# WUXI APPTEC CO., LTD.*

# 無錫藥明康德新藥開發股份有限公司

**(the "Company")**

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

**(Stock Code: 2359)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

## FINANCIAL HIGHLIGHTS

- Revenue for the year ended December 31, 2018 amounted to approximately RMB9,613.68 million, representing an increase of 23.80% from approximately RMB7,765.26 million recorded in 2017.
- Gross profit for the year ended December 31, 2018 amounted to approximately RMB3,776.92 million, representing an increase of 16.57% from approximately RMB3,239.92 million recorded in 2017.
- Profit attributable to owners of the Company for the year ended December 31, 2018 amounted to approximately RMB2,260.52 million, representing an increase of 84.22% from approximately RMB1,227.09 million in 2017.
- Non-IFRS net profit attributable to owners of the Company for the year ended December 31, 2018 amounted to approximately RMB2,463.66 million, representing an increase of 75.46% as compared with approximately RMB1,404.15 million in 2017.
- Adjusted Non-IFRS net profit attributable to owners of the Company for the year ended December 31, 2018 amounted to approximately RMB1,741.60 million, representing an increase of 23.28% as compared with approximately RMB1,412.74 million in 2017.
- The Board proposes the profit distribution plan for the year ended December 31, 2018 as follows: (1) a dividend in an aggregate amount of RMB678,636,125.88 (inclusive of tax) to be paid to shareholders of the Company on the record date for determining the shareholders' entitlement to the 2018 Profit Distribution Plan (which amounts to a dividend of RMB5.80 (inclusive of tax) for every 10 shares of the Company based on the total issued shares of the Company as of the date of this announcement), and (2) 4 new shares for every 10 existing shares of the Company to be issued out of reserve to all shareholders. The 2018 Profit Distribution Plan is subject to, amongst others, approval by shareholders of the Company at the forthcoming annual general meeting and application be made to and approve by the Hong Kong Stock Exchange for the listing of and permission to deal in the new H shares (in respect of the capitalization issue).

In this announcement, "we", "us", "our" and "WuXi AppTec" refer to the Company and where the context otherwise requires, the Group (as defined below). Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as defined in the prospectus of the Company dated December 3, 2018 (the "Prospectus").

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

## A. Analysis on Principal Operations

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

For the year ended December 31, 2018 (the "Reporting Period"), we realized revenue of RMB9,613.68 million, representing a year-over-year ("YoY") growth of 23.80%. During the Reporting Period, we realized net profit attributable to the owners of the Company of RMB2,260.52 million, representing a YoY growth of 84.22%.

### Revenue

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

#### *(1) China-based laboratory services*

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

During the Reporting Period, our China-based laboratory services realized revenue of RMB5,113.40 million, representing a YoY growth of 24.09%. On one hand, we assisted our global customers in pushing forward R&D progress of innovative pharmaceutical products. Many of our customers were granted by the Food and Drug Administration ("FDA") of United States designations of breakthrough therapy, orphan drug and fast track for their new products. On the other hand, we continued to enable our domestic customers

with our globally leading expertise. We provided integrated drug discovery and R&D services to more than 30 Chinese customers which spans from early stage of drug discovery to completion of Investigational New Drug ("IND") filings with the National Medical Products Administration ("NMPA"). These projects have success-based agreements that provide us with a milestone and/or royalty fee. These agreements focus on well-known targets, which allow us to reduce the risks associated with such arrangements and maximize any potential upside. In 2018, we have assisted Chinese customers in making 27 IND filings with NMPA for new-chemical entities and have assisted our customers in obtaining 17 clinical trial authorizations ("CTA") from NMPA. As of the end of 2018, we have in total assisted Chinese customers in submitting 55 new-chemical entities IND filings with NMPA and have assisted our customers in obtaining 34 CTAs from NMPA. In particular, we assisted Chia Tai Tianqing Pharmaceutical ("CTTQ") with discovering an anti-HBV small-molecule drug candidate. In 2016, CTTQ granted a global pharmaceutical company exclusive rights to develop, manufacture and sell this drug outside of China. CTTQ is expected to receive a licensing fee of up to US$253 million, and we will receive from CTTQ a portion of the licensing fee as milestone payment for our services rendered. In 2018, we received the second instalment milestone fee of RMB16.8 million under this project.

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

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

### *(2) CDMO/CMO services*

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

commercial drugs by regulatory agencies in the U.S., China, EU, Canada, Switzerland, Australia, and New Zealand. STA has been approved by drug administrations in the U.S., China, EU, Canada, Switzerland, Australia and New Zealand to provide commercial manufacturing of APIs and GMP intermediates of branded drugs for the above countries and regions. By fully taking advantage of its competitiveness in R&D, the Company has persisted on its strategy of "expanding services along with the development of drugs" and offered integrated services of chemical and innovative APIs and finished dosages, which cover the entire life cycle from early process development, trial manufacturing, process certification to commercial manufacturing.

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

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

### *(3) U.S.-based laboratory services*

Our U.S.-based laboratory services segment comprises our cell and gene therapies CDMO services and medical device testing services.

As we follow closely with the latest development trend of the therapeutic technology, we have proactively and strategically established cell and gene therapies services capabilities,

which we believe will be a growth driver of the industry. We seek to accelerate and transform the development and manufacturing of cell and gene therapies through our comprehensive integrated CDMO services by establishing new and more cell and vector platforms to expand our scale and capabilities. Our services include development, testing and cGMP manufacturing of such therapies. Our capabilities are currently offered in the cGMP facilities in Pennsylvania, U.S., which covers an area of approximately 15,000 square meters.

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

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

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

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

### *(4) Clinical research and other CRO services*

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

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

In July 2018, we acquired WuXi Clinical Development, Inc. (carrying on business as ResearchPoint Global), a clinical CRO in Texas, U.S., which has allowed us to expand our clinical trial services to the U.S., and serve China-based pharmaceutical companies that seek to perform clinical trials in the U.S. Since the China Food and Drug Administration (now known as NMPA) released its announcement on self-checking and inspection of clinical trial data of drugs on July 22, 2015, 20 projects undertaken by our clinical research services were inspected and all of which passed inspections. Among which, 18 new drugs were approved, fully demonstrating the high-quality standard of our clinical research services.

## Gross Profit

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

### *(1) China-based Laboratory Services*

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

### *(2) CDMO/CMO services*

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

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

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

### *(4) Clinical Research and Other CRO Services*

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

**Other Gains and (Losses)**

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

**Selling and Marketing Expenses**

Our selling and marketing expenses increased from RMB291.51 million for the year 2017 to RMB337.88 million for the year 2018. The increase resulted mainly from (1) increase in staff expense for expansion of business, and (2) increase in marketing expenses for daily operation.

**Administrative Expenses**

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

**Finance Costs**

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

## Research and Development

**Unit: RMB in million**

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

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

## Cash Flows

In 2018, net cash flows from operating activities of the Group amounted to RMB1,525.78 million, representing a decrease of 15.03% over 2017. The decrease was mainly due to (1) the settlement of certain taxes of RMB125.22 million arising from the intragroup asset transfer of the Pharmaceutical Development Service Department in 2017, and (2) the receipt of government grants of RMB106.46 million in connection with listing of A Shares on the Shanghai Stock Exchange in 2017. Net of the effect of the one-off tax and government grants, net cash flows from operating activities decreased by 2.13% as compared with the same period last year. The decrease was mainly due to the increases in production and operation, purchase of goods, receipt of labor services and cash payment to employees.

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

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

## Gearing Ratio

As at December 31, 2018, the gearing ratio, calculated as total liabilities over total assets, was 19.86%, as compared with 46.44% as at December 31, 2017.

## Contingent Liabilities

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

## Borrowing

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

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

## B. Non-IFRS adjusted net profit attributable to owners of the Company

To supplement our consolidated financial statements which are presented in accordance with IFRS, we use adjusted net profit attributable to owners as an additional financial measure. We define adjusted net profit attributable to owners as profit/(loss) for the year before certain expenses and depreciation and amortization as set out in the table below. Adjusted net profit attributable to owners is not an alternative to (i) profit before income tax or profit for the year (as determined in accordance with 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 non-IFRS adjusted net profit attributable to owners of the Company is useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these non-IFRS adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of the non-IFRS adjusted net profit attributable to owners of the Company is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. Shareholders and potential investors should not view the non-IFRS adjusted net profit attributable to owners of the Company on a stand-alone basis or as a substitute for results under the IFRS, or as being comparable to results reported or forecasted by other companies.

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

## C. Assets and liabilities analysis

**Unit: RMB in million**

| Items | Amount as at the end of the Reporting Period | Percentage of the amount as at the end of the Reporting Period to the total assets (%) | Amount as at the end of last reporting period | Percentage of the amount as at the end of last reporting period to the total assets (%) | Ratio of change for the amount as at the end of the Reporting Period as compared with the amount as at the end of last reporting period (%) | Reasons |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 6,058 | 26.72 | 4,255 | 33.83 | 42.35 | Mainly due to additional capital expenditures in Changzhou STA Phase II Project (常州合全基地二期項目), Qidong Laboratory Project (啟東實驗室項目), Tianjin Northern Base Phase II Project (天津北方基地二期項目) and Suzhou Drug Safety Assessment Center Expansion Projects (蘇州安評中心擴建). |
| Prepaid Lease payments (non-current) | 272 | 1.20 | 126 | 1.00 | 115.88 | Mainly due to land use right acquired. |
| Interest in associates | 619 | 2.73 | 251 | 2.00 | 146.43 | Mainly due to additional investment in and income picked up from WuXi Healthcare Ventures II L.P. |
| Interest in joint ventures | 37 | 0.16 | 132 | 1.05 | (72.10) | Mainly due to Wuxi Clinical Development, Inc. being transferred from joint venture to a subsidiary. |
| Available-for-sale ("AFS") investments | — | — | 683 | 5.43 | / | Due to reclassification of the balance to financial assets at financial assets at fair value through profit or loss ("FVTPL") upon adoption of IFRS9 starting January 1, 2018. |
| Deposits for acquisition | — | — | 113 | 0.89 | / | Due to the completion of the acquisition of Wuxi Clinical Development, Inc. as a subsidiary |
| Inventories | 855 | 3.77 | 650 | 5.17 | 31.54 | Mainly due to increased production capacity of STA Changzhou plant, and the rapid growth of our CMO/CDMO services. |
| Trade and other receivables | 2,499 | 11.02 | 1,753 | 13.93 | 42.55 | Mainly due to the growth of sales during the Reporting Period. |

**Unit: RMB in million**

| Items | Amount as at the end of the Reporting Period | Percentage of the amount as at the end of the Reporting Period to the total assets (%) | Amount as at the end of last reporting period | Percentage of the amount as at the end of last reporting period to the total assets (%) | Ratio of change for the amount as at the end of the Reporting Period as compared with the amount as at the end of last reporting period (%) | Reasons |
|---|---|---|---|---|---|---|
| Contract assets | 385 | 1.70 | 186 | 1.48 | 107.10 | Mainly due to the growth of sales during the Reporting Period. |
| Financial assets at FVTPL (current) | 2,125 | 9.38 | 15 | 0.12 | / | Due to reclassification of structured deposits upon adoption of IFRS9 starting January 1, 2018. |
| Wealth management products | — | — | 298 | 2.37 | / | Due to the reclassification to financial assets at FVTPL upon adoption of IFRS9 starting January 1, 2018. |
| Bank balance and cash | 5,758 | 25.40 | 2,466 | 19.60 | 133.47 | Mainly due to proceeds raised from the listings of A Shares and H Shares. |
| Trade and other payables | 2,611 | 11.52 | 1,664 | 13.23 | 56.84 | Mainly due to new employee share-based compensation plans launched in 2018 and increased payables for acquisition of equipment and properties. |
| Borrowings | 135 | 0.60 | 1,618 | 12.86 | (91.66) | Mainly due to repayment of borrowings. |

## D. Analysis on investments

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

**Unit: RMB in million**

| | |
|---|---|
| Investment amount during the Reporting Period | 872.88 |
| Investment amount for the corresponding period of previous year | 327.44 |
| Change in the investment amount | 545.44 |
| Percentage of change in the investment amount | 166.58% |

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

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

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

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

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

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

## E. Core Competence Analysis

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

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

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

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

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

### *(2) Enabling innovation to strengthen our competitive advantage*

Our principle of "enabling innovation" plays a significant part in the way we design, offer and deliver our services, ensuring that we will deploy our latest know-how and capabilities whenever possible to fulfill our customers' demands and enable them to transform ideas into reality. We have rich experience in cutting-edge expertise, based on which we further explore technologies such as AI, medical big data and laboratory automation, etc. and strives to apply them in R&D of new drugs as early as possible to help our customers to increase their R&D efficiency and lower the entry barrier of pharmaceutical R&D. Based on our deep insights on industrial trends and emerging technologies, we enable our customers with the latest scientific and technological discoveries and convert them to potential products. Since early 2015, we have started to provide integrated discovery and R&D services of new drugs from discovery to IND filings with the NMPA to Chinese customers. In 2018, we have submitted 27 new-chemical entities IND filings with NMPA for our customers and obtained 17 CTAs. As at December 31, 2018, we have submitted 55 new-chemical entities IND filings with NMPA for our customers and obtained 34 CTAs approvals. In 2018, we helped 2 customers with commercial manufacturing under the China's MAH policy, including Ganovo® developed by Ascletis Pharma for treatment of Hepatitis C, and Elunate® developed by Hutchison MediPharma for treatment of colorectal cancer.

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

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

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

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

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

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

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

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

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

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

### *(5) Experienced management team with vision and ambition*

We are led by Dr. Ge Li, one of the pioneers in the pharmaceutical outsourcing industry. All members of our senior management team have worked at the forefront of the pharmaceutical industry, with significant industry experience in their areas of expertise. Our management team is reputable in the area of life science both in the U.S. and China. Dr. 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) The Restricted A Shares and Stock Option Incentive Plan of 2018*

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

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

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

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

granted by The Hong Kong Stock Exchange. Listing of and dealings in such Over-allotment Shares commenced on the Main Board of The Hong Kong Stock Exchange at 9:30 a.m. on January 9, 2019.

***(3) The proposed delisting of STA***

Subsequent to the Reporting Period, on March 10, 2019, the Board held a meeting in which it was proposed that the Company shall seek delisting of STA, a subsidiary of the Company, from the National Equities Exchange and Quotations (全國中小企業股份轉讓系統) (the "Proposed Delisting"). The Board believes that the Proposed Delisting would allow STA to focus on long-term development strategy and enhance operational efficiency, and save unnecessary administrative and other listing-related costs and expenses. As at the date of this announcement, no material terms concerning the Proposed Delisting have been agreed and the Company has not entered into any definitive agreement in relation to the Proposed Delisting.

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

## A. Competition and Development Trends of the Industry

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

Global drug R&D service companies can be classified as CRO, CDMO/CMO and R&D service platforms which cover the whole industrial chain of pharmaceutical R&D. At present, most of drug R&D service companies focus on a specific stage of new drug R&D, such as preclinical CRO, clinical trial CRO, CDMO/CMO. In addition, there are a few integrated end-to-end R&D service platforms, including the Company, which are able to provide one-stop new drug R&D and manufacturing services to their customers. Integrated end-to-end new drug R&D service platforms can provide services along with the value chain of drug R&D and start to provide services to their customers from the early drug discovery stage and assist their customers in term of capabilities and scale. They gain the confidence of their customers by offering quality and efficient services. During the development of a particular project, they can expand the scope of their services from "developing along with the project" to "expanding along with the development of drugs". Small drug manufacturers, including small and medium biotechnology companies, virtual companies and individual entrepreneurs, have become the new major driving force of pharmaceutical innovation. According to the Frost & Sullivan Report, in 2017, there were 7,454 small pharmaceutical companies in the world, accounting for 76% of the total

pharmaceutical companies. 39% of FDA approved new drugs was manufactured by these small pharmaceutical companies. By 2022, it is expected that there will be 13,523 small pharmaceutical companies, accounting for 80% of the total pharmaceutical companies. 47% of FDA approved new drugs will be manufactured by these small pharmaceutical companies. However, such small pharmaceutical companies may have not enough time or capital to set up their own laboratories and manufacturing facilities required for their R&D projects to fulfill various service needs in a short period. As a result, integrated end-to-end R&D service platforms are able to meet their R&D service needs from concept verification to product launching out.

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

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

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

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

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

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

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

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

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

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

The cell and gene therapy CDMO/CMO services industry is at an early development stage but the market demand for such services is continuously increasing. Cell and gene therapies are advanced next-generation therapies and anticipated to complement well with traditional chemical and biologics drugs. Compared with traditional drugs, on one hand, R&D, manufacturing and filing process of cell and gene therapies products are more complicated, on the other hand, R&D expenses of cell and gene therapy products are higher (including special requirements on manufacturing, transportation,

storage and clinical trials). Cell and gene therapies CDMOs/CMOs could provide a series of services ranging from process development to GMP production, to product filing and consultation on relevant laws and regulations to its customers to expedite the progress of projects and thereby reducing costs.

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

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

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

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

The integrated end-to-end R&D service platform could best meet demands of large pharmaceutical companies and the "long-tail" customers, which have less or even no revenue. The "long-tail" customers include medium-sized and small biotechnology companies, virtual pharmaceutical companies as well as entrepreneurs. The "long-tail" customers are the key drivers of pharmaceutical innovations. According to Frost & Sullivan report, in 2017, there were 7,454 small pharmaceutical companies, accounting for 76% of total number of pharmaceutical companies; in addition, 39% of new drugs approved by the FDA were from small pharmaceutical companies. By 2022, the number of small pharmaceutical companies will reach 13,523, accounting for 80% of total number of pharmaceutical companies; 47% of new drugs approved by the FDA will be from small pharmaceutical companies. Small pharmaceutical companies are more willing to outsource their businesses; as such, the integrated end-to-end R&D services platform could satisfy their overall demands from proof of concept to marketing of product.

The integrated end-to-end R&D service platform could meet emerging R&D demands of pharmaceutical companies. More and more pharmaceutical companies are starting to strategically penetrate into next-generation therapies including cell and gene therapies while the integrated end-to-end R&D service platform could further take over emerging R&D demands of pharmaceutical companies.

## B. Development Strategies

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

### *(1) Expand capacity and capabilities globally*

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

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

We believe that our advanced technologies have been crucial in helping us maintain our position as a leading drug discovery and development platform, allowing us to offer the most efficient and effective solutions to our customers. We will continue to invest in innovative technologies to stay at the forefront of the industry. In terms of drug discovery, we fully leveraged our capability of chemistry synthesis and compound screening and built a DEL with over 80 billion compounds. The DEL can help to accelerate target validation and hit identification to improve new drug R&D efficiency and reduce R&D costs. In the CDMO/CMO segment, we have developed

our capabilities of bio-catalysis, spray drying and providing CDMO/CMO services for oligonucleotides and peptides. In the cell and gene therapies, we have established integrated R&D and manufacturing facilities in Philadelphia, US and Wuxi, China. Going forward, we will continue to explore cutting-edge technologies such as AI, medical big data and laboratory automation, etc. and strive to apply them in R&D of new drugs as early as possible to better enable its customers.

***(3) Increase customer penetration and win new customers***

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

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

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

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

### *(5) Expand our reach within the healthcare ecosystem*

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

## C. Operation Plan

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

### *(1) Platform Building*

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

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

### *(2) Customer Strategy*

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

### *(3) Quality and Compliance*

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

### *(4) Innovation and Development*

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

### *(5) Team of Talents*

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

### *(6) Corporate Culture*

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

## D. Potential Risks

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

Our business operation relies on expenditures and demands of our customers (including multi-national pharmaceutical companies, biotechnology companies, start-ups, virtual companies and scholars & non-profit research organizations, etc.) on outsourcing services, i.e., discovery, analytical testing, development and manufacturing of

pharmaceuticals, cell and gene therapies and medical devices, etc. In the past, benefiting from continuous growth of the global pharmaceutical market, increase of R&D budgets of our customers and increasing percentage of our customers' outsourcing services, demands on our services from our customers continued to rise. Our business operation could be adversely impacted if the industry growth slows down or percentages of outsourcing services decline. In addition, any merger, consolidation and budget adjustment of pharmaceutical players might also impact our customers' R&D expenditures and outsourcing demands as well as result in adverse impact upon our business operation.

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

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

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

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

### *(4) Business Compliance Risk*

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

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

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

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

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

### *(7) Risk of Failure in Business Expansion*

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

### *(8) Foreign Exchange Risk*

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

## HUMAN RESOURCES

As at December 31, 2018, the Group had 17,730 employees. 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.

The remuneration of the Group's employees includes basic salaries, allowances, bonus, share options and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. 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.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of the People's Republic of China, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

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

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

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

## FINAL DIVIDEND AND CONVERSION OF RESERVE TO SHARE CAPITAL

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

A circular containing further details as to, amongst others, the applicable foreign exchange rate for the proposed cash dividend, the conversion of reserve to share capital, the relevant record date and book closure period will be despatched to shareholders of the Company in due course.

## AGM AND PERIOD OF CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The AGM will be held on June 3, 2019. The register of members of H Shares of the Company will be closed from May 29, 2019 to June 3, 2019, both days inclusive and during which no share transfer will be effected, for the purpose of ascertaining the Company's H Shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for the registration with the Company's H Share Registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on May 28, 2019.

## 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 announcement, the Company has maintained the public float as required under the Listing Rules.

## CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Company has adopted corporate governance practices based on the principles and code provisions as set out in the Corporate Governance Code (the "Corporate Governance Code") as contained in Appendix 14 to the Listing Rules as its own code of corporate governance practices.

The Board is of the view that, the Company has complied with the relevant code provisions contained in the Corporate Governance Code during the Reporting Period, save for deviation from code provision A.2.1 of the Corporate Governance Code.

Pursuant to code provision A.2.1 of the Corporate Governance 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.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuer" (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year under review. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year under review.

## REVIEW OF FINANCIAL STATEMENTS

**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 consolidated financial information for the year ended December 31, 2018, 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 figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.wuxiapptec.com.cn). The annual report of the Company for the year ended December 31, 2018 will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

The Board of Directors of the Company is pleased to announce that the consolidated annual results of the Group for the year ended December 31, 2018 (the Reporting Period) with the comparative figures in the corresponding period in 2017 are as follows:

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended December 31, 2018*

| | *Notes* | **2018** | 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Revenue** | *5* | **9,613,684** | 7,765,260 |
| Cost of services | | **(5,836,765)** | (4,525,340) |
| **Gross profit** | | **3,776,919** | 3,239,920 |
| Other income | *6* | **156,417** | 254,992 |
| Other gains and losses | *7* | **600,588** | (81,213) |
| Impairment losses under expected credit losses ("ECL") model | | **(10,521)** | — |
| Other impairment losses, net of reversal | | **—** | (140,194) |
| Selling and marketing expenses | | **(337,878)** | (291,510) |
| Administrative expenses | | **(1,152,592)** | (986,540) |
| Research and development expenses | | **(436,533)** | (305,648) |
| **Operating profit** | | **2,596,400** | 1,689,807 |
| Share of profits (losses) of associates | | **104,601** | (21,589) |
| Share of losses of joint ventures | | **(27,770)** | (27,051) |
| Finance costs | *8* | **(92,407)** | (48,547) |
| **Profit before tax** | | **2,580,824** | 1,592,620 |
| Income tax expenses | *9* | **(247,143)** | (295,900) |
| **Profit for the year** | | **2,333,681** | 1,296,720 |
| **Attributable to:** | | | |
| Owners of the Company | | **2,260,523** | 1,227,093 |
| Non-controlling interests | | **73,158** | 69,627 |
| | | **2,333,681** | 1,296,720 |
| **Earnings per share (expressed in RMB per share)** | | | |
| — Basic | *12* | **2.23** | 1.31 |
| — Diluted | *12* | **2.21** | 1.30 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended December 31, 2018*

| | *Notes* | **2018** | 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Profit for the year** | | **2,333,681** | 1,296,720 |
| **Other comprehensive income (expense) for the year** | | | |
| ***Items that may be reclassified subsequently to profit or loss*** | | | |
| Exchange differences on translation of financial statements of foreign operations | | **84,430** | (9,436) |
| Fair value gain (losses) on | | | |
| — available-for-sale ("AFS") investments | | **—** | 39,127 |
| — hedging instrument designated in cash flow hedges | | **(83,211)** | — |
| Reclassification adjustment relating to AFS investments disposed of | | **—** | (32,093) |
| Share of other comprehensive income of an associate, net of related income tax | | **—** | 13,634 |
| **Other comprehensive income for the year, net of income tax** | | **1,219** | 11,232 |
| **Total comprehensive income for the year** | | **2,334,900** | 1,307,952 |
| **Attributable to:** | | | |
| Owners of the Company | | **2,267,727** | 1,236,592 |
| Non-controlling interests | | **67,173** | 71,360 |
| | | **2,334,900** | 1,307,952 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at December 31, 2018*

| | *Notes* | **2018** | 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **6,057,611** | 4,255,468 |
| Goodwill | | **1,144,076** | 958,038 |
| Other intangible assets | | **347,949** | 296,514 |
| Prepaid lease payments | | **272,306** | 126,138 |
| Interests in associates | | **618,736** | 251,084 |
| Interests in joint ventures | | **36,822** | 131,997 |
| Deferred tax assets | | **250,175** | 244,158 |
| AFS investments | | **—** | 683,405 |
| Financial assets at fair value through profit or loss ("FVTPL") | *13* | **2,079,311** | — |
| Other non-current assets | | **47,378** | 50,874 |
| Deposits for acquisition | | **—** | 112,570 |
| | | **10,854,364** | 7,110,246 |
| **Current assets** | | | |
| Inventories | | **854,761** | 649,815 |
| Contract costs | | **97,712** | 77,123 |
| Amounts due from related parties | | **13,882** | 16,563 |
| Trade and other receivables | *14* | **2,498,696** | 1,752,807 |
| Contract assets | *14* | **384,530** | 185,676 |
| Prepaid lease payments | | **6,237** | 3,400 |
| Income tax recoverable | | **34,028** | — |
| Financial assets at FVTPL | *13* | **2,125,334** | 14,739 |
| Derivative financial instruments | *18* | **37,054** | — |
| Wealth management products | *15* | **—** | 297,687 |
| Pledged bank deposits | *16* | **2,913** | 6,247 |
| Bank balances and cash | *16* | **5,757,691** | 2,466,144 |
| | | **11,812,838** | 5,470,201 |
| **Total assets** | | **22,667,202** | 12,580,447 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at December 31, 2018*

| | *Notes* | **2018** | 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | *19* | **1,164,741** | 937,787 |
| Reserves | | **16,523,280** | 5,404,593 |
| Equity attributable to owners of the Company | | **17,688,021** | 6,342,380 |
| Non-controlling interests | | **477,210** | 395,631 |
| **Total equity** | | **18,165,231** | 6,738,011 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **15,000** | 300,000 |
| Deferred tax liabilities | | **111,747** | 103,281 |
| Deferred income | | **418,843** | 377,556 |
| Other long-term liabilities | | **194,323** | 442,176 |
| | | **739,913** | 1,223,013 |
| **Current liabilities** | | | |
| Trade and other payables | *17* | **2,610,553** | 1,664,433 |
| Amounts due to related parties | | **12,015** | 839,562 |
| Derivative financial instruments | *18* | **153,292** | — |
| Contract liabilities | | **681,863** | 604,132 |
| Borrowings | | **120,000** | 1,318,189 |
| Income tax payables | | **184,335** | 193,107 |
| | | **3,762,058** | 4,619,423 |
| **Total liabilities** | | **4,501,971** | 5,842,436 |
| **Total equity and liabilities** | | **22,667,202** | 12,580,447 |

## 1. GENERAL INFORMATION

The Company was incorporated in the PRC on March 1, 2017 as a joint stock limited liability company under the PRC laws upon the conversion of WuXi AppTec Ltd. (formerly known as WuXi PharmaTechs Co., Ltd.), a company with limited liability incorporated in the PRC in December 2000. The Company completed its initial public offering and listing of 104,198,556 ordinary shares of the Company ("A Shares") on The Shanghai Stock Exchange (stock code: 603259.SH) on May 8, 2018. The Company completed its public offering and listing of 116,474,200 ordinary shares of the Company ("H Shares") on the Main Board of The Stock Exchange of Hong Kong Limited ("The Hong Kong Stock Exchange"), (stock code: HK 2359) on December 13, 2018. The address of the registered office of the Company is Mashan No.5 Bridge, Binhu District, Wuxi, Jiangsu Province, the PRC and the principal place of business of the Company is 288 Fute Zhong Road, Waigaoqiao Free Trade Zone, Shanghai, the PRC.

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

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

## 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the accounting policies which conform to International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board (the "IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts on January 1, 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

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

**Financial assets and financial liabilities**

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

**Other assets**

| Items | Original carrying amount under IAS 39 *RMB'000* | Fair value remeasurement under IFRS 9 *RMB'000* | Additional loss allowance recognised under IFRS 9 *RMB'000* | New carrying amount under IFRS 9 *RMB'000* |
|---|---|---|---|---|
| Contract assets (Note 14) | 185,676 | — | (56) | 185,620 |

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

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

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

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

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

**From AFS investments to FVTPL**

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

**From loans and receivables to FVTPL**

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

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

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

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

**Issued but not yet effective IFRSs**

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

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

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

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

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

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

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

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

**IFRS 16 Leases**

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

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

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

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

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

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

## 4. OPERATING SEGMENT INFORMATION

Operating segments are determined based on the Group's internal reports which are submitted to Chief Executive Officer, being the chief operating decision maker ("CODM") of the Group for the purpose of performance assessment and resources allocation. This is also the basis upon which the Group is organized and managed. As a result of this evaluation, the Group determined that it has five operating segments as follows.

| | |
|---|---|
| China-based laboratory services | Services include small molecules discovery, such as synthetic chemistry, medicinal chemistry, analytical chemistry, biology, drug metabolism and pharmacokinetics ("DMPK")/ absorption, distribution, metabolism and excretion ("ADME"), toxicology and bioanalytical services. |
| U.S.-based laboratory services | Services include expert solution for medical devices safety testing services and comprehensive manufacturing and testing for cell and gene therapies. |
| Clinical research and other CRO services | Clinical research services includes clinical development services and site management organization (SMO) services. Clinical development services include project planning, clinical operation and monitoring and managements of phase I-IV clinical trials, outcomes research and medical device trials; embedded outsourcing; and clinical informatics, respectively. SMO services include project management and clinical site management services. |
| CMO/CDMO services | CMO/CDMO services stands as an integrated platform to support the development of manufacturing processes and the production of advanced intermediates and active pharmaceutical ingredients and formulation development and dosage drug product manufacturing, for preclinical, clinical trials, new drug application, and commercial supply of chemical drugs as well as wide spectrum development from early to late stage. |
| Others | Others mainly include the administrative service income, sales of raw material and sales of scrap materials. |

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

| | Year ended December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **China-based laboratory services** *RMB'000* | **U.S.-based laboratory services** *RMB'000* | **Clinical research and other CRO services** *RMB'000* | **CMO/CDMO services** *RMB'000* | **Others** *RMB'000* | **Total** *RMB'000* |
| Segment revenue | **5,113,405** | **1,204,153** | **584,630** | **2,698,885** | **12,611** | **9,613,684** |
| Segment results | **2,201,791** | **289,263** | **168,408** | **1,113,994** | **3,463** | **3,776,919** |
| **Unallocated amount:** | | | | | | |
| Other income | | | | | | **156,417** |
| Other gains and losses | | | | | | **600,588** |
| Impairment losses under ECL model | | | | | | **(10,521)** |
| Selling and marketing expenses | | | | | | **(337,878)** |
| Administrative expenses | | | | | | **(1,152,592)** |
| Research and development expenses | | | | | | **(436,533)** |
| Share of profits of associates | | | | | | **104,601** |
| Share of losses of joint ventures | | | | | | **(27,770)** |
| Finance costs | | | | | | **(92,407)** |
| Profit before tax | | | | | | **2,580,824** |

| | Year ended December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | China-based laboratory services *RMB'000* | U.S.-based laboratory services *RMB'000* | Clinical research and other CRO services *RMB'000* | CMO/CDMO services *RMB'000* | Others *RMB'000* | Total *RMB'000* |
| Segment revenue | 4,120,576 | 1,134,881 | 356,109 | 2,108,554 | 45,140 | 7,765,260 |
| Segment results | 1,842,201 | 361,897 | 102,489 | 918,454 | 14,879 | 3,239,920 |
| **Unallocated amount:** | | | | | | |
| Other income | | | | | | 254,992 |
| Other gains and losses | | | | | | (81,213) |
| Other impairment loss, net of reversal | | | | | | (140,194) |
| Selling and marketing expenses | | | | | | (291,510) |
| Administrative expenses | | | | | | (986,540) |
| Research and development expenses | | | | | | (305,648) |
| Share of losses of associates | | | | | | (21,589) |
| Share of losses of joint ventures | | | | | | (27,051) |
| Finance costs | | | | | | (48,547) |
| Profit before tax | | | | | | 1,592,620 |

**Entity-wide disclosure**

***Geographical information***

An analysis of the Group's revenue from external customers, analyzed by their respective country/region of domicile, is detailed below:

| | **Year ended 31/12/2018** ***RMB'000*** | Year ended 31/12/2017 *RMB'000* |
|---|---|---|
| Revenue | | |
| — PRC | **2,444,621** | 1,571,998 |
| — Asia-others | **282,356** | 220,838 |
| — United States of America ("USA") | **5,246,260** | 4,437,550 |
| — Europe | **1,514,284** | 1,419,578 |
| — Rest of the world | **126,163** | 115,296 |
| | **9,613,684** | 7,765,260 |

No revenue amounting to 10% or more of the Group's total revenue was derived from sales to a single customer for the years ended December 31, 2018 and 2017.

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

| | **31/12/2018** ***RMB'000*** | 31/12/2017 *RMB'000* |
|---|---|---|
| — PRC | **6,295,753** | 4,638,148 |
| — Rest of the world | **2,229,125** | 1,431,965 |
| | **8,524,878** | 6,070,113 |

Non-current assets excluding deferred tax assets, available-for-sale investments, financial assets at FVTPL and deposit for acquisition.

## 5. 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 below.

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

| | **Year ended 31/12/2018** | Year ended 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue | | |
| — China-based laboratory services | **5,113,405** | 4,120,576 |
| — U.S.-based laboratory services | **1,204,153** | 1,134,881 |
| — Clinical research and other CRO services | **584,630** | 356,109 |
| — CMO/CDMO services | **2,698,885** | 2,108,554 |
| — Others | **12,611** | 45,140 |
| | **9,613,684** | 7,765,260 |

**Timing of revenue recognition**

| | **Year ended 31/12/2018** | Year ended 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Over time | | |
| — China-based laboratory services | **4,358,565** | 3,519,997 |
| — U.S.-based laboratory services | **1,204,153** | 1,134,881 |
| — Clinical research and other CRO services | **584,630** | 356,109 |
| — CMO/CDMO services | **292,353** | 190,545 |
| — Others | **12,440** | 18,843 |
| At a point in time | | |
| — China-based laboratory services | **754,840** | 600,579 |
| — CMO/CDMO services | **2,406,532** | 1,918,009 |
| — Others | **171** | 26,297 |

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) are RMB7,779 million as at December 31, 2018 (December 31, 2017: RMB7,596 million). The expected amount of revenue will be recognised in 2019 is RMB6,361 million. The management of the Group expects the majority of the transaction price allocated to the unsatisfied contracts as of each reporting date during the reporting period will be recognized as revenue within two years from the reporting date.

## 6. OTHER INCOME

| | **Year ended 31/12/2018** | Year ended 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income from | | |
| — financial institutions | **12,195** | 24,393 |
| Government grants and subsidies related to | | |
| — asset (i) | **34,891** | 32,292 |
| — income (ii) | **79,726** | 197,977 |
| Dividend income arising from | | |
| — available-for-sale investments | **—** | 330 |
| — financial assets at FVTPL | **29,605** | — |
| | **156,417** | 254,992 |

Note:

(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 in the period in which they become receivable.

## 7. OTHER GAINS AND LOSSES

| | **Year ended 31/12/2018** | Year ended 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net foreign exchange gain (loss) | **31,002** | (138,887) |
| Gain on disposal of AFS investments | **—** | 32,093 |
| Loss on disposal of plant and equipment | **(10,382)** | (8,565) |
| Gain (loss) on disposal of other intangible assets | **9** | (9,158) |
| Fair value gain on financial assets at FVTPL | **694,882** | 40,181 |
| Loss on derivative financial instruments (unrealized) | **(13,195)** | — |
| Loss on derivative financial instruments (realized) | **(102,049)** | — |
| Others | **321** | 3,123 |
| | **600,588** | (81,213) |

## 8. FINANCE COSTS

| | **Year ended 31/12/2018** *RMB'000* | Year ended 31/12/2017 *RMB'000* |
|---|---|---|
| Interest expense on borrowings | **81,119** | 40,587 |
| Interest expense on loans from related parties | **—** | 2,119 |
| Imputed interest expense on payable for acquisition of a property | **11,288** | 5,841 |
| | **92,407** | 48,547 |

## 9. INCOME TAX EXPENSES

| | **Year ended 31/12/2018** *RMB'000* | Year ended 31/12/2017 *RMB'000* |
|---|---|---|
| Current tax: | | |
| — PRC | **284,623** | 265,252 |
| — Hong Kong | **1,247** | 19,459 |
| — USA | **1,072** | 12,332 |
| — Rest of world | **1,321** | 12,355 |
| | **288,263** | 309,398 |
| (Over) under provision in respect of prior years | | |
| — PRC | **(18,853)** | 382 |
| — Hong Kong | **20** | 2,046 |
| — USA | **(28,659)** | (706) |
| | **(47,492)** | 1,722 |
| Deferred tax: | | |
| — Current year | **6,372** | (15,220) |
| | **247,143** | 295,900 |

On March 21, 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The two-tiered profits tax rates regime is applicable to the Group's Hong Kong subsidiaries with estimated assessable profits for its years of assessment beginning on or after April 1, 2018.

The group entities incorporated in USA are subject to the federal corporate tax rate at 35% and state income tax rate at a range from 4% to 10% for the year ended December 31, 2017. On December 22, 2017, the 2017 Tax Cuts and Jobs Act was enacted, which reduces the federal corporate tax rate from 35% to 21% and is effective on January 1, 2018. The state income tax rate remains at a range from 4% to 10% for the year ended December 31, 2018.

The Company and other group entities incorporated in Cayman Islands are not subject to income or capital gains tax under the law of Cayman Islands. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

The group entities established in British Virgin Islands ("BVI") are not subject to income tax or capital gains tax under the law of BVI.

The group entities incorporated in Korea, Netherlands, Germany and United Kingdom are subject to the tax rate at 24%, 25%, 27.64% and 19%, respectively during the reporting period.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiaries is 25% during the reporting period unless subject to tax concession set out below.

Certain subsidiaries operating in the PRC were accredited as "High and New Technology Enterprise" or "Advanced Technology Enterprise" for a period of three or four years, and therefore are entitled to a preferential EIT rate of 15% for the reporting period. The qualification as a High and New Technology Enterprise will be subject to review by the relevant tax authority in the PRC for every three years. According to the Notice 2018 No.76 of the Ministry of Finance, from January 1, 2018, the enterprises that have the qualifications as High and New Technology Enterprise or Advanced Technology Enterprise (hereinafter collectively referred to as qualifications) will be able to make up for the losses that have not been completed in the previous five years before the qualification year. The longest carry-over period is extended from 5 years to 10 years.

## 10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

| | **Year ended 31/12/2018** ***RMB'000*** | Year ended 31/12/2017 *RMB'000* |
|---|---|---|
| Depreciation for property, plant and equipment | **601,441** | 439,896 |
| Amortization of other intangible assets | **39,692** | 34,384 |
| Amortization of prepaid lease payment | **4,052** | 3,400 |
| Staff cost (including Directors' emoluments): | | |
| — Salaries and other benefits | **2,569,159** | 1,920,725 |
| — Retirement benefit scheme contributions | **309,506** | 233,627 |
| — Equity-settled share-based payments | **43,992** | 41,733 |
| — Cash-settled share-based payments | **7,015** | 10,593 |
| Less: capitalized in inventories and contract costs | **(357,925)** | (242,826) |
| | **3,216,932** | 2,441,532 |
| Auditor's remuneration | **7,468** | 1,590 |
| Minimum operating lease payment in respect of rented premises | **226,753** | 182,663 |

## 11. DIVIDENDS

During the reporting period, a subsidiary of the Company, declared and paid cash dividends to non-controlling shareholders as follows:

| | **Year ended 31/12/2018** ***RMB'000*** | Year ended 31/12/2017 *RMB'000* |
|---|---|---|
| Dividends declared and paid by the Company's subsidiary to non-controlling shareholders | **19,205** | 18,834 |

No dividend was paid or declared by the Company during the reporting period.

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

## 12. EARNINGS PER SHARE

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

| | **Year ended 31/12/2018** ***RMB'000*** | Year ended 31/12/2017 *RMB'000* |
|---|---|---|
| Earnings: | | |
| Earnings for the purpose of calculating basic earnings per share | **2,260,523** | 1,227,093 |
| Effect of share options issued by a subsidiary | **(15,444)** | (9,539) |
| Earnings for the purpose of calculating diluted earnings per share | **2,245,079** | 1,217,554 |
| Number of Shares ('000): | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **1,013,506** | 937,787 |
| Effect of restricted shares issued by the Company | **85** | — |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **1,013,591** | 937,787 |

The earnings for the purpose of calculating diluted earnings per share has been adjusted on the effect of share options issued by a subsidiary.

The computation of diluted earnings per share for the year ended December 31, 2018 is based on weighted average number of shares assumed to be in issue after taking into account the effect of restricted shares issued by the Company.

The computation of diluted earnings per share in current year does not assume the exercise of the Company's over-allotment options granted pursuant to the listing of the Company's shares in The Hong Kong Stock Exchange as the exercise price of the options was higher than the average market price for the shares during the outstanding period.

## 13. FINANCIAL ASSETS AT FVTPL

| | **31/12/2018** | 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current assets** | | |
| Monetary fund investment | **1,019,431** | 14,739 |
| Structured deposits | **1,105,903** | — |
| | **2,125,334** | 14,739 |
| **Non-current assets** | | |
| Listed equity securities (Note i) | **940,958** | — |
| Unlisted equity investments (Note i) | **883,925** | — |
| Unlisted fund investments (Note i, ii) | **254,428** | — |
| | **2,079,311** | — |

Notes:

i. Upon the adoption of IFRS 9 "Financial Instruments" on January 1, 2018, the equity investments recorded as "AFS financial assets" before January 1, 2018 were subsequently classified to financial assets at FVTPL.

ii. The fair values of the unlisted investment funds are based on the net asset values of the investment funds reported to the limited partners by the general partners at the end of the reporting period.

## 14. TRADE AND OTHER RECEIVABLES/CONTRACT ASSETS

***Trade and other receivables***

| | **31/12/2018** | 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | | |
| — third parties | **2,015,622** | 1,423,194 |
| Allowance for impairment | **(32,353)** | (18,890) |
| | **1,983,269** | 1,404,304 |
| Other receivables | **39,582** | — |
| Note receivable | **2,709** | 325 |
| Prepayments | **78,279** | 51,923 |
| Interest receivables | **1,297** | — |
| Prepaid expenses | **42,798** | 22,015 |
| Value added tax recoverable | **344,760** | 265,662 |
| Rental deposits | **6,002** | 8,578 |
| | **475,845** | 348,503 |
| Total trade and other receivables | **2,498,696** | 1,752,807 |

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 doubtful debts) presented based on the invoice dates, at the end of each reporting period:

| | **31/12/2018** | 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 180 days | **1,806,025** | 1,389,408 |
| 181 days to 1 year | **122,368** | 10,648 |
| 1 year to 2 years | **45,547** | 4,067 |
| More than 2 years | **9,329** | 181 |
| | **1,983,269** | 1,404,304 |

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivable from the date on which the credit was initially granted up to the reporting date. The credit quality of the trade receivables that are neither past due nor impaired had not changed during the reporting period.

***Contract assets***

| | **31/12/2018** | 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contract assets | **391,067** | 185,676 |
| Allowance for impairment | **(6,537)** | — |
| | **384,530** | 185,676 |

The contract assets primarily relate to the Group's right to consideration for work completed but not billed. The contract assets are transferred to trade receivables when the rights become unconditional.

## 15. WEALTH MANAGEMENT PRODUCTS

The Group entered into series of wealth management products with banks and other financial institutions in the PRC. The investments are principal-guaranteed by the relevant financial institutions and contain embedded derivatives, which represents the returns varying with the underlying investment portfolio of the wealth management products and comprises primarily of debt instrument products including bonds. The expected rates of return ranged from 1.00% to 4.95%, per annum for the years ended December 31, 2017, which were determined by reference to the returns of the underlying investment portfolio. The management considered the amount paid for the wealth management products approximates its fair value at the end of the reporting period and the fair value of the embedded derivative in the wealth management products as of the same date was insignificant.

Beginning from January 1, 2018, the Group has adopted IFRS 9. The wealth management products held by the Group are reclassified as financial assets at FVTPL as set out in Note 13. The fair value of above wealth management products on January 1, 2018 amounted to RMB297,687,000.

## 16. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

At the end of each reporting period, bank balances and cash of the Group comprised of cash and short term bank deposits with an original maturity of three months or less. The short term bank deposits carry interest at market rates which range from 0.3% to 3.38% per annum as at December 31, 2018 (December 31, 2017: 0.05% to 2.19%).

Pledged bank deposits represent deposits pledged to banks to issue letter of credit and secure note payable in connection with the purchase of raw materials and plant and equipment by the Group. The pledged bank deposits will be released upon the repayment of relevant letter of credit and note payables.

## 17. TRADE AND OTHER PAYABLES

| | **31/12/2018** | 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **379,362** | 333,238 |
| Salary and bonus payables | **548,389** | 442,391 |
| Payables for acquisition of plant and equipment | **770,516** | 388,689 |
| Payables for acquisition of a property-current | **234,808** | 16,977 |
| Payable for acquisition of subsidiaries and a joint venture | **5,000** | 177,129 |
| Accrued expenses | **279,244** | 141,209 |
| Other taxes payable | **19,589** | 88,301 |
| Interest payable | **166** | 2,395 |
| Note payable | **19,363** | — |
| Others | **80,142** | 74,104 |
| Considerations received for subscribing restricted A shares of the Company under the 2018 WuXi AppTec A Share Incentive Scheme | **273,974** | — |
| | **2,610,553** | 1,664,433 |

Payment terms with suppliers are mainly on credit within 90 days from the time when the goods are received from the suppliers. The following is an age analysis of trade payables and note payable presented based on invoice date at the end of each reporting period:

| | **31/12/2018** | 31/12/2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year | **393,163** | 328,715 |
| 1 year to 2 years | **3,190** | 2,082 |
| 2 years to 3 years | **883** | 1,879 |
| More than 3 years | **1,489** | 562 |
| | **398,725** | 333,238 |

## 18. DERIVATIVE FINANCIAL INSTRUMENTS

| | **31/12/2018** |
|---|---|
| | ***RMB'000*** |
| **Current assets** | |
| ***Derivatives under hedge accounting*** | |
| Cash flow hedges — Foreign currency forward contracts | **6,335** |
| ***Other derivatives (not under hedge accounting)*** | |
| Foreign currency forward contracts and collars | **30,719** |
| | **37,054** |
| **Current liabilities** | |
| Derivatives under hedge accounting | |
| Cash flow hedges — Foreign currency forward contracts | **106,065** |
| ***Other derivatives (not under hedge accounting)*** | |
| Foreign currency forward contracts and collars | **47,227** |
| | **153,292** |

**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 US$ and RMB, which are designated into cash flow hedges.

| | Average strike rate as at December 31, 2018 | Foreign currency as at December 31, 2018 *US$'000* | Notional value as at December 31, 2018 *RMB'000* | Fair value assets as at December 31, 2018 *RMB'000* |
|---|---|---|---|---|
| **Sell US$** | | | | |
| Less than 3 months | 6.93 | 10,000 | 69,323 | 539 |
| 3 to 6 months | 6.93 | 9,000 | 62,329 | 412 |
| 7 to 12 months | 6.90 | 79,000 | 545,428 | 1,947 |
| **Buy RMB** | | | | |
| Less than 3 months | 6.82 | 26,500 | 180,695 | 1,684 |
| 7 to 12 months | 6.99 | 17,000 | 118,857 | 1,753 |

| | Average strike rate as at December 31, 2018 | Foreign currency as at December 31, 2018 *US$'000* | Notional value as at December 31, 2018 *RMB'000* | Fair value liabilities as at December 31, 2018 *RMB'000* |
|---|---|---|---|---|
| **Sell US$** | | | | |
| Less than 3 months | 6.65 | 111,000 | 738,655 | 24,435 |
| 3 to 6 months | 6.64 | 109,500 | 727,382 | 25,806 |
| 7 to 12 months | 6.68 | 90,500 | 604,163 | 18,170 |
| **Buy RMB** | | | | |
| Less than 3 months | 6.53 | 79,000 | 516,170 | 27,326 |
| 7 to 12 months | 6.50 | 27,000 | 175,379 | 10,327 |

On August 31, 2018, the Group entered into a restructuring agreement with a counter bank to replace several forward contracts with new collar contracts. The hedge accounting has been ceased for those forward contracts. As the hedged future sales are still expected to occur, the accumulated hedging reserve amounted to RMB24,639,000 arising from those replaced forward contracts remains in the hedging reserve until the future cash flows occur. It is anticipated that the sales will take place within next 12 months at which time the amount recognised in other comprehensive income will be reclassified to profit or loss. The new collar contracts do not qualify for hedge accounting as those collar contracts are assessed as net written options. The details of these collar contracts are set out below.

As at December 31, 2018, the aggregate amount of losses after tax under foreign exchange forward contracts recognised in other comprehensive income and accumulated in cash flow hedging reserve relating to the exposure on anticipated future sales transactions denominated in US$ of subsidiaries operating in mainland China is RMB65,515,000. It is anticipated that the sales will take place within next 12 months at which time the amount recognised in other comprehensive income will be reclassified to profit or loss.

As at December 31, 2018, the aggregate amount of losses after tax under foreign exchange forward contracts recognised in other comprehensive income and accumulated in cash flow hedging reserve relating to the exposure on anticipated future purchase of raw materials denominated in RMB of subsidiary operating in Hong Kong is RMB32,962,000.The subsidiary's functional currency is US$. 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 raw materials. It is anticipated that the raw materials will be converted into inventories and sold soon after purchase, in which period the amount recognised in other comprehensive income will be reclassified to profit or loss.

As at December 31, 2018, no hedging ineffectiveness has been recognised in profit or loss.

**Other derivatives (not under hedge accounting)**

The Group also entered into several foreign exchange forward contracts and collar contracts with banks in order to manage the Group's foreign currency exposure in relation to US$ against RMB and did not elect to adopt hedge accounting for those contracts. The major terms of these contracts as at December 31, 2018 presented in the consolidated financial statements are as follows:

| Outstanding forward contracts | Average strike rate as at December 31, 2018 | Foreign currency as at December 31, 2018 *US$'000* | Notional value as at December 31, 2018 *RMB'000* | Fair value assets as at December 31, 2018 *RMB'000* |
|---|---|---|---|---|
| **Sell RMB** | | | | |
| Less than 3 months | 6.46 | 63,000 | 406,890 | 26,500 |
| **Buy RMB** | | | | |
| 3 to 6 months | 6.89 | 21,000 | 144,670 | 113 |
| 7 to 12 months | 6.94 | 77,000 | 534,032 | 3,750 |

| Outstanding forward contracts | Average strike rate as at December 31, 2018 | Foreign currency as at December 31, 2018 *US$'000* | Notional value as at December 31, 2018 *RMB'000* | Fair value liabilities as at December 31, 2018 *RMB'000* |
|---|---|---|---|---|
| **Sell US$** | | | | |
| Less than 3 months | 6.43 | 24,000 | 154,320 | 10,788 |
| **Buy RMB** | | | | |
| Less than 3 months | 6.63 | 45,000 | 298,133 | 11,563 |
| 3 to 6 months | 6.83 | 33,000 | 225,400 | 1,749 |
| 7 to 12 months | 6.89 | 8,000 | 55,104 | 25 |

| Outstanding collar contracts | Average strike rate 1* as at December 31, 2018 | Average strike rate 2* as at December 31, 2018 | Foreign currency as at December 31, 2018 *US$'000* | Notional value 1* as at December 31, 2018 *RMB'000* | Notional value 2* as at December 31, 2018 *RMB'000* | Fair value assets as at December 31, 2018 *RMB'000* |
|---|---|---|---|---|---|---|
| **Sell US$** | | | | | | |
| 7 to 12 months | **6.00** | **6.51** | **60,000** | **360,000** | **390,360** | **356** |

| Outstanding collar contracts | Average strike rate 1* as at December 31, 2018 | Average strike rate 2* as at December 31, 2018 | Foreign currency as at December 31, 2018 *US$'000* | Notional value 1* as at December 31, 2018 *RMB'000* | Notional value 2* as at December 31, 2018 *RMB'000* | Fair value liabilities as at December 31, 2018 *RMB'000* |
|---|---|---|---|---|---|---|
| **Buy RMB** | | | | | | |
| 3 to 6 months | **5.80** | **6.54** | **12,000** | **69,600** | **78,480** | **4,132** |
| 7 to 12 months | **5.80** | **6.54** | **51,000** | **295,800** | **333,540** | **18,970** |

* The Group will sell US$ and buy RMB at strike rate 1 if the spot rate on the settlement date is at or below the strike rate 1 or no transaction if the spot rate on the settlement date is between the strike rate 1 and the strike rate 2 or the Group will sell US$ and buy RMB at strike rate 2 if the spot rate on the settlement date is at or above the strike rate 2.

For the year ended December 31, 2018, gains under forward foreign exchange contracts of RMB26,786,000 and losses under forward foreign exchange contracts and collars of RMB142,030,000 were recognised in other gains and losses.

## 19. SHARE CAPITAL

| | *RMB'000* |
|---|---|
| Ordinary shares of RMB1.00 each | |
| At January 1, 2017, December 31, 2017 and January 1, 2018 | **937,787** |
| Issue of A shares upon listing on Shanghai Stock Exchange | **104,199** |
| Issue of H shares upon listing on Hong Kong Stock Exchange | **116,474** |
| Issue of restricted A shares under the 2018 WuXi AppTec A Share Incentive Scheme | **6,281** |
| At December 31, 2018 | **1,164,741** |

## 20. EVENTS AFTER THE REPORTING PERIOD

The over-allotment option granted pursuant to the listing of the Company's shares in the Hong Kong Stock Exchange has been partially exercised by the joint global coordinators, on behalf of the international underwriters, on January 4, 2019, in respect of an aggregate of 5,321,200 H Shares, which representing approximately 4.57% of the total number of offer shares initially available under the global offering before any exercise of the over-allotment option to cover over-allocations in the international offering. The portion of the over-allotment option which has not been exercised by the joint global coordinators (on behalf of the international underwriters) lapsed on January 5, 2019. The over-allotment shares was issued and allotted by the Company at HK$68.0 per H Share on January 9, 2019 and HKD361,842,000 total proceeds were received by the Company.

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

The Board of Directors of the Company has proposed to seek delisting of Shanghai SynTheAll Pharmaceutical Co., Ltd.* (上海合全藥業股份有限公司) ("**STA**") from the National Equities Exchange and Quotations (全國中小企業股份轉讓系統) ("NEEQ") (the "Proposed Delisting"). The Board believes that the Proposed Delisting would allow STA to focus on long-term development strategy and enhance operational efficiency, and save unnecessary administrative and other listing-related costs and expenses.

As at the reporting date, no material terms concerning the Proposed Delisting have been agreed and the Company has not entered into any definitive agreement in relation to the Proposed Delisting.

# APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

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

Hong Kong, March 22, 2019

*As of the date of this announcement, the Board of the Company comprises Dr. Ge Li, Mr. Edward Hu, Mr. Xiaozhong Liu, Mr. Zhaohui Zhang and Dr. Ning Zhao as executive Directors, Mr. Xiaomeng Tong and Dr. Yibing Wu as non-executive Directors and Dr. Jiangnan Cai, Ms. Yan Liu, Mr. Dai Feng, Dr. Hetong Lou and Mr. Xiaotong Zhang as independent non-executive Directors.*

* *For identification purposes only*