on the preceding trading day), i.e. RMB81.17 per Share;
- (2) the average price of the A Shares of the Company for the last 60 or trading days preceding the date of announcement of the board resolution on the grant of the Share Options under the 2019 Reserved Grant (total trading amount for the last 60 trading days/total trading volume traded on the last 60 trading days), i.e. RMB71.39 per Share.

The 2019 Initial Grant

On November 25, 2019, 13,400,273 Restricted A Shares (inclusive of 124,443 Restricted A Shares under the Special Grant) were approved for 2,008 eligible employees including a Director to subscribe at the price of RMB32.44 per A Share and 5,039,904 Share Options were granted to 460 eligible employees with an exercise of RMB64.88.

On December 31, 2019, 12,942,744 number of Restricted A Shares (inclusive of 124,443 Restricted A Shares under the Special Grant) were subscribed by a Director of the Company and eligible employees and RMB419,862,615.36 consideration were received by the Company. These granted Restricted A Shares (except for those granted under the Special Grant) have a contractual term of no more than 66 months 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. The Restricted A Shares granted under the Special Grant has a contractual term of no more than 66 months and unlock over a four-year period, with 20%, 20%, 20% and 40% of the awards unlocking from the A Shares registration date to February 28, 2021, February 28, 2022, February 28, 2023, February 29, 2024.

The “Proposal on the Adjustment to the Repurchase Number and Repurchase Price of Restricted A Shares granted under the Initial Grant and Adjustment to the Exercise Price and Number of Share Options Granted under the Initial Grant of the Restricted A Shares and Stock Option Incentive Plan of 2019 of the Company” was approved at the second meeting of the second session of the Board. Following the implementation of the 2019 Profit Distribution Plan, capitalize 4 ordinary shares for every 10 shares by way of capitalization of reserve and pursuant to the relevant adjustment mechanism of the 2019 A Share Incentive Plan, the repurchase number of the Restricted A Shares granted under the 2019 Initial Grant shall be adjusted to 357,379 Restricted A Shares granted and the repurchase price of the Restricted A Shares granted under the 2019 Initial Grant shall be adjusted to RMB22.95 per A Share. The Share Options granted under the 2019 Initial Grant shall be adjusted to 7,020,795 units at the exercise price of RMB46.34 per unit. Please refer to the relevant announcement of the Company dated June 10, 2020 for further details.

The 2019 Reserved Grant

On June 10, 2020, the Board has resolved to grant (i) 427,000 Restricted A Shares to 18 Incentive Participants; and (ii) 29,131 Share Options to one Incentive Participant, with June 10, 2020 confirmed as the date of the 2019 Reserved Grant. The underlying shares of the 2019 Reserved Grant are ordinary A shares to be issued by the Company to the Incentive Participants. Pursuant to the terms of the 2019 A Share Incentive Plan, the grant price of the reserved Restricted A Shares to be granted under the 2019 Reserved Grant shall be RMB40.59 per A Share and the exercise price of the reserved Share Options to be granted under the 2019 Reserved Grant shall be RMB81.17 per A share.

The “Proposal on the Adjustment to the Number of Reserved Interests Granted under the Restricted A Shares and Stock Option Incentive Plan of 2019 of the Company” was approved at the second meeting of the second session of the Board. Following the implementation of the 2019 Profit Distribution Plan on June 4, 2020, capitalize 4 ordinary Shares for every 10 Shares by way of capitalization of reserve and pursuant to the relevant adjustment mechanism of the 2019 A Share Incentive Plan, the number of 2019 Reserved Interests shall be adjusted from 2,105,553 units to 2,947,774 units. Please refer to the relevant announcement of the Company dated June 10, 2020 for further details.

As at June 30, 2020, a total of 6,929,296 options were outstanding under the 2019 A Share Incentive Plan and all options granted thereunder have not been exercised, cancelled or lapsed.

Set out below are details of the movements of the outstanding Restricted A Shares and Share Options granted under the 2019 A Share Incentive Plan throughout the Reporting Period.

	Outstanding at January 1, 2020	Cancelled before Capitalization of Reserve	Vested before Capitalization of Reserve	Adjustment due to Capitalisation of Reserve	Cancelled after Capitalization of Reserve	Outstanding at June 30, 2020
Restricted A Shares						
Mr. Edward Hu	125,000	—	—	50,000	—	175,000
Ms. Wendy J. Hu ¹	19,500	—	—	7,800	—	27,300
Employees (in aggregate)	12,798,244	—	—	5,082,553	—	17,880,797
Sub-total	12,942,744	—	—	5,140,353	—	18,083,097
Share Options						
Employees	5,014,854	—	—	1,914,442	—	6,929,296
Total	17,957,598	—	—	7,054,795	—	25,012,393

Notes:

(1) Ms. Wendy J. Hu is the spouse of Mr. Edward Hu.

2. 2019 Share Appreciation Scheme

On September 20, 2019, the 2019 Share Appreciation Scheme was approved at the Shareholders' meeting. On September 30, 2019, the Company granted 2,901,172 share appreciation rights (representing approximately 0.1771% of the total share capital of the Company as at the date of the announcement of the proposed adoption of the 2019 Share Appreciation Scheme) to a total of 234 incentive participants, being not more than 234 members of the senior level management, mid-level managers and backbone members of the technicians, basic level managers and other technicians who have employment or labor service relationships with the Company or its subsidiaries overseas under the 2019 Share Appreciation Scheme at the exercise price of HK\$72.00 per unit. Each of the share appreciation rights under the 2019 Share Appreciation Scheme is notionally linked to one H Share, and will confer the right to gain specified amount of benefits in cash from the increase in market price of the relevant H Shares.

The 2019 Share Appreciation Scheme does not involve any grant of Share Options which will require the Company (or any of its subsidiaries) to issue any new shares or other new securities and is therefore not subject to or governed by Chapter 17 of the Listing Rules.

The 2019 Share Appreciation Scheme is valid from the date of grant of share appreciation rights to the date of completion of exercise of all share appreciation rights, which shall not be longer than 48 months. The vesting and exercise arrangement of the 2019 Share Appreciation Scheme is as follows:

	Vesting Schedule	Exercise Period	Exercise Percentage
First batch of exercise	May 31, 2020	From June 1, 2020 to May 31, 2021	40%
Second batch of exercise	May 31, 2021	From June 1, 2021 to May 31, 2022	30%
Third batch of exercise	May 31, 2022	From June 1, 2022 to May 31, 2023	30%

Following the implementation of the 2019 Profit Distribution Plan on June 4, 2020, 4 new Shares were issued for every existing 10 Shares held by the Shareholders on June 3, 2020 (being the relevant record date) and a cash dividend of RMB3.37 (inclusive of tax) for every 10 Shares will be distributed to the Shareholders. As a result, the number of the share appreciation rights granted by the Company have been adjusted from 2,901,172 units to 4,061,639 units and the exercise price of which have been adjusted from HK\$72.00 per unit to HK\$51.43 per unit accordingly. Please refer to the relevant announcement of the Company dated June 10, 2020 for further details.

Set out below are details of the movements of the outstanding units granted under the 2019 Share Appreciation Incentive Scheme throughout the Reporting Period:

	Outstanding at January 1, 2020	Cancelled before Capitalization of Reserve	Exercised before Capitalization of Reserve	Adjustment due to Capitalization of Reserve	Cancelled after Capitalization of Reserve	Outstanding at June 30, 2020
2019 Share Appreciation Incentive Scheme	2,620,135	102,347	531,820	1,007,115	59,722	2,933,361

3. 2018 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 A Share Incentive Scheme. The total participants of the 2018 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.

On June 3, 2019, the Shareholders' meeting approved to capitalize 4 ordinary Shares for every 10 Shares by way of capitalization of reserve and approved the distribution of RMB5.80 and for every 10 Shares based on the total issued Shares of the Company as at April 15, 2019. As a result, the number of Restricted A Shares and exercise price per share granted under the 2018 A Share Incentive Plan presented herein have been adjusted to reflect the capitalization of reserve and dividend distribution. Please refer to the announcement of the Company dated June 3, 2019 for further details.

On May 15, 2020, the Shareholders' meeting approved to capitalize 4 ordinary Shares for every 10 Shares by way of capitalization of reserve and approved the distribution of RMB3.37 for every 10 Shares based on the total issued Shares of the Company. As a result, the number of Restricted A Shares and exercise price per share granted under the 2018 A Share Incentive Plan presented herein have been adjusted to reflect the capitalization of reserve and dividend distribution. Please refer to the announcement of the Company dated June 10, 2020 for further details.

Statutory Disclosures

As at June 30, 2020, the total number of Shares available for issue under the 2018 A Share Incentive Plan was 401,800 (options had been granted and were outstanding), representing approximately 0.02% of the Shares in issue.

The validity period of the 2018 A Share Incentive Plan shall commence from the date on which all the Restricted A Shares granted thereunder have been unlocked or cancelled, or all of the Share Options granted thereunder have been exercised or canceled, subject to a maximum of 60 months.

On July 19, 2019, the reserved interests under the 2018 A Share Incentive Plan consisting a total of 542,017 Restricted A Shares and a total of 287,000 options were granted to 21 eligible employees and Mr. Ellis Bih-Hsin Chu and a member of senior management of the Company, respectively.

The Share Options granted under the 2018 A Share Incentive Plan are valid from the date of the grant to the date on which they have been unlocked, exercised or canceled, but in any event not be more than 48 months. Subject to fulfillment of the conditions as set out in the rules of the 2018 A Share Incentive Plan, the exercisable periods and arrangements of each tranche of such Share Options are as follows:

	Exercisable Period	Proportion of exercise
First exercisable period	From the first trading day after 12 months from the date of the grant to the last trading day within 24 months from the date of the grant	40%
Second exercisable period	From the first trading day after 24 months from the date of the grant to the last trading day within 36 months from the date of the grant	30%
Third exercisable period	From the first trading day after 36 months from the date of the grant to the last trading day within 48 months from the date of the grant	30%

Such options shall only be exercised by the incentive participants of the 2018 A Share Incentive Plan within the exercisable period.

The exercise price of the Share Options under the Initial Grant of the 2018 A Share Incentive Plan was determined based on the average trading price of the A Shares prior to the date of grant shall not be lower than the par value of the shares, and shall not be lower than the highest of the following:

- (1) the average trading price of the Company's A Shares on the trading day preceding the date of the grant of the options, i.e. RMB64.88 per share; or
- (2) any one of the average trading price of the Company's A Shares for the last 20, 60 and 120 trading days preceding the date of announcement of the grant of the Share Options.

Set out below are details of the movements of the outstanding Restricted A Shares granted under the 2018 A Share Incentive Scheme as at June 30, 2020:

	Outstanding at January 1, 2020	Cancelled before capitalization issue	Exercised before capitalization issue	Capitalisation issue	Cancelled after Capitalization issue	Outstanding at June 30, 2020
Restricted A Shares						
Mr. Edward Hu	127,400	—	50,960	50,960	—	127,400
Ms. Wendy J. Hu	18,900	—	7,560	7,560	—	18,900
Employees	8,744,149	—	3,250,431	3,405,461	—	8,899,179
Sub-total	8,890,449	—	3,308,951	3,463,981	—	9,045,479
Share Options						
Mr. Ellis Bih-Hsin Chu	175,000	—	—	70,000	—	245,000
Employees	112,000	—	—	44,800	—	156,800
Sub-total	287,000	—	—	114,800	—	401,800
Total	9,177,449	—	3,308,951	3,578,781	—	9,447,279

4. STA Share Units and Options Incentive Scheme

STA 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.

Statutory Disclosures

On September 13, 2017, the STA Shareholders' meeting approved to capitalize 20 ordinary STA Shares for every 10 STA Shares standing to the credit of the share premium account of STA (the "**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 of the Conversion of Capital Reserve and dividend adjustment, the total number of STA Shares granted under the STA Share Option Incentive Scheme (2015), STA Overseas Employees Incentive Scheme and STA Share Option Incentive Scheme (2016) to 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) were 16,200,000, 6,516,843 and 1,525,140, respectively. The exercise prices of the STA Shares under the STA Share Option Incentive Scheme (2015), STA Overseas Employees Incentive Scheme and STA Share Option Incentive Scheme (2016) upon the Conversion of Capital Reserve and dividend adjustment were RMB8.00, RMB1.78 and RMB8.00, respectively, which were determined by based on STA's operations, value of assets, contribution of its employees and the intended level of employee incentive to be provided as adjusted by 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 January 1, 2020	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Outstanding at June 30, 2020
STA Share Option Incentive Scheme (2015)	6,078,000	—	6,078,000	—	—
STA Overseas Employees Incentive Scheme — 1st Batch	2,503,836	—	2,311,836	192,000	—
STA Overseas Employees Incentive Scheme — 2nd Batch	186,843	—	20,800	—	166,043
STA Share Option Incentive Scheme (2016) — 1st batch	274,860	—	91,620	7,200	176,040
STA Share Option Incentive Scheme (2016) — 2nd batch	316,560	—	—	—	316,560
Total	9,360,099	—	8,502,256	199,200	658,643
Exercisable at the end of the year	—				—
Weighted average exercise price	RMB6.21	N/A	RMB6.29	RMB2.02	RMB6.43

5. STA Share Appreciation Incentive Scheme

On May 16, 2016 and July 12, 2017, the STA Share Appreciation Incentive Scheme (2016) and the 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 Share. 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 subscription price and market price of the STA Shares on the exercise day. The exercise prices of the STA Share Appreciation Incentive Scheme (2016) and the STA Share Appreciation Incentive Scheme (2017) upon the Conversion of Capital Reserve and dividend adjustment were RMB8.00 and RMB8.00, respectively, which were determined by based on STA's operations, value of assets, contribution of its employee and the intended level of employee incentive to be provided.

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 January 1, 2020	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Outstanding at June 30, 2020
STA Share Appreciation Incentive Scheme (2016) — 1st batch	432,000	—	144,000	—	288,000
STA Share Appreciation Incentive Scheme (2016) — 2nd batch	72,000	—	—	—	72,000
STA Share Appreciation Incentive Scheme (2017)	36,000	—	—	—	36,000
Total	540,000	—	144,000	—	396,000
Exercisable at the end of the year	—				—
Weighted average exercise price	RMB8.00	N/A	RMB8.00	N/A	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 June 30, 2020, 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:

Interests 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	633,784,587 A Shares ⁽²⁾ (L)	27.4178%
Dr. Ning Zhao	Interests held jointly with another person; interests of spouse	633,784,587 A Shares ⁽²⁾ (L)	27.4178%
Mr. Zhaohui Zhang	Interests held jointly with another person; interests of controlled corporation	633,784,587 A Shares ⁽²⁾ (L)	27.4178%
Dr. Steve Qing Yang	Beneficial owner	288,007 A Shares (L)	0.0125%
Mr. Edward Hu	Beneficial owner; interests of spouse	407,120 Restricted A Shares ⁽³⁾ (L)	0.0176%
Mr. Ellis Bih-Hsin Chu	Beneficial owner	245,000 Share Options ⁽⁴⁾	0.0106%

Note:

- (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) 53,760 Restrictive A Shares were granted pursuant to the 2018 A Share Incentive Plan and 2019 A Share Incentive Plan to Ms. Wendy J. Hu, spouse of Mr. Edward Hu. Mr. Edward Hu are deemed to be interested in his spouse's interest. On May 6, 2020, 50,960 Restricted A Shares of Mr. Edward Hu and 7,560 Restricted A Shares of Ms. Wendy J. Hu were unlocked pursuant to the terms and conditions under the 2018 A Share Incentive Plan. Details of which are set out in the announcement of the Company dated May 6, 2020.
- (4) The Share Options were granted pursuant to the 2018 A Share Incentive Plan.
- (5) The Restricted A Shares were granted pursuant to the 2018 A Share Incentive Plan and 2019 A Share Incentive Plan.
- (6) As at June 30, 2020, the number of issued shares of the Company was 2,311,577,143, which has been used for the calculation of the approximate percentage.

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	1,668,938	0.3693%
Mr. Zhaohui Zhang	Shanghai SynTheAll Pharmaceutical Co., Ltd. (上海合全藥業股份有限公司)	Beneficial owner	513,316	0.1136%
Mr. Edward Hu	Shanghai SynTheAll Pharmaceutical Co., Ltd. (上海合全藥業股份有限公司)	Beneficial owner	64,380	0.0142%

Save as disclosed above and in the section headed “Share Incentive Schemes” and to the best knowledge of the Directors, as at June 30, 2020, 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 June 30, 2020, 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	633,784,587 A Shares (L)	30.57%	27.41%
Dr. Ning Zhao ⁽²⁾⁽³⁾	Interests held jointly with another person; interests of spouse; interests of controlled corporation	633,784,587 A Shares (L)	30.57%	27.41%
Mr. Zhaohui Zhang ⁽²⁾⁽⁴⁾	Interests held jointly with another person; interests of controlled corporation	633,784,587 A Shares (L)	30.57%	27.41%
Mr. Xiaozhong Liu ⁽²⁾⁽⁵⁾	Interest held jointly with another person; interest of controlled corporation	633,784,587 A Shares (L)	30.57%	27.41%
Ms. Lei Zhang (張蕾) ⁽⁴⁾	Interests of spouse	633,784,587 A Shares (L)	30.57%	27.41%
Ms. Guolian Zhang (張國連) ⁽⁵⁾	Interests of spouse	633,784,587 A Shares (L)	30.57%	27.41%
G&C VI Limited ⁽⁶⁾	Beneficial owner	158,760,000 A Shares (L)	7.65%	6.86%
G&C I Limited ⁽⁶⁾	Interests of controlled corporation	158,760,000 A Shares (L)	7.65%	6.86%
G&C Limited ⁽⁶⁾	Interests of controlled corporation	200,772,600 A Shares (L)	9.68%	8.68%

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
WuXi AppTec (BVI) Inc. ⁽⁷⁾	Beneficial owner	113,393,163 A Shares (L)	5.47%	4.90%
WuXi PharmaTech (Cayman) Inc. ⁽⁷⁾	Interests of controlled corporation	113,393,163 A Shares (L)	5.47%	4.90%
New WuXi Life Science Limited ⁽⁷⁾	Interests of controlled corporation	113,393,163 A Shares (L)	5.47%	4.90%
New WuXi Life Science Holdings Limited ⁽⁷⁾	Interests of controlled corporation	113,393,163 A Shares (L)	5.47%	4.90%
G&C IV Hong Kong Limited ⁽⁸⁾	Beneficial owner	116,099,424 A Shares (L)	5.60%	5.02%
G&C VIII Limited ⁽⁸⁾	Interests of controlled corporation	116,099,424 A Shares (L)	5.60%	5.02%
G&C IV Limited ⁽⁸⁾	Interests of controlled corporation	116,099,424 A Shares (L)	5.60%	5.02%
Summer Bloom Investments (I) Pte. Ltd. ⁽⁹⁾	Beneficial owner	145,124,379 A Shares (L)	7.00%	6.27%
Summer Bloom Investments (II) Pte. Ltd. ⁽⁹⁾	Interests of controlled corporation	145,124,379 A Shares (L)	7.00%	6.27%
Summer Bloom Investments Pte. Ltd. ⁽⁹⁾	Interests of controlled corporation	145,124,379 A Shares (L)	7.00%	6.27%
Pavilion Capital International Pte. Ltd. ⁽⁹⁾	Interests of controlled corporation	145,124,379 A Shares (L)	7.00%	6.27%
Pavilion Capital Holdings Pte. Ltd. ⁽⁹⁾	Interests of controlled corporation	145,124,379 A Shares (L)	7.00%	6.27%
Linden Investments Pte. Ltd. ⁽⁹⁾	Interests of controlled corporation	145,124,379 A Shares (L)	7.00%	6.27%
Fullerton Fund Investments Pte. Ltd. ⁽⁹⁾	Interests of controlled corporation	145,124,379 A Shares (L)	7.00%	6.27%

Statutory Disclosures

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
Temasek Holdings (Private) Limited ⁽⁹⁾	Interests of controlled corporation	145,124,379 A Shares (L)	7.00%	6.27%
Morgan Stanley Capital Management, LLC	Interests of controlled corporation	45,490,063 H Shares (L)	19.05%	1.96%
		34,790,000 H Shares (S)	14.57%	1.50%
Wellington Management Group LLP	Investment manager	30,959,012 H Shares (L)	12.96%	1.33%
		48,009 H Shares (S)	00.02%	0.0021%
Qatar Investment Authority	Interests of controlled corporation	34,790,000 H Shares (L)	14.57%	1.50%
JPMorgan Chase & Co.	Interests of controlled corporation, Investment manager, Person having a security interest in shares and Approved lending agent	13,750,748 H Shares (L)	5.76%	0.59%
		661,179 H Shares (S)	0.27%	0.02%
		4,528,626 H Shares (P)	1.89%	0.19%
BlackRock, Inc.	Interest of controlled corporation	28,569,344 H Shares (L)	11.96%	1.23%
		751,160 H Shares (S)	0.31%	0.03%
Credit Suisse Group AG	Interest of controlled corporation, Investment manager	24,156,411 H Shares (L)	10.11%	1.04%
		12,316,179 H Shares (S)	5.15%	0.53%

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
The Capital Group Companies, Inc.	Interest of controlled corporation	13,917,061 H Shares (L)	5.82%	0.60%
Pandanus Associates Inc.	Interest of controlled corporation	17,466,065 H Shares (L)	7.31%	0.75%
Brown Brothers Harriman & Co.	Agent	12,704,825 H Shares (L)	5.32%	0.54%
		12,704,825 H Shares (P)	5.32%	0.54%

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 the Company.
- (3) Dr. Ning Zhao is the spouse of Dr. Ge Li and they are deemed to be interested in each other's interests in the 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 the 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 the 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 the Shares held by G&C VI Limited.
- (7) New WuXi Life Science Holdings Limited indirectly wholly owns WuXi AppTec (BVI) Inc. through its wholly own interests in WuXi PharmaTech (Cayman) Inc. and New WuXi Life Science Limited. Under the SFO, New WuXi Life Science Holdings Limited is deemed to be interested in the Shares held by WuXi AppTec (BVI) Inc.
- (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. 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 the Shares held by G&C IV Hong Kong Limited.
- (9) 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.
- (10) As at June 30, 2020, the number of issued shares of the Company was 2,311,577,143 (comprised of 2,072,858,159 A Shares and 238,718,984 H Shares), which has been used for the calculation of the approximate percentage.

Statutory Disclosures

Save as disclosed above, to the best knowledge of the Company, as at June 30, 2020, 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 share incentive schemes set out under the section “Share Incentive Schemes” on pages 43 to 53 of this interim report, 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.

HUMAN RESOURCES

The Group had 22,824 employees as at June 30, 2020. 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-based compensation 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”.

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 interim report, the Company has maintained the public float as required under Listing Rules and as modified by the waiver granted by the Stock Exchange upon its listing on the Hong Kong Stock Exchange on December 13, 2018.

CORPORATE GOVERNANCE

The Company recognizes 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 corporate governance practices based on the principles and code provisions as set out in the CG Code as contained in Appendix 14 to the Listing Rules as its own code of 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 Reporting Period, save for deviation from code provision A.2.1 of the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the responsibility between the chairman and chief executive officer should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Dr. Ge Li currently performs these two roles. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. 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.

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

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 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 Model Code and the Code of Conduct throughout the Reporting Period.

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.

EVENTS AFTER THE REPORTING PERIOD

1. Proposed adoption of the H Share Award and Trust Scheme

Subsequent to the Reporting Period, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group, the Board has considered and approved, on July 21, 2020, a resolution to adopt the H Share Award and Trust Scheme. The Scheme Limit shall be the maximum number of H Shares that will be acquired by the Trustee through on-market transactions from time to time at the prevailing market price with funds in the amount of not more than HK\$700 million. The Board or the Delegatee may grant Awards to Selected Participants during the Award Period conditional upon fulfilment of terms and conditions of the Awards and performance targets as the Board or the Delegatee determines from time to time. Eligible Employee who may participate in the Scheme include any individual, being a Director, supervisor, senior management, mid-level manager, basic-level manager, backbone member of the technicians, other technician, who is a full-time PRC or non-PRC employee of any members of the Group. The Company proposes to grant Awards in an aggregate value of HK\$41,923,641.00 to 12 Connected Selected Participants including, Dr. Ge Li, Mr. Edward Hu, Dr. Steve Qing Yang, Mr. Zhaohui Zhang, Dr. Ning Zhao, Mr. Ellis Bih-Hsin Chu, Mr. Minzhang Chen, Dr. Shuhui Chen, Mr. Harry Liang He, Ms. Minfang Zhu, Ms. Wendy J. Hu and Ms. Cuiping Hu. The adoption of the H Share Award and Trust Scheme and the grant of Awards to the Connected Selected Participants has been approved by the Shareholders at the EGM. Details of which are set out in the announcements of the Company dated July 21, 2020 and August 31, 2020, and the circular of the Company dated August 12, 2020.

2. Fulfillment of exercise conditions for First Exercisable Period of Share Options granted under the reserved grant of the 2018 A Share Incentive Plan

Subsequent to the Reporting Period, the Board is of the view that the conditions for First Exercisable Period of Share Options granted under the reserved grant of the 2018 A Share Incentive Plan has been fulfilled. As such, a total of 160,720 units of the Share Options granted under the Reserved Grant becomes exercisable by two incentive participants (i.e. Mr. Ellis Bih-Hsin Chu and a senior management) during the First Exercisable Period in accordance with the relevant requirements of the 2018 A Share Incentive Plan. Details of which are set out in the announcement of the Company dated July 21, 2020.

3. The Placing

On July 29, 2020, the Company entered into the Placing Agreement to subscribe for a total of 68,205,400 new H Shares at HK\$108.0 per placing share to be issued by the Company under the Specific Mandate upon the terms and subject to the conditions set out in the Placing Agreement. On August 5, 2020, all the conditions have been satisfied and the completion took place. An aggregate of 68,205,400 placing shares have been successfully placed by the Placing Agents to no less than six independent placees at the placing price of HK\$108.0 per placing share pursuant to the terms and conditions of the Placing Agreement. Details of which are set out in the announcements of the Company dated July 29, 2020 and August 5, 2020 respectively.

REVIEW OF INTERIM RESULTS AND INTERIM REPORT

Audit Committee

The Audit Committee of the Company comprises three independent non-executive Directors, namely Dr. Hetong Lou, Mr. Xiaotong Zhang, Ms. Yan Liu. The chairman of the Audit Committee is Dr. Hetong Lou. The Audit Committee has reviewed with management and external auditor the unaudited condensed consolidated financial information of the Group for the Reporting Period, including accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters.

Scope of work of Messrs. Deloitte Touche Tohmatsu

The independent auditors of the Company, namely Deloitte Touche Tohmatsu, have carried out a review of the interim financial information in accordance with the Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

By order of the Board
WuXi AppTec Co., Ltd.*
Chairman
Dr. Ge Li

Hong Kong, August 13, 2020

* *For identification purposes only*

Report on Review of Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

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

Introduction

We have reviewed the condensed consolidated financial statements of 無錫藥明康德新藥開發股份有限公司 WuXi AppTec Co., Ltd.* (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 65 to 127, which comprise the condensed consolidated statement of financial position at June 30, 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
August 13, 2020

* For identification purpose only

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2020

	NOTES	Six months ended June 30,	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3	7,231,434	5,894,358
Cost of services		(4,572,849)	(3,610,767)
Gross profit		2,658,585	2,283,591
Other income	5	127,973	124,873
Other gains and losses	6	721,803	(22,493)
Impairment losses under expected credit losses ("ECL") model, net of reversal		(8,082)	(1,152)
Selling and marketing expenses		(274,503)	(208,514)
Administrative expenses		(829,258)	(671,239)
Research and development expenses		(333,439)	(243,622)
Operating profit		2,063,079	1,261,444
Share of (losses) profits of associates		(17,913)	72,978
Share of losses of joint ventures		(12,407)	(20,202)
Finance costs	7	(110,797)	(32,753)
Profit before tax		1,921,962	1,281,467
Income tax expense	8	(194,484)	(176,502)
Profit for the period	9	1,727,478	1,104,965
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		40,541	5,352
Fair value gain on:			
— hedging instruments designated in cash flow hedges		7,364	50,260
Other comprehensive income for the period, net of income tax		47,905	55,612
Total comprehensive income for the period		1,775,383	1,160,577

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2020

	NOTES	Six months ended June 30,	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Profit for the period attributable to:			
Owners of the Company		1,717,156	1,056,762
Non-controlling interests		10,322	48,203
		1,727,478	1,104,965
Total comprehensive income for the period attributable to:			
Owners of the Company		1,765,109	1,108,710
Non-controlling interests		10,274	51,867
		1,775,383	1,160,577
		RMB	RMB
Earnings per share			
— Basic	10	0.75	0.46
— Diluted	10	0.74	0.46

Condensed Consolidated Statement of Financial Position

At June 30, 2020

	NOTES	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Non-current Assets			
Property, plant and equipment	12	8,170,135	7,665,990
Right-of-use assets	12	1,524,100	1,564,438
Goodwill	13	1,369,273	1,362,176
Other intangible assets		486,677	495,874
Interests in associates	14	857,471	768,292
Interests in joint ventures	15	47,612	25,215
Deferred tax assets	16	307,613	262,215
Financial assets at fair value through profit or loss ("FVTPL")	17	5,762,510	4,009,081
Other non-current assets	18	578,301	62,391
Biological assets	19	402,016	360,254
Amounts due from related parties	32	174	174
		19,505,882	16,576,100
Current Assets			
Inventories	20	1,690,466	1,208,320
Contract costs		140,417	180,201
Amounts due from related parties	32	15,784	13,342
Trade and other receivables	21	4,033,927	3,555,889
Contract assets	21	454,652	379,396
Income tax recoverable		1,321	6,286
Financial assets at FVTPL	17	1,804,777	1,701,638
Derivative financial instruments	23	13,286	36,755
Pledged bank deposits		3,415	3,950
Bank balances and cash		2,848,549	5,223,293
Biological assets	19	362,920	353,964
		11,369,514	12,663,034
Current Liabilities			
Trade and other payables	22	3,238,531	3,392,829
Amounts due to related parties	32	20,358	24,796
Derivative financial instruments	23	55,570	86,378
Contract liabilities		1,244,587	897,140
Borrowings	24	1,787,017	1,809,857
Income tax payables		254,506	261,390
Financial liabilities at FVTPL		43,694	19,499
Lease liabilities		162,783	142,497
		6,807,046	6,634,386

Condensed Consolidated Statement of Financial Position

At June 30, 2020

	NOTES	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Net Current Assets		4,562,468	6,028,648
Total Assets Less Current Liabilities		24,068,350	22,604,748
Non-current Liabilities			
Borrowings	24	557,700	762,400
Deferred tax liabilities	16	211,857	231,098
Convertible bonds — debt component	26	1,937,641	1,874,915
Convertible bonds — embedded derivative component	26	789,237	298,013
Deferred income		660,350	667,382
Other long-term liabilities	25	192,536	231,812
Financial liabilities at FVTPL		—	24,729
Lease liabilities		1,065,891	1,104,689
		5,415,212	5,195,038
Net Assets		18,653,138	17,409,710
Capital and Reserves			
Share capital	27	2,311,577	1,651,127
Reserves		16,220,897	15,661,128
Equity attributable to owners of the Company		18,532,474	17,312,255
Non-controlling interests		120,664	97,455
Total Equity		18,653,138	17,409,710

The condensed consolidated financial statements on pages 65 to 127 were approved and authorized for issue by the board of directors on August 13, 2020 and are signed on its behalf by:

Ge LI
DIRECTOR

Edward HU
DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	Attributable to owners of the Company										Total RMB'000		
	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	Other reserve RMB'000	Retained earnings RMB'000		Subtotal RMB'000	Non-controlling interests RMB'000
Balance at January 1, 2020 (audited)	1,651,127	11,470,584	(705,817)	(2,157,519)	576,361	(24,451)	180,697	146,215	398,216	5,776,842	17,312,255	97,455	17,409,710
Profit for the period	—	—	—	—	—	—	—	—	—	1,717,156	1,717,156	10,322	1,727,478
Other comprehensive income for the period, net of income tax	—	—	—	—	—	7,176	40,777	—	—	—	47,953	(48)	47,905
Total comprehensive income for the period	—	—	—	—	—	7,176	40,777	—	—	1,717,156	1,765,109	10,274	1,775,383
Recognition of share-based payments	—	—	—	—	254,703	—	—	—	—	—	254,703	1,526	256,229
Share premium transferred to share capital	660,450	(660,450)	—	—	—	—	—	—	—	—	—	—	—
Restricted A shares Tranche one vested	—	—	106,383	84,418	(84,418)	—	—	—	—	—	106,383	—	106,383
Change in ownership interests in subsidiaries without change of control	—	—	—	(356,168)	—	—	—	—	—	(656,430)	(356,168)	11,409	(344,759)
Payment of dividends	—	—	6,622	—	—	—	—	—	—	(549,808)	(549,808)	—	(549,808)
Balance at June 30, 2020 (unaudited)	2,311,577	10,810,134	(592,812)	(2,429,269)	746,646	(17,275)	221,474	146,215	398,216	6,937,368	18,532,474	120,664	18,653,138

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	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	Other reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
Adjusted balance at January 1, 2019 (Audited)	1,164,741	11,225,644	(285,989)	(50,754)	404,315	(79,646)	135,939	87,709	398,216	4,659,438	17,659,613	476,066	18,135,699
Profit for the period	—	—	—	—	—	—	—	—	—	1,056,762	1,056,762	48,203	1,104,965
Other comprehensive income for the period, net of income tax	—	—	—	—	—	47,251	4,697	—	—	—	51,948	3,664	55,612
Total comprehensive income for the period	—	—	—	—	—	47,251	4,697	—	—	1,056,762	1,108,710	51,867	1,160,577
Issue of H shares under the over-allotment option	5,321	310,997	—	—	—	—	—	—	—	—	316,318	—	316,318
Transaction costs attributable to issue of new shares	—	(8,083)	—	—	—	—	—	—	—	—	(8,083)	—	(8,083)
Recognition of share-based payments	—	—	—	—	67,027	—	—	—	—	—	67,027	963	67,990
Repurchase and cancellation of restricted A shares under the 2018 Wuxi AppiTec A share Incentive Scheme	(31)	(1,396)	1,427	—	—	—	—	—	—	—	—	—	—
Acquisition of additional interests in a subsidiary	—	—	—	(711,510)	—	—	—	—	—	—	(711,510)	(155,866)	(867,376)
Dividends recognized as distribution	—	—	2,681	—	—	—	—	—	—	(678,641)	(675,960)	—	(675,960)
Balance at June 30, 2019 (unaudited)	1,170,031	11,527,162	(281,881)	(762,264)	471,342	(32,395)	140,636	87,709	398,216	5,037,559	17,756,115	373,050	18,129,165

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	Six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
NET CASH FROM OPERATING ACTIVITIES	1,399,573	877,670
NET CASH USED IN INVESTING ACTIVITIES		
Interests received	30,910	50,212
Proceeds from disposal of		
— financial assets at FVTPL	282,334	94,213
Purchase of		
— financial assets at FVTPL	(1,118,201)	(1,480,237)
Proceeds from disposal of property, plant and equipment	3,707	3,128
Purchase of other non-current assets	(500,000)	—
Acquisition of interests in associates	(99,501)	(48,810)
Acquisition of interests in joint ventures	(26,667)	(20,865)
Purchase of property, plant and equipment	(1,086,925)	(1,008,711)
Payment for right-of-use assets	—	(68,162)
Payment for lease deposits	(5,137)	—
Purchase of other intangible assets	(1,255)	(19,378)
Withdraw of pledged bank deposits	535	—
Placement of pledged bank deposits	—	(1,488)
Net cash outflow on acquisition of subsidiaries	—	(115,667)
Dividends received from associates	2,075	—
Dividends received from financial assets at FVTPL	11,915	4,062
Government grants and subsidies received related to assets	9,779	22,259
Payment for forward contracts	(34,529)	(1,213)
	(2,530,960)	(2,590,657)

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	Six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
NET CASH USED IN FINANCING ACTIVITIES		
Payment of dividends	(552,641)	(607,676)
New borrowings raised	1,411,940	1,294,936
Repayment of borrowings	(1,651,957)	(120,000)
Acquisition of partial interest of subsidiaries from non-controlling shareholders	(458,210)	(867,376)
Proceeds from issue of H shares under the over-allotment option	—	316,318
Contribution from non-controlling shareholders	113,451	—
Interests paid	(51,067)	(6,467)
Repurchase and cancellation of restrict A shares	(7,889)	(1,427)
Repayment of lease liabilities	(96,874)	(72,635)
Repayments of consideration payable on purchase of a property under instalment payment plan	—	(200,255)
Issue cost paid	—	(42,901)
	(1,293,247)	(307,483)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,424,634)	(2,020,470)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	5,223,293	5,757,691
Effects of exchange rate changes	49,890	(37,456)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	2,848,549	3,699,765

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

1. GENERAL INFORMATION

無錫藥明康德新藥開發股份有限公司 WuXi AppTec Co., Ltd. (the “Company”) was incorporated in the People’s Republic of China (“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 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 and issued 5,321,200 over-allotment H Shares on January 9, 2019. 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), Mr. Xiaozhong Liu 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 unaudited condensed consolidated financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value and biological assets which are measured at fair value less costs to sell.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2020 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2019.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and, for the first time, the following amendments to IFRSs issued by the IASB which are mandatorily effective for the preparation of the Group's condensed consolidated financial statements:

For the annual period beginning on or after January 1, 2020:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. 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.
Manufacturing 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

3. REVENUE (Continued)

Disaggregation of revenue

The Group derives its revenue from the transfer of goods and services over time and 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 Operating Segment in Note 4.

An analysis of the Group's revenue is as follows:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
— China-based laboratory services	3,779,958	2,988,906
— U.S.-based laboratory services	781,657	709,821
— Clinical research and other CRO services	499,998	472,067
— CMO/CDMO services	2,161,503	1,717,729
— Others	8,318	5,835
	7,231,434	5,894,358

Timing of revenue recognition

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Over time		
— China-based laboratory services	3,087,261	2,431,672
— U.S.-based laboratory services	781,657	709,821
— Clinical research and other CRO services	499,998	472,067
— CMO/CDMO services	270,860	167,813
— Others	8,220	5,660
At a point in time		
— China-based laboratory services	692,697	557,234
— CMO/CDMO services	1,890,643	1,549,916
— Others	98	175
	7,231,434	5,894,358

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

4. SEGMENT INFORMATION

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments.

	Six months ended June 30, 2020 (Unaudited)					
	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	3,779,958	781,657	499,998	2,161,503	8,318	7,231,434
Segment results	1,562,736	187,393	54,339	851,399	2,718	2,658,585
Unallocated amount:						
Other income						127,973
Other gains and losses						721,803
Impairment losses under ECL model, net of reversal						(8,082)
Selling and marketing expenses						(274,503)
Administrative expenses						(829,258)
Research and development expenses						(333,439)
Share of losses of associates						(17,913)
Share of losses of joint ventures						(12,407)
Finance costs						(110,797)
Group's profit before tax						1,921,962

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

4. SEGMENT INFORMATION (Continued)

	Six months ended June 30, 2019 (Unaudited)					
	China-based laboratory services <i>RMB'000</i>	U.S.-based laboratory services <i>RMB'000</i>	Clinical research and other CRO services <i>RMB'000</i>	CMO/CDMO services <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	2,988,906	709,821	472,067	1,717,729	5,835	5,894,358
Segment results	1,301,418	190,611	91,635	697,973	1,954	2,283,591
Unallocated amount:						
Other income						124,873
Other gains and losses						(22,493)
Impairment losses under ECL model, net of reversal						(1,152)
Selling and marketing expenses						(208,514)
Administrative expenses						(671,239)
Research and development expenses						(243,622)
Share of profits of associates						72,978
Share of losses of joint ventures						(20,202)
Finance costs						(32,753)
Group's profit before tax						1,281,467

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

4. 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:

	Six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Revenue		
— PRC	1,685,538	1,360,137
— Asia — others	301,802	219,016
— U.S.	4,073,849	3,639,938
— Europe	1,020,754	588,642
— Rest of the world	149,491	86,625
	7,231,434	5,894,358

Information about the Group's non-current assets by geographical locations is presented below:

	At June 30, 2020 <i>RMB'000</i> (Unaudited)	At December 31, 2019 <i>RMB'000</i> (Audited)
	— PRC	9,822,133
— Rest of the world	3,613,452	3,490,234
	13,435,585	12,304,630

Non-current assets excluding deferred tax assets, rental deposits included in amount due from related parties and financial assets at FVTPL.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

5. OTHER INCOME

	Six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Interest income	25,681	51,843
Government grants and subsidies related to		
— asset (i)	18,815	33,786
— income (ii)	76,056	35,182
Dividend income arising from		
— financial assets at FVTPL	7,421	4,062
	127,973	124,873

Notes:

- i. The Group has received certain government grants and subsidies to invest in laboratory equipment. The grants and subsidies were recognized in profit or loss over the useful lives of the relevant assets.
- 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 recognized 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 recognized in profit or loss when received by the Group.

6. OTHER GAINS AND LOSSES

	Six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Net foreign exchange gain (loss)	81,359	(33,302)
Gain resulting from transfer of an investment in associates to financial assets at FVTPL (Note)	351,491	—
Loss on disposal of property, plant and equipment	(3,175)	(1,378)
Loss on disposal of other intangible assets	—	(658)
Fair value gain on financial assets at FVTPL	625,054	18,602
Loss on derivative financial instruments (unrealized)	(488,045)	(9,604)
Loss on derivative financial instruments (realized)	(34,529)	(1,213)
Gain on disposal of financial assets at FVTPL	84,557	6,922
Fair value gain on biological assets	132,982	—
Fair value gain on financial liabilities at FVTPL	1,192	—
Fair value loss on share-based appreciation rights	(20,128)	—
Others	(8,955)	(1,862)
	721,803	(22,493)

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

6. OTHER GAINS AND LOSSES (Continued)

Note:

- (i) During the current interim period, the Group lost its significant influence on JW Cayman and evaluated that JW Cayman was no longer its associate. After then, the investment was transferred from interests in associates to financial assets at FVTPL. As a result, the Group recognized a gain of RMB351.5 million which was the difference between the fair value of the shares of JW Cayman held by the Group and the book value as measured under equity method on the date of the loss of significant influence.

7. FINANCE COSTS

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Interest expense on borrowings	48,522	10,356
Imputed interest expense on payable for acquisition of a property and a subsidiary	3,147	5,447
Interest on lease liabilities	24,492	16,950
Effective interest expense on Convertible Bonds	34,636	—
	110,797	32,753

8. INCOME TAX EXPENSE

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Current tax:		
— PRC	260,570	177,373
— Hong Kong	12,126	11,185
— USA	21,250	8,663
— Rest of world	1,944	124
	295,890	197,345
(Over) under provision in respect of prior years		
— PRC	(33,238)	(20,958)
— USA	266	—
	(32,972)	(20,958)
Deferred tax:		
— Current period	(68,434)	115
	194,484	176,502

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

9. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation for plant and equipment	434,668	351,065
Depreciation for right-of-use assets	98,211	66,184
Amortization of other intangible assets	34,701	26,987
Expense relating to short-term leases	3,546	3,397
Expense relating to leases of low-value assets that are not shown above as short-term leases	221	118
Staff cost (including directors' emoluments):		
— Salaries and other benefits	2,295,383	1,588,453
— Retirement benefit scheme contributions	152,192	176,038
— Equity-settled share-based payments	256,230	67,990
— Cash-settled share-based payments	58,346	7,324
Less: capitalized in inventories and contract costs	(528,222)	(393,695)
	2,805,276	1,893,861
Auditor's remuneration	3,129	2,943

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

10. EARNINGS PER SHARE

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

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Earnings:		
Profit attributable to ordinary equity holders of the parent	1,717,156	1,056,762
Less: Cash dividends attribute to the shareholders of restricted shares expected to be unlocked in the future	(6,622)	(2,681)
Earnings for the purpose of calculating basic earnings per share	1,710,534	1,054,081
Effect of dilutive potential ordinary shares:		
Add: Cash dividends attribute to the shareholders of restricted shares expected to be unlocked in the future	6,622	2,681
Effect of share options issued by a subsidiary	(4,361)	(11,694)
Earnings for the purpose of calculating diluted earnings per share	1,712,795	1,045,068
Number of Shares (000):		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,283,360	2,280,550
Effect of dilutive potential ordinary shares:		
Effect of restricted shares and share options issued by the Company	17,574	2,893
Effect of over-allotment option	—	461
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	2,300,934	2,283,904

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 six month ended June 30, 2020 and 2019 is based on weighted average number of shares assumed to be in issue after taking into account the effect of restricted shares and share options issued by the Company.

The denominator for the purposes of calculating both basic and diluted earnings per share for the six months ended June 30, 2020 and 2019 have been adjusted to reflect the capitalisation issuance completed on June 4, 2020 under the 2019 Profit Distribution Plan (defined in Note 11).

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their assumed exercise would result in an increase in earnings per share.

11. DIVIDENDS

On May 15, 2020, 2019 Profit Distribution Plan of the Company was approved at the 2019 annual general meeting, 2019 first session of A Share Class Meeting and 2019 first session of H Share Class Meeting. Pursuant to the 2019 Profit Distribution Plan, a final dividend of RMB0.3370 per share (inclusive of tax) in respect of the year ended December 31, 2019 was declared to both holders of A Shares and H Shares and aggregate dividend amounted to RMB556,430,000. A shares dividend of RMB498,967,000 and H shares dividend of RMB57,463,000 was paid by the Company during the current interim period.

Pursuant to the 2019 Profit Distribution Plan, on June 4, 2020, 4 new shares were issued for every existing 10 shares held by the shareholders on June 3, 2020 (being the relevant record date). Accordingly, the total number of shares of the Company has changed from 1,651,126,531 shares to 2,311,577,143 shares, and the registered capital of the Company has changed from RMB1,651,126,531 to RMB2,311,577,143.

The directors of the Company have determined that no dividend will be proposed or declared in respect of the current interim period (Six month ended June 30, 2019:Nil).

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

During the current interim period, the Group acquired property, plant and equipment of approximately RMB949,548,000 (Year ended December 31, 2019: RMB2,290,701,000) for the expansion of production facilities and research capacity.

During the current interim period, the Group entered into several new lease agreements for the use of buildings. On lease commencement, the Group recognized right-of-use assets amounting to RMB53,870,000 and lease liabilities amounted to RMB53,870,000 (Year ended December 31, 2019: RMB558,570,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

13. GOODWILL

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
COST		
At the beginning of period/year	1,462,713	1,243,717
Effect of foreign currency exchange difference	7,916	8,198
Acquisition of subsidiaries	—	210,798
At the end of period/year	1,470,629	1,462,713
IMPAIRMENT		
At the beginning of period/year	100,537	99,641
Effect of foreign currency exchange difference	819	896
At the end of period/year	101,356	100,537
CARRYING VALUES		
At the end of period/year	1,369,273	1,362,176

14. INTERESTS IN ASSOCIATES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
At the beginning of the period/year	768,292	618,736
Addition	99,501	126,220
Dividend	(2,075)	(11,487)
Share of post-acquisition (losses)/gains	(17,913)	18,589
Exchange effect	9,666	16,234
At the end of the period/year	857,471	768,292

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

14. 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		Proportion of voting rights held by the Group		Principal activity
		June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	
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%	29.78%	29.78%	29.78%	Research on new antibacterial technology
WuXi Healthcare Ventures II, L.P. ("Fund II") (Note i)	Cayman	17.31%	17.31%	17.31%	17.31%	Investment platform
PICA Health Technologies Limited	Cayman	32.78%	32.78%	32.78%	32.78%	Investment holdings
M6P Therapeutics ("M6P") (Note ii)	Cayman	16.70%	N/A	16.70%	N/A	Biotech research and development
Clarity Medical Group Limited	Cayman	20.00%	20.00%	20.00%	20.00%	Professional ophthalmic Services
VW Clinical Innovations Limited	Hong Kong	33.33%	33.33%	33.33%	33.33%	E-Clinical technology
JW (Cayman) Therapeutics Co Ltd ("JW Cayman") (Note iii)	Cayman	N/A	21.32%	N/A	21.32%	CAR-T cell therapy R&D

Notes:

- (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.
- (ii) The Group is able to exercise significant influence over M6P because one of four directors is appointed by the Group according to M6P's articles of association.
- (iii) During the current interim period, the Group lost its significant influence on JW Cayman and evaluated that JW Cayman was no longer its associate. As at June 30, 2020, the Group held 14.20% equity interests in JW Cayman.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

15. INTERESTS IN JOINT VENTURES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
At the beginning of the year/period	25,215	36,822
Addition	34,784	26,455
Share of post-acquisition losses	(12,407)	(39,306)
Exchange effect	20	1,244
At the end of the year/period	47,612	25,215

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 owner-ship interest held by the Group		Proportion of voting rights held by the Group		Principal activity
		June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	
WuXi MedImmune Biopharmaceutical Co. Limited	Hong Kong	50.00%	50.00%	50.00%	50.00%	Investment holding
Shanghai Waigaoqiao WuXi AppTec Incubator Management Co., Ltd	PRC	70.00%	70.00%	50.00%	50.00%	Property leasing of medicine innovation industrial park
CW Data Co., Ltd	PRC	47.06%	47.06%	50.00%	50.00%	Data analysis
Faxian Therapeutics, LLC	USA	50.00%	50.00%	50.00%	50.00%	Accelerated drug discovery

16. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Deferred tax assets	307,613	262,215
Deferred tax liabilities	(211,857)	(231,098)
	95,756	31,117

16. DEFERRED TAXATION (Continued)

The following are the deferred tax liabilities and assets recognised and movements thereon during the current interim periods and the year ended December 31, 2019.

	Deferred Assets										Deferred Liabilities					Total		
	Tax losses	Impairment allowance	Share-based payment	Accrual expenses	Deferred income	Right-of-use assets/lease liabilities	Deferred rent	Depreciation difference	Derivative financial instruments	Others	Intangible assets arising from acquisition of subsidiaries	Depreciation difference	Right-of-use assets/lease liabilities	Financial assets at FVTPL	Biological assets FV Change		Derivative financial instruments	Others
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019 (Audited)	26,301	7,259	13,531	12,147	28,650	—	7,306	164,351	15,420	8,274	(50,632)	(94,037)	—	—	—	—	(242)	138,428
Adoption of IFRS 16	—	—	—	—	—	—	(7,336)	—	—	—	—	—	—	—	—	—	—	(7,336)
Credit (charge) to profit or loss	18,791	5,352	10,701	(2,997)	34,716	—	—	(11,467)	777	2,883	7,987	(26,716)	—	(1,213)	(763)	—	(621)	37,540
Credit to OCI	—	—	—	—	—	—	—	—	(10,613)	—	—	—	—	—	—	—	—	(10,613)
Acquisitions of subsidiaries	—	—	—	—	—	—	—	—	—	(1,233)	(99,945)	—	—	—	—	—	—	(101,178)
Exchange differences	144	754	55	78	—	—	30	—	53	(1,170)	(2,248)	(1,755)	—	—	—	—	(266)	(4,325)
Effect of change in tax rate	(1,510)	3	(53)	(1)	(4,914)	—	—	(14,916)	(1)	4	(1)	(2)	—	—	—	—	(8)	(21,399)
At December 31, 2019 (Audited)	43,726	13,368	24,234	9,227	57,852	—	—	138,588	5,636	8,868	(144,839)	(122,510)	—	(1,213)	(763)	—	(1,037)	31,117
Credit (charge) to profit or loss	28,941	1,903	55,846	699	(163)	3,649	—	(5,707)	(12)	(3,182)	65,107	(2,682)	(5,310)	282	(69,205)	(654)	(765)	68,547
Credit to OCI	—	—	—	—	—	—	—	—	(1,713)	—	—	—	—	—	—	(108)	—	(1,821)
Exchange differences	(130)	41	(9)	74	—	(3)	75	—	34	—	(514)	(1,711)	5	—	—	—	(9)	(2,147)
Effect of change in tax rate	—	—	—	—	—	—	—	60	—	—	—	—	—	—	—	—	—	60
At June 30, 2020 (Unaudited)	72,537	15,312	80,071	10,000	57,689	3,646	—	132,921	3,945	5,761	(80,246)	(126,903)	(5,305)	(931)	(69,968)	(962)	(1,811)	95,756

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For the six months ended June 30, 2020

17. FINANCIAL ASSETS AT FVTPL

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Current assets		
Monetary fund investments	213,477	795,702
Structured deposits and financial products	1,591,300	905,936
	1,804,777	1,701,638
Non-current assets		
Listed equity securities of pharmaceutical companies	1,622,902	1,156,949
Unlisted equity investments of pharmaceutical companies	3,821,129	2,563,112
Unlisted pharmaceutical fund investments (<i>Note i</i>)	318,479	289,020
	5,762,510	4,009,081

Note:

- i. The fair values of the unlisted fund investments 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.

18. OTHER NON-CURRENT ASSETS

Balances at June 30, 2020 included the certificates of deposits purchased by the Group with an aggregate amount of RMB500,000,000. The certificates of deposits are principal guaranteed with fixed interest rate which ranged from 4.125% to 4.180% per annum and will become mature on 13 April 2023.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

19. BIOLOGICAL ASSETS

Nature of the Group's agricultural activities

The biological assets of the Group are cynomolgous non-human primates, including cynomolgous monkeys for CRO experiment, which are classified as current assets and cynomolgous monkeys for breeding, which are classified as non-current assets of the Group.

Carrying value of the Group's biological assets

	Cynomolgous monkeys for breeding <i>RMB'000</i>	Cynomolgous monkeys for experiment <i>RMB'000</i>	Total <i>RMB'000</i>
Carrying value at January 1, 2020 (Audited)	360,254	353,964	714,218
Add: Purchases	—	2,112	2,112
Breeding costs	—	5,226	5,226
Decrease due to mortality	(7,395)	(1,639)	(9,034)
Decrease due to experiments	—	(80,568)	(80,568)
Gain arising from changes in fair value less costs to sell of biological assets	26,911	106,071	132,982
Transfer among group of monkeys	22,246	(22,246)	—
Carrying value at June 30, 2020 (Unaudited)	402,016	362,920	764,936

Analysed for reporting purposes as:

	At June 30, 2020 <i>RMB'000</i> (Unaudited)	At December 31, 2019 <i>RMB'000</i> (Audited)
Current	362,920	353,964
Non-current	402,016	360,254
Total	764,936	714,218

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

19. BIOLOGICAL ASSETS (Continued)

Fair value measurement

The Group's biological assets were valued by Shanghai Orient Appraisal Co., Ltd. ("Shanghai Orient"), a firm of independent qualified professional valuers unrelated to the Group. The fair value less costs to sell of biological assets are determined as follows:

Fair value hierarchy	Valuation technique	Inputs	Relationship of unobservable inputs to fair value
Level 3	Market approach — sales comparison method	Recent trading price and adjustment factors based on the characteristics of the biological assets (including age information, species, health status and etc).	The higher adjustment factors, the higher the fair value.

20. INVENTORIES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Raw material and consumables	504,542	422,351
Work in progress	690,562	461,455
Finished goods	495,362	324,514
	1,690,466	1,208,320

The inventories are net of a write-down of approximately RMB18,944,000 as at June 30, 2020 (December 31, 2019: RMB13,137,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

21. TRADE AND OTHER RECEIVABLES/CONTRACT ASSETS

21.1 TRADE AND OTHER RECEIVABLES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Trade receivables		
— third parties	3,379,618	2,994,427
Allowance for credit losses	(74,675)	(67,572)
	3,304,943	2,926,855
Other receivables	80,251	14,732
Note receivable	1,670	24,735
Prepayments	136,717	92,158
Interest receivables	—	5,229
Prepaid expense	30,432	24,040
Value added tax recoverable	471,625	460,863
Rental deposits	8,289	7,277
	648,733	614,302
Total trade and other receivables	4,033,927	3,555,889

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 credit losses) and note receivable presented based on the invoice dates, at the end of each reporting period:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Within 180 days	3,006,260	2,792,413
181 days to 1 year	219,677	116,540
1 year to 2 years	70,220	33,042
More than 2 years	10,456	9,595
	3,306,613	2,951,590

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

21. TRADE AND OTHER RECEIVABLES/CONTRACT ASSETS (Continued)

21.2 CONTRACT ASSETS

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Contract assets	457,877	382,212
Allowance for credit losses	(3,225)	(2,816)
	454,652	379,396

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones of the contracts at the reporting date. The contract assets are transferred to trade receivables when the rights become unconditional.

21.3 IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
(Reversal of)/impairment losses under ECL model on		
Contract assets	389	(3,849)
Trade receivables	7,693	5,001
	8,082	1,152

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

22. TRADE AND OTHER PAYABLES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Trade payables	784,699	572,507
Salary and bonus payables	633,639	758,377
Payables for acquisition of plant and equipment	825,748	926,263
Accrued expenses	337,149	352,859
Other taxes payable	22,197	20,456
Interest payable	2,780	5,325
Note payable	16,304	19,090
Others	50,319	56,340
Considerations received from employees for subscribing restricted A shares of the Company under the WuXi AppTec A Share Incentive Scheme	565,696	681,612
	3,238,531	3,392,829

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 dates at the end of each reporting period:

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Within one year	783,978	581,858
1 year to 2 years	10,735	5,350
2 years to 3 years	3,677	2,501
More than 3 years	2,613	1,888
	801,003	591,597

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

23. DERIVATIVE FINANCIAL INSTRUMENTS

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Current assets		
Derivatives under hedge accounting		
Cash flow hedges — Foreign currency forward contracts	9,642	25,240
Other derivatives (not under hedge accounting)		
Foreign currency forward contracts	3,644	11,515
	13,286	36,755
Current liabilities		
Derivatives under hedge accounting		
Cash flow hedges — Foreign currency forward contracts	29,540	56,381
Interest hedges — Interest rate swap contracts	2,220	—
	31,760	56,381
Other derivatives (not under hedge accounting)		
Foreign currency forward contracts	23,810	29,997
	55,570	86,378

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 at June 30, 2020	Foreign currency as at June 30, 2020 USD'000	Notional value as at June 30, 2020 RMB'000	Fair value assets as at June 30, 2020 RMB'000
Sell USD				
Less than 3 months	7.1540	91,000	651,016	5,385
3 to 6 months	7.1200	32,000	227,840	223
7 to 12 months	7.1936	145,000	1,043,072	2,532
Buy RMB				
Less than 3 months	7.1730	15,000	107,595	932
7 to 12 months	7.1918	25,000	179,795	570

23. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**Derivatives under hedge accounting** (Continued)

	Average strike rate as at June 30, 2020	Foreign currency as at June 30, 2020	Notional value as at June 30, 2020	Fair value liabilities as at June 30, 2020
		<i>USD'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sell USD				
Less than 3 months	6.9280	32,000	221,695	4,934
3 to 6 months	7.0579	97,000	684,615	7,120
7 to 12 months	7.1077	164,000	1,165,669	9,779
Buy RMB				
Less than 3 months	6.9656	25,000	174,140	3,141
3 to 6 months	7.0759	40,000	283,036	2,135
7 to 12 months	7.1353	60,000	428,115	2,431
Interest swaps				
7 to 12 months	N/A	100,000	707,950	2,220

For the six months ended June 30, 2020, 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 RMB11,639,000 (as at December 31, 2019: RMB14,916,000). 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.

For the six months ended June 30, 2020, 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 RMB3,743,000 (as at December 31, 2019: RMB10,034,000). 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.

The Group entered into interest rate swaps to mitigate its interest rate risk. Under the interest rate swaps, the Group agrees with other third party to exchange the floating interest payments in USD for fixed interest rate at 0.54% and 0.62% per annum in USD. For the six months ended June 30, 2020, the aggregate amount of losses after tax under interest rate swaps recognised in other comprehensive income and accumulated in cash flow hedging reserve is RMB2,204,000 (as at December 31, 2019: Nil). It is anticipated that the interest rate swaps will terminate within next 12 months and the amount recognised in other comprehensive income will be reclassified to profit or loss in the same periods during which the hedged expected future cash flows affect profits or loss.

As at June 30, 2020, no ineffectiveness has been recognized in profit or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

23. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Other derivatives (not under hedge accounting)

The Group also entered into several foreign exchange forward 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 June 30, 2020 presented in the condensed consolidated financial statements are as follows:

Outstanding forward contracts	Average strike rate as at June 30, 2020	Foreign currency as at June 30, 2020	Notional value as at June 30, 2020	Fair value assets as at June 30, 2020
		<i>USD'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sell USD				
3 to 6 months	7.1200	22,000	156,640	171
Buy USD				
3 to 6 months	7.0802	22,000	155,765	712
Buy RMB				
Less than 3 months	7.1720	24,000	172,128	1,590
3 to 6 months	7.1200	14,000	99,680	91
7 to 12 months	7.1999	39,000	280,797	1,080
Outstanding forward contracts	Average strike rate as at June 30, 2020	Foreign currency as at June 30, 2020	Notional value as at June 30, 2020	Fair value liabilities as at June 30, 2020
		<i>USD'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Buy RMB				
Less than 3 months	6.9426	50,000	347,130	6,964
3 to 6 months	7.0583	63,000	444,676	3,988
7 to 12 months	7.0961	179,000	1,270,193	12,858

For the six months ended June 30, 2020, losses under forward foreign exchange contracts and collar contracts of RMB35,775,000 (six months ended June 30, 2019: RMB10,817,000) were recognised in other gains and losses.

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24. BORROWINGS

	At June 30, 2020 <i>RMB'000</i> (Unaudited)	At December 31, 2019 <i>RMB'000</i> (Audited)
Analyzed as:		
Secured and unguaranteed	395,000	95,000
Unsecured and unguaranteed	1,949,717	2,477,257
	2,344,717	2,572,257
	At June 30, 2020 <i>RMB'000</i> (Unaudited)	At December 31, 2019 <i>RMB'000</i> (Audited)
Analyzed as:		
Fixed interest rate	880,000	1,253,000
Variable interest rate	1,464,717	1,319,257
	2,344,717	2,572,257
	At June 30, 2020 <i>RMB'000</i> (Unaudited)	At December 31, 2019 <i>RMB'000</i> (Audited)
Analyzed as:		
Current	1,787,017	1,809,857
Non-current	557,700	762,400
	2,344,717	2,572,257

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

24. BORROWINGS (Continued)

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Analyzed as:		
Borrowings from banks	2,329,717	2,557,257
Borrowings from other entities (Note i)	15,000	15,000
	2,344,717	2,572,257
	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
The carrying amounts of the above borrowings are repayable:		
Within one year	1,787,017	1,809,857
Within a period of more than one year, but not exceeding two years	317,700	622,600
Within a period of more than two years but not exceeding five years	240,000	139,800
	2,344,717	2,572,257
Less: Amounts due within one year shown under current liabilities	1,787,017	1,809,857
Amounts shown under non-current liabilities	557,700	762,400

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

24. BORROWINGS (Continued)

The ranges of effective interest rates on the Group's fixed and variable-rate borrowings are as follows:

	At June 30, 2020 (Unaudited)	At December 31, 2019 (Audited)
Effective interest rate:		
Fixed rate borrowings	2.40%-3.70%	3.30%-3.92%
Variable rate borrowings	0.71%-6.18%	3.55%-6.18%

Note:

- (i) In 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 WuXi Clinical Development Service (Chengdu) Co., Ltd.. The loan was extended to WuXi Clinical Development Service (Chengdu) Co., Ltd. for a term of three years with an interest rate equivalent to 130% of the bank loan benchmark interest rate per annum.

25. OTHER LONG-TERM LIABILITIES

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Long-term tax payable (Note i)	42,122	84,565
Payable for acquisition of a subsidiary (Note ii)	150,368	147,221
Others	46	26
	192,536	231,812

Notes:

- i. STA, a subsidiary of the Group, issued ordinary shares to WXAT Shanghai to purchase all assets and liabilities of Pharmaceutical development services division ("PDS") department of WXAT Shanghai in July 2017. The gain of RMB1,404,062,000 from the intra group transaction was taxable and the payment can be made in five-year instalment according to the relevant tax regulations.
- ii. On September 30, 2019, WuXi AppTec (Suzhou) Co., Ltd., a subsidiary of the Company entered into an agreement to acquire the 100% equity interest of Suzhou Kanglu Biotechnology Co., Ltd. ("Suzhou Kanglu") at a cash consideration of RMB803,838,000. Amount of RMB150,368,000 will be paid in 3 years after the signing of contract. The payables are measured at amortized cost with imputed interest of 4.30% per annum.

Notes to the Condensed Consolidated Financial Statements

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26. CONVERTIBLE BONDS

On September 17, 2019 (the “Issue Date”), the Company issued a five-year zero coupon convertible bonds overseas in an aggregate principal amount of USD300,000,000. The conversion period is on or after October 28, 2019 up to the close of business on the date falling 10 working days prior to September 17, 2024 (the “Maturity Date”) and the price of H shares to be issued in exercise of the right of conversion is initially HK\$111.8 per H share. The conversion price is subject to adjustment for, among other things, capital distributions and capitalization of profits or reserves made by the Company. The conversion price has been adjusted to HK\$79.85 per H Share as a result of the approval of the payment of the Profit Distribution and the Capitalization of Reserve by the Shareholders at the 2019 annual general meeting of the Company with effect from June 4, 2020.

On the Maturity Date, the Company would redeem all unconverted Bonds from bondholders at the price of 106.43% par value of the issued Convertible Bonds.

On September 17, 2022, the bond holders would have right to ask the Company to redeem all or some of the bonds at 103.81% of the principal amount.

On giving not less than 30 nor more than 60 days’ notice to the bondholders, the trustee and the principal agent (which notice will be irrevocable), the Convertible Bonds may be redeemed by the Company in whole, but not in part, on the date specified in the optional redemption notice at the early redemption amount (i) at any time after September 27, 2022 but prior to the Maturity Date, or (ii) at any time if, the aggregate principal amount of the Convertible Bonds outstanding is less than 10% of the aggregate principal amount originally issued.

The Convertible Bonds comprise two components:

- (a) Debt component was initially measured at fair value. It is subsequently measured at amortised cost using the effective interest method after considering the effect of the transaction costs.
- (b) Derivative component comprises conversion options and early redemption options (not closely related to the debt component), which was initially measured at fair value.

The total transaction costs relating to the derivative component were charged to profit or loss. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the Convertible Bonds using the effective interest method.

The total transaction costs that are related to the issue of the Convertible Bonds were allocated to the debt and derivative components in proportion to their respective fair values.

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26. CONVERTIBLE BONDS (Continued)

The movement of the debt and derivative components of Convertible Bonds for the period is set out as below:

	Debt component <i>RMB'000</i>	Embedded derivative component <i>RMB'000</i>	Total <i>RMB'000</i>
As at December 31, 2019 (Audited)	1,874,915	298,013	2,172,928
Exchange adjustments	28,090	4,425	32,515
Interest charge	34,636	—	34,636
Loss arising on changes of fair value	—	486,799	486,799
As at June 30, 2020 (Unaudited)	<u>1,937,641</u>	<u>789,237</u>	<u>2,726,878</u>

No conversion or redemption of the Convertible Bonds has occurred up to June 30, 2020.

27. SHARE CAPITAL

	<i>RMB'000</i>
Ordinary shares of RMB1.00 each	
At January 1, 2019	1,164,741
Share premium transferred to share capital	468,013
Issue of H shares upon listing on Hong Kong Stock Exchange	5,321
Issue of restricted A shares under the 2018 WuXi AppTec A Share Incentive Scheme	13,422
Repurchase and cancellation of restricted A shares	<u>(370)</u>
At December 31, 2019 (Audited)	1,651,127
Share premium transferred to share capital (<i>Note</i>)	<u>660,450</u>
At June 30, 2020 (Unaudited)	<u>2,311,577</u>

Note: Pursuant to the written resolutions of the shareholders of the Company passed on May 15, 2020, 4 new shares for every 10 existing shares of the Company were issued out of reserve to all shareholders. As a result, RMB660,450,000 was transferred from share premium to share capital.

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurement

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurement (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	06/30/2020 RMB'000	12/31/2019 RMB'000				
Monetary fund investment	213,477	795,702	Level 2	Open market transaction price	N/A	N/A
Structured Deposits	868,627	905,936	Level 2	Discounted cash flow — Future cash flows are estimated based on expected return	N/A	N/A
Financial products	722,673	—	Level 2	Discounted cash flow — Future cash flows are estimated based on expected return, discounted at a market rate of return that reflects the risk of underlying assets	N/A	N/A
Investment in listed pharmaceutical companies at fair value	1,622,902	1,156,949	Level 1	Active market quoted transaction price	N/A	N/A
Investment on unlisted pharmaceutical funds at fair value	318,479	289,020	Level 3	Net asset value of underlying investments	Net assets value	The higher net asset value, the higher the fair value
Unlisted equity securities of pharmaceutical companies at fair value	3,821,129	2,563,112	Level 3	Back-solve from recent transaction price probability-weighted expected return method the option pricing method	IPO/Redemption/ Liquidation probability/ risk-free rate/volatility	The higher the probability, the higher the fair value
Foreign currency forward contracts	13,286	36,755	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

Notes to the Condensed Consolidated Financial Statements

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28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurement (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	06/30/2020 RMB'000	12/31/2019 RMB'000				
Foreign currency forward contracts	53,350	86,378	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
Interest rate swap contracts	2,220	—	Level 2	Discounted cash flow — Future cash flows are estimated based on the fixed interest rate adopted, the referenced floating interest rate, time to maturity and discount rate that reflects the credit risk of various counterparties	N/A	N/A
Contingent consideration	43,694	44,228	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration	Probability-adjusted revenue Risk-free rate	The higher the probability-adjusted revenue, the higher the fair value The lower risk-free rate the higher the fair value
Convertible bonds — embedded derivative component	789,237	298,013	Level 3	Binominal option pricing with the volatilities and risk-free rates as key inputs	Expected volatility Risk-free rate	The higher the expected volatility, the higher the fair value The lower risk-free rate the higher the fair value

There were no transfers between level 1 and level 2 during the six months ended June 30, 2020 and year ended December 31, 2019.

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)**Fair value measurement** (Continued)**(ii) Reconciliation of level 3 fair value measurements**

Details of reconciliation of financial assets at FVTPL and financial liabilities at FVTPL measured at Level 3 fair value measurement are set out as below:

	Unlisted fund investments at fair value RMB'000	Unlisted equity investments at fair value RMB'000	Convertible bonds embedded derivative component RMB'000	Contingent consideration RMB'000	Collars RMB'000
At January 1, 2019	254,428	883,925	—	—	(22,746)
Acquisitions	56,981	1,804,963	—	(44,228)	—
Issuance	—	—	(202,641)	—	—
Changes in fair value	3,366	230,060	(98,145)	—	—
Transferred to level 1	—	(377,000)	—	—	—
Disposal	(28,743)	(160)	—	—	49,805
Effect of exchange rate change	2,988	21,324	2,773	—	(27,059)
At December 31, 2019	289,020	2,563,112	(298,013)	(44,228)	—
Acquisitions	20,246	1,026,248	—	—	—
Transfer of an investment in associates to financial assets at FVTPL	—	351,491	—	—	—
Changes in fair value	11,819	36,882	(486,799)	1,192	—
Transferred to level 1 (Note i)	—	(174,405)	—	—	—
Settlement	(4,415)	(11,091)	—	—	—
Dividend	(109)	—	—	—	—
Effect of exchange rate change	1,918	28,892	(4,425)	(658)	—
At June 30, 2020	318,479	3,821,129	(789,237)	(43,694)	—

Note i: Hygeia Healthcare Holdings Co., Limited and Schrodinger, Inc., investments made by the Group, were listed on The Hong Kong Stock Exchange on June 29, 2020 and The NASDAQ on February 7, 2020 respectively. Since then, their open market transaction prices can be obtained from the active market. Therefore, the Group changed their fair value hierarchy from the level 3 to the level 1.

The total gains or losses for the period included an unrealized loss of RMB436,906,000 relating to financial assets and financial liabilities that are measured at fair value at the end of the reporting period (six months ended June 30, 2019: a gain of RMB18,602,000). Such fair value gains or losses are included in 'other gains and losses'.

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For the six months ended June 30, 2020

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurement (Continued)

(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 condensed 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.

29. SHARE-BASED COMPENSATION

WuXi PharmaTech Stock Units and Options Plan

Prior to the reorganization, the Company was wholly owned by WuXi PharmaTech (Cayman) Inc. ("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.

For the six months ended June 30, 2020, the Group recognized share-based compensation expense of RMB1,015,000 (six months ended June 30, 2019: RMB914,000), in relation to WuXi PharmaTech Stock Units and Options Plan.

STA Share Units and Options Incentive Scheme

STA, a subsidiary of the Company, was once listed on National Equities Exchange and Quotations ("NEEQ") and delisted from NEEQ in June 2019. 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 capitalize 20 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, respectively. As a result, the number of STA Shares and exercise price per share granted under the STA Share Option Incentive Scheme (2015), STA Overseas Employees Incentive Scheme, and STA Share Option Incentive Scheme (2016) presented herein has been adjusted to reflect the Conversion of Capital Reserve and dividend adjustment.

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For the six months ended June 30, 2020

29. SHARE-BASED COMPENSATION (Continued)

STA Share Units and Options Incentive Scheme (Continued)

Set out below are details of the movements of the outstanding units and options granted under the STA Share Units and Options Scheme for the six months ended June 30, 2020 and 2019:

STA Share Unites and Options Incentive Scheme (Unaudited)	Outstanding at 01/01/2020	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 06/30/2020
STA Share Option Incentive Scheme (2015)	6,078,000	—	6,078,000	—	—
STA Overseas Employees Incentive Scheme — 1st batch	2,503,836	—	2,311,836	192,000	—
STA Overseas Employees Incentive Scheme — 2nd batch	186,843	—	20,800	—	166,043
STA Share Option Incentive Scheme (2016) — 1st batch	274,860	—	91,620	7,200	176,040
STA Share Option Incentive Scheme (2016) — 2nd batch	316,560	—	—	—	316,560
Total	9,360,099	—	8,502,256	199,200	658,643
Exercisable at the end of the period	—				—
Weighted average exercise price	RMB6.21	N/A	RMB6.29	RMB2.02	RMB6.43
	Outstanding at 01/01/2019	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 06/30/2019
STA Share Unites and Options Incentive Scheme (Unaudited)					
STA Share Option Incentive Scheme (2015)	9,117,000	—	—	12,000	9,105,000
STA Overseas Employees Incentive Scheme	3,831,594	104,000	—	82,164	3,853,430
STA Share Option Incentive Scheme (2016) — 1st batch	390,960	—	—	18,540	372,420
STA Share Option Incentive Scheme (2016) — 2nd batch	476,460	—	—	53,940	422,520
Total	13,816,014	104,000	—	166,644	13,753,370
Exercisable at the end of the period	8,763,696				13,082,610
Weighted average exercise price	RMB6.28	RMB1.79	N/A	RMB4.94	RMB6.26

The Group recognized RMB2,037,000 of share-based expenses for the six months ended June 30, 2020 (six months ended June 30, 2019: RMB8,361,000), in relation to STA Share Option Incentive Scheme.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

29. SHARE-BASED COMPENSATION (Continued)

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.

Set out below are details of the movements of the outstanding units granted under the STA Share Appreciation Incentive Scheme for the six months ended June 30, 2020 and 2019:

STA Share Appreciation Incentive Scheme (Unaudited)	Outstanding at 01/01/2020	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 06/30/2020
STA Share Appreciation Incentive Scheme (2016)					
— 1st batch	432,000	—	144,000	—	288,000
— 2nd batch	72,000	—	—	—	72,000
STA Share Appreciation Incentive Scheme (2017)	36,000	—	—	—	36,000
Total	540,000	—	144,000	—	396,000
Exercisable at the end of the period	—				—
Weighted average exercise price	RMB8.00	N/A	RMB8.00	N/A	RMB8.00

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For the six months ended June 30, 2020

29. SHARE-BASED COMPENSATION (Continued)

STA Share Appreciation Incentive Scheme (Continued)

STA Share Appreciation Incentive Scheme (Unaudited)	Outstanding at 01/01/2019	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 06/30/2019
STA Share Appreciation Incentive Scheme (2016)					
— 1st batch	554,400	—	95,400	—	459,000
— 2nd batch	249,000	—	—	27,000	222,000
STA Share Appreciation Incentive Scheme (2017)	87,000	—	—	42,000	45,000
Total	890,400	—	95,400	69,000	726,000
Exercisable at the end of the period	144,000				298,800
Weighted average exercise price	RMB8.00	N/A	RMB8.00	RMB8.00	RMB8.00

For the six months ended June 30, 2020, the Group has recorded share-based expenses of RMB2,462,000 (six months ended June 30, 2019: RMB7,187,000).

2018 WuXi AppTec A Share Incentive Scheme — First Batch Restricted Shares

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 fulfil the unlocking conditions to any third party in any form within the six months from each unlocking anniversary date.

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For the six months ended June 30, 2020

29. SHARE-BASED COMPENSATION (Continued)

2018 WuXi AppTec A Share Incentive Scheme — First Batch Restricted Shares (Continued)

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

Set out below are details of the movements of the outstanding restricted A shares granted under the 2018 WuXi AppTec A Share Incentive Scheme — First Batch Restricted Shares for the six months ended June 30, 2020:

	Outstanding at January 1, 2020	Forfeited before capitalization issue	Vested before capitalization issue	Capitalisation issue	Forfeited after Capitalization issue	Outstanding at June 30, 2020
2018 WuXi AppTec A Share Incentive Scheme — First Batch Restricted Shares (Unaudited)	8,274,200	77,658	3,308,951	3,278,617	1,409,004	6,757,204
Total	8,274,200	77,658	3,308,951	3,278,617	1,409,004	6,757,204

For the six months ended June 30, 2020, the Group has recorded share-based expenses of RMB21,004,000 (for the six months ended June 30, 2019: RMB58,852,000) in relation to 2018 WuXi AppTec A Share Incentive Scheme — First Batch Restricted Shares.

2018 WuXi AppTec A Share Incentive Scheme — Second Batch Restricted Shares

On July 19, 2019, Board of Directors of the Company passed a resolution to grant 542,017 A Shares of the Company to eligible employees to subscribe at the price of RMB32.44 per A Share under the reserved part of 2018 WuXi AppTec A Share Incentive Scheme (“2018 WuXi AppTec A Share Incentive Scheme — Second Batch Restricted Shares”) under the authorization of the shareholders’ meeting. In September 2019, 478,822 number of A Shares were subscribed by eligible employees and RMB15,553,000 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 — Second Batch Restricted Shares, 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.

29. SHARE-BASED COMPENSATION (Continued)**2018 WuXi AppTec A Share Incentive Scheme — Second Batch Restricted Shares**
(Continued)

Details of specific categories of restricted shares are as follows:

Categories	Date of grant	Number of restricted A shares	Subscribe price per share
Employees	September 1, 2019	478,822	RMB32.44

Set out below are details of the movements of the outstanding restricted A shares granted under the 2018 WuXi AppTec A Share Incentive Scheme — Second Batch Restricted Shares for the six months ended June 30, 2020:

	Outstanding at January 1, 2020	Forfeited before capitalization issue	Vested before capitalization issue	Capitalisation issue	Forfeited after Capitalization issue	Outstanding at June 30, 2020
2018 WuXi AppTec A Share Incentive Scheme — Second Batch Restricted Shares (Unaudited)	478,822	15,413	—	185,364	151,047	497,726
Total	478,822	15,413	—	185,364	151,047	497,726

For the six months ended June 30, 2020, the Group has recorded share-based expenses of RMB4,844,000 (six months ended June 30, 2019: Nil) in relation to 2018 WuXi AppTec A Share Incentive Scheme — Second Batch Restricted Shares.

2018 WuXi AppTec A Share Incentive Scheme — Reserved Options

On July 19, 2019, Board of Directors of the Company passed a resolution to grant A Shares stock options of the Company to eligible employees under the reserved part of 2018 WuXi AppTec A Share Incentive Scheme (“2018 WuXi AppTec A Share Incentive Scheme — Reserved Options”) under the authorization of the shareholders’ meeting.

On May 15, 2020, the shareholders’ meeting approved to capitalize 4 shares for every 10 shares standing to the credit of the share premium account. As a result, the number of shares granted under the 2018 WuXi AppTec A Share Incentive Scheme — Reserved Options has been adjusted to reflect the Conversion of Capital Reserve and exercise price per share has been adjusted from RMB64.88 to RMB46.34.

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29. SHARE-BASED COMPENSATION (Continued)

2018 WuXi AppTec A Share Incentive Scheme — Second Batch Restricted Shares (Continued)

(1) Details of options are as follows:

	Date of grant	Number of options shares	Exercise price
2018 WuXi AppTec A Share Options Incentive Scheme Reserved Options	July 19, 2019	287,000	RMB46.34

(2) Options granted under the 2018 WuXi AppTec A Share Incentive Scheme — Reserved Options shall have a contractual term of four-year period and vest over a four-year period, with 40%, 30% and 30% of total options vesting on the first, second, third anniversary date one year after the vesting commencement date upon meeting certain annual performance conditions.

Set out below are details of the movements of the outstanding units granted under the 2018 WuXi AppTec A Share Incentive Scheme — Reserved Options for the six months ended June 30, 2020:

	Outstanding at January 1, 2020	Forfeited before capitalization issue	Exercised before capitalization issue	Capitalisation issue	Forfeited after Capitalization issue	Outstanding at June 30, 2020
2018 WuXi AppTec A Share Incentive Scheme — Reserved Options (Unaudited)	287,000	—	—	114,800	—	401,800
Total	287,000	—	—	114,800	—	401,800

For the six months ended June 30, 2020, the Group has recorded share-based expenses of RMB3,113,000 (six months ended June 30, 2019: Nil) in relation to 2018 WuXi AppTec A Share Options Incentive Scheme — Reserved Options.

29. SHARE-BASED COMPENSATION (Continued)**2019 WuXi AppTec A Share Incentive Scheme — Restricted Shares**

In November 2019, the shareholders' meeting of the Company passed a resolution to issue up to 18,949,977 A Shares of the Company under the 2019 WuXi AppTec A Share Incentive Scheme. On November 25, 2019, 13,400,273 restricted A shares of the Company were approved by the Board of Directors of the Company for a director of the Company and eligible employees to subscribe at the price of RMB32.44 per A Share ("2019 WuXi AppTec A Share Incentive Scheme — Restricted Shares"). In December 2019, 12,942,744 number of A Shares were subscribed by a director of the Company and eligible employees and RMB419,863,000 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 2019 WuXi AppTec A Share Incentive Scheme — Restricted Shares, director 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	December 4, 2019	125,000	RMB32.44
Employees	December 4, 2019	12,817,744	RMB32.44

Set out below are details of the movements of the outstanding units granted under the 2019 WuXi AppTec A Share Incentive Scheme — Restricted Shares throughout the reporting period:

	Outstanding at January 1, 2020	Forfeited before capitalization issue	Vested before capitalization issue	Capitalisation issue	Forfeited after Capitalization issue	Outstanding at June 30, 2020
2019 WuXi AppTec A Share Incentive Scheme — Restricted Shares (Unaudited)	12,942,744	91,860	—	5,140,353	303,759	17,687,478
Total	12,942,744	91,860	—	5,140,353	303,759	17,687,478

For the six months ended June 30, 2020, the Group has recorded share-based expenses of RMB190,555,000 (six months ended June 30, 2019: Nil) in relation to 2019 WuXi AppTec A Share Incentive Scheme — Restricted Shares.

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29. SHARE-BASED COMPENSATION (Continued)

2019 WuXi AppTec A Share Incentive Scheme — Stock Option

In November 2019, the shareholders' meeting of the Company passed a resolution to issue up to 18,949,977 A Shares of the Company under the 2019 WuXi AppTec A Share Incentive Scheme. On November 25, 2019, 5,014,854 A shares stock options of the Company were approved by the Board of Directors of the Company to grant to eligible employees ("2019 WuXi AppTec A Share Incentive Scheme — Reserved Options").

On May 15, 2020, the shareholders' meeting approved to capitalize 4 shares for every 10 shares standing to the credit of the share premium account. As a result, the number of shares granted under the 2019 WuXi AppTec A Share Incentive Scheme — Stock Option has been adjusted to reflect the Conversion of Capital Reserve and exercise price per share has been adjusted from RMB64.88 to RMB46.34.

(1) Details of specific categories of options are as follows:

	Date of grant	Number of options shares	Exercise price
2019 WuXi AppTec A Share Options Incentive Scheme Reserved Options	November 25, 2019	5,014,854	RMB46.34

(2) Options granted under the 2019 WuXi AppTec A Share Options Incentive Scheme shall have a contractual term of 54-months and vest over a 54-months period, with 40%, 30% and 30% of total options vesting on the first, second, third anniversary date 18 months after the vesting commencement date upon meeting certain annual performance conditions.

Set out below are details of the movements of the outstanding units granted under the 2019 WuXi AppTec A Share Incentive Scheme — Stock Option throughout the reporting period:

	Outstanding at January 1, 2020	Forfeited before capitalization issue	Exercised before capitalization issue	Capitalisation issue	Forfeited after Capitalization issue	Outstanding at June 30, 2020
2019 WuXi AppTec A Share Incentive Scheme — Stock Option (Unaudited)	5,014,854	228,750	—	1,914,442	195,040	6,505,506
Total	5,014,854	228,750	—	1,914,442	195,040	6,505,506

For the six months ended June 30, 2020, the Group has recorded share-based expenses of RMB32,946,000 (six months ended June 30, 2019: Nil) in relation to 2019 WuXi AppTec A Share Incentive Scheme — Stock Option.

29. SHARE-BASED COMPENSATION (Continued)**2019 WuXi AppTec H Share Appreciation Incentive Scheme**

On September 30, 2019, 2019 WuXi AppTec H Share Appreciation Incentive Scheme was approved at the shareholders' meeting. Stock appreciation rights have been awarded in units, with each unit representing the value of one H Share of the Company. The total number of units granted under the WuXi AppTec H Share Appreciation Incentive Scheme to eligible employees were 2,901,172 ("2019 WuXi AppTec H Share Appreciation Incentive Scheme"). Upon the exercise of stock appreciation rights, exercising recipients will receive payments in RMB from the Company, 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 H Share of the Company on the exercise day.

On May 15, 2020, the shareholders' meeting approved to capitalize 4 shares for every 10 shares standing to the credit of the share premium account and distribute RMB3.37 for every 10 shares ("profit distribution plan"). As a result, the number of shares granted under the 2019 WuXi AppTec H Share Appreciation Incentive Scheme has been adjusted to reflect the profit distribution plan and exercise price per share has been adjusted from HKD72.00 to HKD51.43.

(1) Details of specific categories of options are as follows:

	Date of grant	Number of options shares	Exercise price
2019 WuXi AppTec H Share Appreciation Incentive Scheme	September 30, 2019	2,901,172	HKD51.43

(2) Units granted under the 2019 WuXi AppTec H Share Appreciation Incentive Scheme shall have a contractual term of 44-months and vest over a 44-months period, with 40%, 30% and 30% of total options vesting on the first, second, third anniversary date eight months after the vesting commencement date upon meeting certain annual performance conditions.

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29. SHARE-BASED COMPENSATION (Continued)

2019 WuXi AppTec H Share Appreciation Incentive Scheme (Continued)

Set out below are details of the movements of the outstanding units granted under the 2019 WuXi AppTec H Share Appreciation Incentive Scheme throughout the reporting period:

	Outstanding at January 1, 2020	Forfeited before capitalization issue	Exercised before capitalization issue	Capitalisation issue	Forfeited after Capitalization issue	Outstanding at June 30, 2020
2019 WuXi AppTec H Share Appreciation Incentive Scheme (Unaudited)	2,620,135	102,347	531,820	1,007,115	59,722	2,933,361
Total	2,620,135	102,347	531,820	1,007,115	59,722	2,933,361

The fair value of the units granted under 2019 WuXi AppTec H Share Appreciation Incentive Scheme as each reporting date was determined using the Black-Scholes model.

For the six months ended June 30, 2020, the Group has recorded share-based expenses of RMB55,884,000 (six months ended June 30, 2019: Nil) in relation 2019 WuXi AppTec H Share Appreciation Incentive Scheme.

2019 WuXi AppTec A Share Incentive Scheme — Reserved Restricted Shares

On June 10, 2020, Board of Directors of the Company passed a resolution to grant 427,000 A Shares of the Company to eligible employees to subscribe at the price of RMB40.59 per A Share under the reserved part of 2019 WuXi AppTec A Share Incentive Scheme (“2019 A-2018 WuXi AppTec A Share Incentive Scheme — Reserved Restricted Shares”) under the authorization of the shareholders’ meeting. 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 2019 WuXi AppTec A Share Incentive Scheme — Reserved Restricted Shares, 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.

29. SHARE-BASED COMPENSATION (Continued)**2019 WuXi AppTec A Share Incentive Scheme — Reserved Restricted Shares** (Continued)

Details of specific categories of restricted shares are as follows:

	Date of grant	Number of options shares	Exercise price
2019 WuXi AppTec A Share Incentive Scheme			
— Reserved Restricted Shares	June 10, 2020	427,000	RMB40.59

For the six months ended June 30, 2020, the Group has recorded share-based expenses of RMB686,000 (six months ended June 30, 2019: Nil) in relation to 2019 WuXi AppTec A Share Incentive Scheme — Reserved Restricted Shares.

The registration procedure for these reserved restricted shares was not completed as at June 30, 2020.

2019 WuXi AppTec A Share Incentive Scheme — Reserved Options

On June 10, 2020, Board of Directors of the Company passed a resolution to grant 29,131 A Shares stock options to a eligible employee under the reserved part of 2019 WuXi AppTec A Share Incentive Scheme (“2019 A Share Incentive Scheme — Reserved Options”) under the authorization of the shareholders’ meeting.

(1) Details of specific categories of options are as follows:

	Date of grant	Number of options shares	Exercise price
2019 WuXi AppTec A Share Incentive Scheme			
— Reserved Options	June 10, 2020	29,131	RMB81.17

(2) Options granted under the 2019 WuXi AppTec A Share Incentive Scheme — Reserved Options shall have a contractual term of 54-months and vest over a 54-months period, with 40%, 30% and 30% of total options vesting on the first, second, third anniversary date 18 months after the vesting commencement date upon meeting certain annual performance conditions.

For the six months ended June 30, 2020, the Group has recorded share-based expenses of RMB28,000 (six months ended June 30, 2019: Nil) in relation to 2019 WuXi AppTec A Share Incentive Scheme — Reserved Options.

The registration procedure for these reserved options was not completed as at June 30, 2020.

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30. CAPITAL COMMITMENTS

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

	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Commitments for the acquisition of property, plant and equipment	871,860	748,328
Commitments for the investments in associate and joint venture	24,778	34,881
	896,638	783,209

31. CONTINGENT LIABILITIES

The Group has no significant contingent liabilities as at June 30, 2020 (December 31, 2019: Nil).

32. 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 periods presented. In the opinion of the directors of the Company, 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.

32. 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 periods presented in the condensed consolidated financial statements.

Company	Relationship
Faxian Therapeutics, LLC.	Joint venture
Shanghai Waigaoqiao WuXi AppTec Incubator Management Co., Ltd.	Joint venture
WuXi MedImmune Biopharmaceutical Co. Limited	Joint venture
Jing Medicine Technology (Shanghai) Ltd.	Associate
JW Cayman and its subsidiaries (<i>Note</i>)	Associate
PhageLux Inc.	Associate
Genuity Science (formerly known as “WuXi NextCode Genomics, Inc.”)	Fellow subsidiary
WuXi AppTec ZK (Suzhou) Bioscience Ltd.	Fellow subsidiary
成都康德仁澤置業有限公司	Fellow subsidiary
Wuxi Diagnostic Lab (Shanghai) Co., Ltd.	Fellow subsidiary
Wuxi Diagnostic Medical Testing Institute (Shanghai) Co., Ltd	Fellow subsidiary
Mingma Technologies Co., Ltd. (formerly known as “WuXi NextCode Genomics (Shanghai) Co., Ltd.”)	Fellow subsidiary
WuXi Diagnostics Management (Shanghai) Co., Ltd.	Fellow subsidiary
WuXi NextCode Genomics USA, Inc.	Fellow subsidiary
WuXi AppTec Biopharmaceuticals Co., Ltd.	Entity significantly influenced by a Controlling Shareholder
WuXi Biologics (Shanghai) Co., Ltd.	Entity significantly influenced by a Controlling Shareholder
WuXi AppTec (Suzhou) Testing Technology Co., Ltd.	Entity significantly influenced by a Controlling Shareholder
WuXi Biologics (Hong Kong) Limited	Entity significantly influenced by a Controlling Shareholder
WuXi Biologics USA, LLC	Entity significantly influenced by a Controlling Shareholder
WuXi Biologics Conjugation Co., Ltd.	Entity significantly influenced by a Controlling Shareholder
Bestchrom (Shanghai) Biosciences Co. Ltd.	Entity significantly influenced by a Controlling Shareholder

Note:

During the current interim period, the Group lost its significant influence on JW Cayman and evaluated that JW Cayman and its subsidiaries were no longer its associates.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(2) Related party transactions:

(a) Provision of research and development service

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Joint ventures	12,285	6,868
Associates	1,630	5,479
A fellow subsidiary	693	2,379
Entities significantly influenced by a Controlling Shareholder	9,008	3,104
	23,616	17,830

(b) Provision of administrative service

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
An associate	1,422	1,919
Entities significantly influenced by a Controlling Shareholder	2,787	—
	4,209	1,919

(c) Sales of raw materials

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
An associate	43	175
A fellow subsidiary	1	—
An entity significantly influenced by a Controlling Shareholder	54	—
	98	175

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(2) Related party transactions: (Continued)

(d) Provision of premises sub-leasing services

	Six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Entities significantly influenced by a Controlling Shareholder	652	805
A fellow subsidiary	—	2,927
	652	3,732

(e) Research and development service received

	Six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Fellow subsidiaries	1,958	—
An entity significantly influenced by a Controlling Shareholder	524	—
	2,482	—

(f) Sales of property and equipment

	Six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
A fellow subsidiary	—	22
Entities significantly influenced by a Controlling Shareholder	63	—
	63	22

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(2) Related party transactions: (Continued)

(g) Rental expenses

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
A joint venture	1,597	—
A fellow subsidiary	319	—
	1,916	—

Note: The Group elects to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options or leases where the underlying asset has a low value when new.

(h) Interest expenses on lease liabilities

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
A joint venture	51	—
A fellow subsidiary	74	—
	125	—

(i) Depreciation charge on right-of-use assets

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
A joint venture	413	—
A fellow subsidiary	586	—
	999	—

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(2) Related party transactions: (Continued)

(j) Purchase of property and equipment

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
A fellow subsidiary	—	3

(k) Administrative service received

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
A fellow subsidiary	77	—

(l) Sequencing service received

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Fellow subsidiaries	2,516	5,894

(m) Purchase of raw materials

	Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Entities significantly influenced by a Controlling Shareholder	483	—

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(3) Related party balances:

AMOUNTS DUE FROM RELATED PARTIES

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Trade related Trade receivables	5,846	9,688
Non-trade related Other receivables	9,938	3,654
Other non-current assets	174	174
Total amount due from related parties	15,958	13,516

The Group allows a credit period ranging from 60 to 90 days to its customers. The following is an aging analysis of trade related amounts due from related parties (net of allowance for doubtful debts) presented based on the invoice dates, at the end of the period or year presented in the condensed consolidated financial statements:

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Within 90 days	5,846	9,688

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 the reporting date. The credit quality of the trade related amounts due from related parties that are neither past due nor impaired had not changed during the period/year presented in the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(3) Related party balances: (Continued)

AMOUNTS DUE FROM RELATED PARTIES (Continued)

Details of amounts due from related parties are set out in below:

Trade related	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Trade receivables		
Associates	2,168	2,302
A Joint venture	1,399	165
Fellow subsidiaries	304	570
Entities significantly influenced by a Controlling Shareholder	1,975	6,651
	5,846	9,688
Non-trade related	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Other receivables		
Entities significantly influenced by a Controlling Shareholder	9,141	492
Fellow subsidiaries	797	147
An associate	—	3,015
	9,938	3,654

Other receivables from related parties are all unsecured, repayable on demand and interest free.

Included in the contract assets of the Group are amounts of RMB1,979,000 recognised when the Group has transferred the service to the customer and the customer has not yet paid the related consideration while the right to consideration is conditional on something other than the passage of time as at June 30, 2020 (December 31, 2019: RMB455,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

32. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(3) Related party balances: (Continued)

AMOUNTS DUE TO RELATED PARTIES

Non-trade related	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Considerations received from key management personnel for subscribing restricted A shares of the Company under the WuXi AppTec A Share Incentive Scheme	19,227	24,205
Other payables A fellow subsidiary	151	—
	19,378	24,205
Trade related	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Trade payables An entity significantly influenced by a Controlling Shareholder	336	71
Fellow subsidiaries	644	520
	980	591

Included in the contract liabilities of the Group are amounts of RMB9,154,000 received from related parties in advance of delivery of services as at June 30, 2020 (December 31, 2019: RMB10,437,000).

Included in the lease liabilities of the Group are amounts RMB3,150,000 due to a joint venture and a fellow subsidiary of the Group as at June 30, 2020, (December 31, 2019: RMB1,873,000).

32. 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 for the six months ended June 30, 2020 and 2019 are as follows:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries and other benefits	19,660	13,927
Performance-based bonus	11,182	10,199
Share-based compensation	8,461	2,776
	39,303	26,902

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

33. SUBSEQUENT EVENTS

The Group has the following events taken place subsequent to June 30, 2020.

On July 29, 2020, the Company entered into a placing agreement (the "Placing Agreement") to subscribe for a total of 68,205,400 new H Shares at HK\$108.0 per placing share to be issued by the Company under the Specific Mandate upon the terms and subject to the conditions set out in the Placing Agreement. On August 5, 2020, all the conditions have been satisfied and the completion took place. An aggregate of 68,205,400 placing shares have been successfully placed by the placing agents to no less than six independent placees at the placing price of HK\$108.0 per placing share pursuant to the terms and conditions of the Placing Agreement.

Definitions

In this interim report, unless the context otherwise requires, the following expressions shall have the following meanings:

“2018 A Share Incentive Plan”	the Restricted A Shares and Stock Option Incentive Plan of 2018 adopted by the Company on August 22, 2018
“2019 A Share Incentive Plan”	the Restricted A Shares and Stock Option Incentive Plan of 2019 adopted by the Company on September 20, 2019
“2019 Initial Grant”	the initial grant of 13,657,803 Restricted A Shares and 5,292,174 Share Options upon adoption of the 2019 A Share Incentive Plan
“2019 Profit Distribution Plan”	the profit distribution plan of the Company for the year ended December 31, 2019 which includes the Capitalization of Reserve and the Profit Distribution
“2019 Reserved Grant”	any grant of reserved interests subsequent to the initial grant under the 2019 A Share Incentive Plan
“2019 Share Appreciation Scheme”	the Share Appreciation Incentive Scheme of 2019 adopted by the Company on September 20, 2019
“A Share Listing”	the initial public offering of its A Shares on the Shanghai Stock Exchange on May 8, 2018
“A Share Prospectus”	the prospect issued by the Company under the A Share Listing
“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 RMB
“AAV”	adeno-associated virus
“ADME”	adsorption, distribution, metabolism, and excretion
“AI”	artificial intelligence
“API”	active pharmaceutical ingredient
“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
“Award Period”	the period commencing on the date on which the Shareholders approved this Scheme, and ending on the Business Day immediately prior to the 10th anniversary of the date on which the Shareholders approved this H Share Award and Trust Scheme
“Award Shares”	the H Shares granted to a Selected Participant in an Award

“Award”	an award granted by the Board to a Selected Participant, which may vest in the form of Award Shares or the Actual Selling Price of the Award Shares in cash, as the Board may determine in accordance with the terms of the Scheme Rules
“BLA”	Biologics License Application, a request made to the FDA for permission to introduce, or deliver for introduction, of a biological product into interstate commerce in the United States
“Board of Directors” or “Board”	our board of Directors
“Bonds” or “Convertible Bonds”	US\$300 million zero coupon convertible bonds due 2024 convertible at the option of the holder thereof into fully paid ordinary H Shares of the Company of par value RMB1.00 each at the adjusted conversion price of HK\$79.85 per H Share
“Business Day”	any day on which the Stock Exchange is open for the business of dealing in securities
“Capitalization of Reserve”	the proposed issuance of 4 Capitalization Shares for every 10 Shares by way of capitalization of reserve under the 2019 Profit Distribution Plan
“Capitalization Shares”	the new Shares to be allotted and issued under the Capitalization of Reserve by the Company
“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 interim report and for geographical reference only, excludes Hong Kong Macau and Taiwan
“CMO”	Contract Manufacturing Organization, a company that serves other companies in the pharmaceutical industry on a contract basis to provide comprehensive drug manufacturing services
“Co-Manager”	SPDB International Capital Limited

Definitions

“Company”, “our Company”, “WuXi AppTec”, “Group”, “our Group”, “We” “our”, “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股份有限公司) (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
“Connected Selected Participants”	Selected Participants who are connected persons of the Group, being Dr. Ge Li, Mr. Edward Hu, Dr. Steve Qing Yang, Mr. Zhaohui Zhang, Dr. Ning Zhao, Mr. Ellis Bin-Hsin Chu, Mr. Minzhang Chen, Dr. Shuhui Chen, Mr. Harry Liang He, Ms. Minfang Zhu. Ms. Wendy J. Hu and Ms. Cuiping Hu
“CRO”	Contract Research Organization
“CTA”	Clinical Trial Authorization
“Delegatee”	the management committee of the H Share Award and Trust Scheme, consisting of the Chairman and Chief Executive Officer Dr. Ge Li, the Vice Chairman Mr. Edward Hu, and the person-in-charge of the human resources department, financial department and legal department of the Company, to which the Board will delegate its authority to administer the H Share Award and Trust Scheme, person(s) or board committee(s) to which the Board will delegate its authority
“Director(s)”	the director(s) of the Company or any one of them
“DEL”	DNA-encoded library
“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
“eCTD”	Electronic Common Technical Document
“EGM”	the extraordinary general meeting of the Company to be convened on August 31, 2020 to consider and approve, among other things, (i) the proposed adoption of the Scheme, (ii) the proposed grant of Awards to the Connected Selected Participants under the Scheme; and (iii) the proposed authorization to the Board and/or the Delegatee to handle matters pertaining to the Scheme

“Eligible Employee(s)”	any individual, being a Director, Supervisor, senior management, mid-level manager, basic-level manager, backbone member of the technicians, other technician, who is a full-time PRC or non-PRC employee of any members of the Group; however, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or the Delegatee, compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Scheme and such individual shall therefore be excluded from the term Eligible Employee
“FDA”	Food and Drug Administration in the U.S.
“First Exercisable Period”	From the first trading day after 12 months from the date of the Reserved Grant to the last trading day on the Shanghai Stock Exchange within 24 months from the date of the Reserved Grant
“Founding Individuals”	Dr. Ge Li, Dr. Ning Zhao, Mr. Xiaozhong Liu and Mr. Zhaohui Zhang
“FVTPL”	Fair Value Through Profit or Loss
“Global Offering”	the Hong Kong public offering and the international offering as described in the Prospectus
“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
“Group”, “our Group”	the Company and its subsidiaries
“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
“H Share Award and Trust Scheme”	the H Share award and trust scheme proposed to be adopted by the Company in accordance with the Scheme Rules
“HKD” 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

Definitions

“Incentive Participants”	the persons to be granted Restricted A Shares, Share Options or share appreciation rights under the 2019 Share Incentive Plan, including the Company’s Directors, senior management, mid-level management, backbone members of technicians, basic-level management and other technicians, and incentive participants under the 2019 A Share Incentive Plan
“IND”	Investigational New Drug
“Joint Lead Managers”	Goldman Sachs (Asia) L.L.C., Huatai Financial Holdings (Hong Kong) Limited, J.P. Morgan Securities plc and Morgan Stanley & Co. International plc (in alphabetical order)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Listing” or “IPO”	the listing of the H Shares on the Main Board of the Stock Exchange on December 13, 2018
“MAH”	Market Authorized Holder, a certification granted by the NMPA, which allows certain license holders to use a qualified CMO to manufacture pharmaceutical products
“M&A”	merger and acquisition
“Model Code”	the “Model Code for Securities Transactions by Directors of Listed Issuers” set out in Appendix 10 to the Listing Rules
“New H Shares”	the new H Shares to be issued upon the exercise of the Specific Mandate, the maximum number of which is (i) 68,205,400 New H Shares; or (ii) 95,487,500 New H Shares, representing 40% of the total issued H Shares of the Company
“NMPA”	National Medical Products Administration
“on-market”	the acquisition of H Shares of the Company through one or more transactions through the facilities of the Stock Exchange in accordance with the Listing Rules and any other applicable laws and regulations
“Placing”	the placing of 68,205,400 new H Shares at HK\$108.0 per placing Share issued by the Company under the Specific Mandate
“Placing Agents”	Morgan Stanley & Co. International Plc, Huatai Financial Holdings (Hong Kong) Limited, Goldman Sachs (Asia) L.L.C. and J.P. Morgan Securities Plc
“Placing Agreement”	the conditional placing agreement dated July 29, 2020 entered into between the Company and the Placing Agent in relation to the Placing

“Profit Distribution”	the proposed distribution of cash dividend of RMB3.37 for every 10 Shares (inclusive of tax) under the 2019 Profit Distribution Plan
“Proposed Issuance of H Shares”	the proposed issuance of the New H Shares under the Specific Mandate by the Company to specific subscribers
“Proposed Non-public Issuance of A Shares”	the proposed non-public issuance of not more than 75,000,000 A Shares by the Company to specific subscribers
“Prospectus”	the prospectus issued by the Company dated December 3, 2018
“R&D”	research and development
“Reporting Period”	the six months ended June 30, 2020
“Reserved Interests”	reserved interests of 2,105,553 units, representing 10% of the total interests to be granted under the 2019 A Share Incentive Plan, which may be granted as Restricted A Shares or Share Options for further distribution
“Restricted A Shares”	the restricted A Shares granted by the Company under the 2018 A Share Incentive Plan and/or the 2019 Share Incentive Plan
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme Rules”	the rules governing the operation of the H Share Award and Trust Scheme as well as the implementation procedures (as amended from time to time)
“Selected Participant(s)”	any Eligible Employee who is approved for participation in the H Share Award and Trust Scheme and has been granted any Award in accordance with the Scheme Rules
“Share Options”	share options granted under the 2018 A Share Incentive Plan and/or the 2019 A Share Incentive Plan
“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
“SMO”	Site Management Organization
“Specific Mandate”	the specific mandate granted to the Board by the Shareholders at the 2019 annual general meeting, the first A Share class meeting of 2020 and the first H Share class meeting of 2020 of the Company held on May 15, 2020 in relation to the Proposed Issuance of H Shares
“STA Shares”	Shares of STA

Definitions

“STA”	Shanghai SynTheAll Pharmaceutical Co., Ltd* (上海合全藥業股份有限公司)
“Stock Exchange” or “Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Strategy Committee”	the strategy committee of the Board
“Subscription Agreement”	the subscription agreement dated September 3, 2019 entered into between the Company, the Joint Lead Managers and the Co-Manager in connection with the issue and subscription of the Bonds
“Subscription”	the issue and subscription of the Bonds pursuant to the Subscription Agreement
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of the Company
“U.S.”	the United States of America, its territories, its possession and all areas subject to its jurisdiction
“USD” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“WIND”	WuXi IND
“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
“WXAT Shanghai”	WuXi AppTec (Shanghai) Co., Ltd. (上海藥明康德新藥開發有限公司)
“YoY”	year-over-year
“%”	percentage