WUXI BIOLOGICS (CAYMAN) INC.
藥明生物技術有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2269)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

FINANCIAL HIGHLIGHTS

		2017	**2016**	**Change**
		RMB million	RMB million	
Revenue		**1,618.8**	989.0	63.7%
Gross Profit		**660.6**	389.1	69.8%
Gross Profit Margin		***40.8%***	*39.3%*	
Net Profit		**252.6**	141.1	79.0%
Net Profit Margin		***15.6%***	*14.3%*	
Adjusted Net Profit		**408.1**	220.5	85.1%
Adjusted Net Profit Margin		***25.2%***	*22.3%*	
		RMB	*RMB*	
Earnings per share	– Basic	**0.24**	0.15	60.0%
	– Diluted	**0.22**	0.15	46.7%
Adjusted Earnings per share	– Basic	**0.38**	0.23	65.2%
	– Diluted	**0.35**	0.23	52.2%

The Board does not recommend any payment of final dividend for the year ended December 31, 2017.

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with the IFRS, the Company has provided adjusted net profit, adjusted net profit margin, adjusted EBITDA, adjusted EBITDA margin and adjusted basic and diluted earnings per share (excluding the share-based compensation expenses, Listing expenses and a foreign exchange loss due to translation loss from the IPO proceeds) as additional financial measures, which are not required by, or presented in accordance with, the IFRS. The Company believes that the adjusted financial measures are useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of these non-IFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under the IFRS, or as being comparable to results reported or forecasted by other companies.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Reporting Period, the Group continued to adopt its "follow-the-molecule" strategy and achieved a strong revenue growth. As at December 31, 2017, the Group had a total of 161 integrated projects, which required the Group to provide services across different stages of the biologics development process, representing an increase of 56.3% as compared to 103 projects as at December 31, 2016. From pre-clinical development stage to late-phase (phase III clinical trials), the Group has continued to gain more market share globally and capture blooming market growth opportunity.

Revenue of the Group in 2017 achieved historical high level, which was RMB1,618.8 million, representing an increase of 63.7% as compared to the same period of 2016. The Group realized a phenomenal growth in total backlog, which comprised of both service backlog and milestone payments. The service backlog enjoyed a strong increase of 97.5% from approximately US$241.0 million as at December 31, 2016 to approximately US$476.0 million as at December 31, 2017, and the upcoming potential milestone fees surged from approximately US$24.0 million as at December 31, 2016 to approximately US$1,002.0 million as at December 31, 2017. The service backlog represents the amount which the Group has contracted but yet to peform. The upcoming potential milestone fees represent the total amount for upcoming milestone fees, which the Group has contracted but has not yet performed nor received. At the same time, the Group achieved great success in progressing projects from pre-IND stage to post-IND stage, 90 projects were in pre-clinical development stage and 62 projects were in early-phase (phase I and II), out of which 29 projects succeeded in progressing from pre-clinical development stage to early-phase stage in 2017. It demonstrated that the Group's global open-access biologics technology platform to offer end-to-end solutions for biologics discovery, development and manufacturing has been widely accepted by its customers.

The following table sets forth the status of the on-going integrated projects[1] of the Group as at December 31, 2017:

Biologics development process stage	**Number of on-going integrated projects[1]**	**Typical duration**	**Typical revenue**
Pre-IND			
– Drug discovery	—	2 years	US$1.5-2.5 mm (Milestone fee ranges from US$10-100 mm Royalty fee ranges from 3 to 5%)[2]
– Pre-clinical development	90	2 years	US$4-6 mm
Post-IND			
– Early-phase (phases I & II) clinical development	62	3 years	US$4-6 mm
– Late-phase (phase III) clinical development	8	3-5 years	US$20-50 mm
– Commercial manufacturing	1	Annually	US$50-100 mm[3]
Total	161		

Notes:

(1) Integrated projects are projects that require the Group to provide services across different stages of the biologics development process.

(2) Milestone fee can be paid at different Research & Development ("**R&D**") stages, royalty fee will be charged since the new drug launches in the market for 5-10 years or until patent expires.

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

In 2017, the Group continued to diversify its customer base, which included leading global pharmaceutical companies as well as virtual, start-up companies and small-to-medium sized biotechnology companies. As at December 31, 2017, the Group had worked with 13 out of the 20 largest pharmaceutical companies in the world as measured by their respective pharmaceutical sales in 2017. The Group provided services to 202 customers in the year ended December 31, 2017, compared with 163 customers in the year ended December 31, 2016. The average revenue per customer among the top ten customers increased from RMB65.9 million for the year ended December 31, 2016 to RMB88.4 million for the year ended December 31, 2017 manifesting success of the Group's "follow-the-molecule" strategy. The Group believes that the cooperation with different customers could allow it to enhance its value chain and capture the growing market opportunity in the future.

The Group's Facilities

The Group currently has three operation sites located in Wuxi, Shanghai and Suzhou, respectively, which are all conveniently located within driving distance from each other.

Wuxi Site

The Wuxi site houses part of the Group's clinical manufacturing facilities (late-phase) and the commercial manufacturing facilities, providing services such as assay, formulation and process development, assay and process validation, protein, monoclonal antibodies ("**mAbs**") and cGMP drug substances manufacturing, lot release testing, stability studies, drug product formulation, fill and finish, and regulatory support services.

On August 3, 2017, the U.S. FDA completed the pre-license inspection ("**PLI**") for production of Ibalizumab with no critical observations in the Wuxi site. This validated both the Group's global quality standard and pioneer use of disposable bioreactors for commercial manufacturing. On March 6, 2018, the U.S. FDA approved Ibalizumab, which is the first project of the Group for commercial production. This demonstrated the Group has lived up to its strategy, "follow-the-molecule", which marked progress from R&D stages to commercial production stage and launched a grand opening of a new business sector in its development.

In December 2017, the Group announced its cGMP biologics manufacturing facility in Wuxi site entered into commercial operations with 30,000L disposable bioreactor capacity. This marked a significant milestone for the Group as well as the biologics industry in China.

Shanghai Site

The Shanghai site houses the drug discovery and pre-clinical development facilities and part of cGMP clinical manufacturing facilities, providing services such as novel mAb discovery, bispecific antibody engineering, antibody drug conjugates ("**ADC**") discovery, cell line engineering and development, assay, formulation and process development, assay and process validation, product analytical characterization, and cGMP cell banking.

The Group is increasing the clinical manufacturing capacity by adding mammalian drug substances ("**DS**") clinical manufacturing facilities with a planned capacity of 7,000L at the Shanghai site. The new facilities, equipped with fed-batch lines and perfusion lines which can help the Company double its existing cGMP capacity for clinical trials, are expected to commence operation in mid 2018.

The Shanghai site keeps on improving the service capability to satisfy most of the requirements from the Group's customers. The high-throughput perfusion platform has been established. Also, the Group has succeeded in high-speed protein production, which is used in both protein production and integrated projects. It could speed up from transfection to delivery of grams level of protein. The Group developed 218 cell lines for therapeutic protein purpose, it is one of the largest cell culture development laboratories globally.

Suzhou Site

The Suzhou site has completed a series of operation optimization during the Reporting Period, which has further enhanced our operation efficiency and shortened the delivery cycles of projects. The technology team has completed construction of a series of internally recognized biosafety testing capabilities, and the cell line characterization laboratory under expansion has been put into operation, hence being able to provide customers with more comprehensive, efficient and excellent services.

Research and Development

During the Reporting Period, the Group had continuously focused on (i) developing next generation technology to continue to enhance integrated services, in particular next generation mAb discovery platform, next generation cell line platform, novel ADC linker and payload and continuous biologics manufacturing technologies; and (ii) improving the quality and efficiency of the services and costs control. Through research and development activities, the Group generates proprietary technologies, which enable the Group to receive milestone and royalty fees from customers who require to utilize such technologies.

During the Reporting Period, the research and development expenditure was approximately RMB74.5 million, which accounted for 4.6% of the revenue. The Group will continue to increase its investment in research and development which will reduce clinical and commercial manufacturing costs as well as the cost and the time required for building a new manufacturing facility.

Sales and Marketing

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

The multichannel marketing approach involves both technical and sales presence at various global industry trade conferences such as the annual "BIO" conference which brings together 16,000 executives and other key opinion leaders from biopharma/pharma companies worldwide or more regional venues like BioEurope and CPhI Japan. The Group also frequently attends or presents its various platform technologies at technology-centric conferences dedicated to biologics development and manufacturing including the Bioprocess International East and West Conferences, Biologics Manufacturing Asia and PEGS (Protein Engineering Summit).

During the Reporting Period, the Group expanded the sales forces in both the United States and the European Union. The Group achieved outstanding performance and experienced a robust growth across all geographic markets in 2017. According to the Company's unique value proposition and track record of success positions, it will capture more exciting growth opportunities across all regions.

Quality Assurance

The Group is committed to ensuring and maintaining the highest standard of regulatory compliance while providing high quality services and products to the customers. The Group has 134 employees around the globe focusing on quality and regulatory compliance. The quality assurance department ("**QA**") provides quality leadership and supervises the quality systems programs. During the U.S. FDA's PLI in August 2017, the inspectors covered both drug substance and drug product facilities with no critical observations, which validated that the Group has established a global quality standard already. The Group believes its operations are in compliance with the regulations.

Capacity Expansion Plan

Based on the current status of ongoing integrated projects, it is estimated that the current commercial manufacturing capacity may not be able to satisfy those projects' demand in the near future as there were 8 projects in late-phase (phase III) by the end of 2017 as compared to only 3 projects in early 2017.

The Group's short-term capacity expansion plan includes the expansion of a brand new ADC facility and another three new cGMP manufacturing facilities in Wuxi, excluding Shanghai's 7,000L clinical manufacturing capacity:

Workshop No.	Designed Capacity	Location
MFG4	10,000L fed-batch/CFB	Wuxi
MFG5	60,000L fed-batch	Wuxi
DP2	Liquid vial with lyophilization	Wuxi

In addition, the Group is considering new expansion plans, including construction or acquisition of new plant facilities in the PRC and the other countries as well as expansion of the existing laboratory facilities of the Group.

All of these will enable the Company to continue to implement the "follow-the-molecule" strategy and maintain the fast-track growth comparing to its peer leaders. Accordingly, the Group will be able to establish comprehensive capabilities to realize the full drug development and manufacturing cycles. The capacity expansion plan will be reviewed regularly to satisfy more demands from the fast growing market of biologics.

Investors Relations

The Company believes that the adherence to the highest standards of corporate governance and great transparency can create more value for the Shareholders and ensure sustainable long-term development. The Company recognizes the importance of effective communication with the Shareholders to enhance investor relations and help them fully understand the latest development of the Company. To ensure the adequate and transparent communication, since listed on the Stock Exchange in June 2017, the Company has actively engaged with both domestic and overseas institutional investors, analysts and potential investors by various channels.

During the Reporting Period, the Company has conducted numerous meetings with investors, telephone conferences, investor conferences and roadshows organized by financial institutions in the United States and Asia, including "Morgan Stanley 16th Annual Asia Pacific Summit", "BAML 2017 China Conference", "Goldman Sachs APAC Healthcare Forum 2017", "Credit Suisse China Investment Conference", "Citi China Investor Conference 2017", "Deutsche Bank Healthcare Corporate Day", "Jefferies 7th Annual Greater China Summit". In addition, the Company has also arranged facility site tours in both Shanghai and Wuxi with hundreds of investors, while publicizing major business developments through press releases, announcements and the Group's website in accordance with relevant rules and regulations. The Company's transparency and diligence in investor relations has been recognized by the capital market as it received "Hong Kong Equity Issue" from IFR Asia, "Best Block Trade" from "The Asset Triple A Awards", and "Best Investor Relations Award" from the "China Financial Market Listed Companies Awards 2017" organized by financial magazine "Chinese Financial Market".

The Company's outstanding performance in the Hong Kong capital market also enabled it to be included in the Hang Seng Composite Midcap Index and Hang Seng Healthcare Index in August 2017, which only took two months since the Listing in June 2017, and to join in both the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect in September 2017.

Going forward, the Company will continue to adhere to world-class standard of corporate governance and enhancing transparency, for the purpose of maximizing the interest of the Shareholders and achieving sustainable development.

Future and Outlook

It is an exciting time for the biologics industry. The success of some biologic drugs' blockbusters reflects their ability to treat major chronic diseases, notably certain forms of cancer and autoimmune diseases, better than existing alternatives and with fewer side effects. This, combined with an aging population that will be more susceptible to such diseases, is driving the growth of the global biological drugs market. Meanwhile, biologics bring into picture higher range of specificity in treating a disease condition as the biologic entities like mAbs and recombinant proteins target specific areas in the molecular mechanism of disease action. Due to the increasing demand for biologics drugs and increased regulatory approvals for these drugs, there is huge demand for biologics manufacture and testing at various levels of clinical studies as well as commercial supply. So the biologics outsourcing global market is expected to grow at double digit CAGR speed to reach US$70.3 billion by 2025.

Given that more and more expensive research and development costs and higher risks for clinical trials, large biopharma companies are coming up with strategies to cut down their operational costs and concentrate more on their core competencies by outsourcing this piece of work to some open-access biologics technology platform companies offering end-to-end solutions. These open-access biologics technology platform companies bridge the gap between demand and supply and ensure that drug discovery process gets much faster and more convenient, thus bringing lifesaving drugs to the market to reach the needy patients. There will be huge opportunities for biologics outsourcing global market in the future.

In 2017, CFDA continued to steadily implement various new policies according to established guidelines and pace of reforms. The Opinions on Deepening Reform of Appraisal, Review and Approval System to Encourage Innovation of Drugs and Medical Equipment ("**Article 36**") (《關於深化評審批制度改革鼓勵藥品醫療器械創新的意見 ("36條")》) announced in October, in particular, has introduced comprehensive reforms which is a milestone in China's history of pharmaceutical development. Important reforms, such as the Clinical Trials Management, the Patent Linkage System, the Innovative Drugs Medical Insurance Access and the Implementation of MAH, will have great influence on the industry at home and aboard and become significantly favorable factors for the development of China's pharmaceutical market. The reforms have put forward higher requirements for innovation and research and development, while acceptance of foreign information and "introduction from overseas" are more common while market competition will become even more intense. However, these have also enabled China's biotechnology companies to shift to innovation with global value. China's biotech has ushered in exciting opportunities while such reforms will also be favorable to one-stop platform companies like the Group.

In the past few years, both large pharmaceutical companies and small startups have launched transformative products in several therapeutic areas. After the cancer immunotherapy method in the treatment of late-phase cancers and the breakthrough success in other biologics drugs in the treatment of ultra-rare diseases, some new drugs have not only reached the level of curing, but even healing, the diseases. Therefore, it is expected that in the next few years, the biopharmaceutical industry will keep maintaining a fast-paced development. With the growth in global population, both increase in demands for treatments and health, as a result, will bring about new expectations of the people for the development of the innovative drug industry.

The future is at the door and an ecosystem full of vitality has taken shape in China's biotechnology and pharmaceutical industry, while the Group's open-access research and development services enabled platform is playing an increasingly important role in this evolving ecosystem. The Company believes that the innovative spring will surely usher in fruitful achievements, and the innovative pharmaceutical products from China will definitely leave behind the marks of China in the world.

As a fully integrated platform company, the Group offers support for all steps in biopharmaceutical development programs and works with customers through a variety of relationships, from a purely fee-for-service basis to risk and benefit-sharing co-developments and strategic partnership. Investments in laboratory and production facilities, state-of-the-art single-use production, analytical equipments and highly qualified and talented bioprocess experts are backed by a long and successful history, which has demonstrated its commercialization capabilities and industrial expertise. The Group will capture more development opportunities to become a dominant biologics company and facilitate the future growth of its business and profitability.

Financial Review

Revenue

The revenue of the Group increased by 63.7% from approximately RMB989.0 million for the year ended December 31, 2016 to approximately RMB1,618.8 million for the year ended December 31, 2017. The growth of sales was mainly attributed to (i) a steady increase in the number of customers from 163 for 2016 to 202 for 2017; and strong growth in the number of integrated projects; (ii) a rapid growth of backlog reflected into the Group's revenue growth; (iii) more projects of pre-IND stage progressing into next stages such as early-phase (phase I and II) and late-phase (phase III) successfully by implementing the "follow-the molecule" strategy, which proved the customer and project stickness in its business; and (iv) marketing efforts made by the Group, resulting in robust market performance in the United States, China and Europe.

The revenue of the Group recorded a strong growth during the Reporting Period. The Group derived a vast majority of its revenue from providing services to customers operating in the United States and China. The table below shows the revenue breakdown by their respective countries/regions of operation:

	Year ended December 31			
	2017		2016	
	RMB million	**%**	RMB million	%
Revenue				
– the United States	**900.6**	**55.6%**	505.0	51.1%
– PRC	**552.0**	**34.1%**	385.3	39.0%
– Europe	**65.3**	**4.0%**	21.1	2.1%
– Rest of the world *(Note)*	**100.9**	**6.3%**	77.6	7.8%
Total	**1,618.8**	**100%**	989.0	100%

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

Regarding the revenue of the Group generated from different stages, since the Group has adopted "follow-the-molecule" strategy, most of its projects are currently under the pre-IND stage and therefore, the pre-IND service charges of the Group accounted for more than half of the revenue of the Group. For the year ended December 31, 2017, the pre-IND revenue of the Group increased by 54.0% to approximately RMB1,049.2 million, accounting for 64.8% of the revenue of the Group. On the other hand, the post-IND service charges of the Group showed a rapid increase of 85.1% to approximately RMB569.6 million, accounting for 35.2% of the total revenue of the Group.

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

	Year ended December 31			
	2017		2016	
	RMB million	**%**	RMB million	%
Pre-IND services	**1,049.2**	**64.8%**	681.3	68.9%
Post-IND services	**569.6**	**35.2%**	307.7	31.1%
Total	**1,618.8**	**100%**	989.0	100.0%

Top 5 customers' revenue increased by 20.8% from approximately RMB535.3 million for the year ended December 31, 2016 to approximately RMB646.6 million for the year ended December 31, 2017, accounting for 39.9% of total revenue for the year ended December 31, 2017, as compared to 54.1% for the year ended December 31, 2016.

Top 10 customers' revenue increased by 34.1% from approximately RMB659.4 million for the year ended December 31, 2016 to approximately RMB884.4 million for the year ended December 31, 2017, accounting for 54.6% of total revenue for the year ended December 31, 2017, as compared to 66.7% for the year ended December 31, 2016.

Cost of Services

The cost of services of the Group increased by 59.7% from approximately RMB599.9 million for the year ended December 31, 2016 to approximately RMB958.3 million for the year ended December 31, 2017. The increase of the cost of services was in line with the growth of the business.

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

Gross Profit and Gross Profit Margin

Gross profit increased by 69.8% from approximately RMB389.1 million for the year ended December 31, 2016 to approximately RMB660.6 million for the year ended December 31, 2017. The increase in the gross profit was due to the Group's strong growth in the number of integrated projects as a result of its rapid business growth. The Group's gross profit margin increased from approximately 39.3% for the year ended December 31, 2016 to approximately 40.8% for the year ended December 31, 2017. The increase in the gross profit margin was primarily attributed to (i) the increase in the milestone fee revenue, which allows the Group to enjoy a higher profit margin on top of the service fees; (ii) better capacity utilization; (iii) more efficient business operation; partially offset by (iv) ramp-up of manufacturing new facilities.

Other Income

The Group's other income increased by 362.7% from approximately RMB7.5 million for the year ended December 31, 2016 to approximately RMB34.7 million for the year ended December 31, 2017, primarily due to (i) an increase in government grants and subsidies; and (ii) an increase in interest income arisen from the significant increase in bank balances and time deposits due to the receipt of IPO proceeds.

Other Gains and Losses

The Group recorded net other losses of approximately RMB103.6 million for the year ended December 31, 2017, compared with net other losses of approximately RMB1.5 million for the year ended December 31, 2016, primarily due to (i) an increase in net foreign exchange losses; and (ii) an increase in provision of allowance for doubtful debts; partially offset by a net gain on changes in fair value of financial assets designated as at fair value through profit or loss ("**FVTPL**").

The Group recorded an unrealized net foreign exchange loss of approximately RMB91.4 million and a realized net foreign exchange loss of approximately RMB7.6 million for the year ended December 31, 2017, mainly as a result of the appreciation of the Renminbi against the U.S. dollar. Out of the RMB91.4 million unrealized foreign exchange loss, the loss of RMB74.3 million was due to the translation loss in relation to the Company's unused IPO proceeds. The Group's net provision of allowance for doubtful debts increased from approximately RMB5.7 million for the year ended December 31, 2016 to approximately RMB13.7 million for the year ended December 31, 2017.

Selling and Marketing Expenses

Selling and marketing expenses increased by 80.4% from approximately RMB15.3 million, or 1.5% of revenue, for the year ended December 31, 2016 to approximately RMB27.6 million, or 1.7% of revenue, for the year ended December 31, 2017, primarily because (i) the Group enhanced its multi-channel marketing approach to build the awareness of its brand and its open-access technology platforms by more frequently attending technology-centric conferences; (ii) more promotions through advertising and maintenance of its premier positioning with industry leading technical content media; and (iii) strategically establishing its technical presence through webinars and educational videos, etc.

Administrative Expenses

The Group's administrative expenses increased by 41.6% from approximately RMB94.6 million for the year ended December 31, 2016 to approximately RMB134.0 million for the year ended December 31, 2017, primarily due to (i) an increase in its corporate governance related costs as the Company's shares were listed on the Stock Exchanges in the second half of 2017; such as cost of legal services, compliance advisory and audit services; and (ii) an increase in its office administration cost, administrative staff cost, management's share-based compensation cost and insurance fee, etc., which are in line with its business growth and headcount growth. The Group anticipates that the administrative expenses will grow in line with corporate governance activities, business growth and headcount growth for the coming year.

Research and Development Expenses

The Group's research and development expenses increased by approximately 39.8% from approximately RMB53.3 million for the year ended December 31, 2016 to approximately RMB74.5 million for the year ended December 31, 2017, primarily due to (i) an increase in its research and development activities in connection with the development of next generation technologies; and (ii) the Group's continuous efforts made to improve its service efficiency.

Other Expenses

The Group's other expenses decreased by approximately 49.5% from approximately RMB31.9 million for the year ended December 31, 2016 to approximately RMB16.1 million for the year ended December 31, 2017, as a result that no IPO expenses were incurred in the second half of 2017 after the Company was listed on the Stock Exchange on June 13, 2017.

Finance Cost

The Group's finance cost increased by approximately 47.5% from approximately RMB24.2 million for the year ended December 31, 2016 to approximately RMB35.7 million for the year ended December 31, 2017, due to an increase in interest expenses. The Group incurred new bank borrowings in the second quarter of 2017 for various usages, and repaid all the bank borrowings by the end of September 2017. Please refer to the section headed "Management Discussion and Analysis — Indebtedness" for more information.

Income Tax Expense

The Group's income tax expense increased by 46.8% from approximately RMB34.8 million for the year ended December 31, 2016 to approximately RMB51.1 million for the year ended December 31, 2017, primarily due to the growth of the Group's business. The effective income tax rate decreased from approximately 19.8% for the year ended December 31, 2016 to approximately 16.8% for the year ended December 31, 2017, primarily because of a slower growth trend in non-tax deductible expenses, contributing to more favorable profit before tax for the year ended December 31, 2017, as compared to the growth rate in income tax expense. The non-tax deductible expenses include (i) the Group's IPO cost, which decreased by 49.5% for the year ended December 31, 2017, as compared to that of the year ended December 31, 2016 (please refer to the section headed "Other Expenses" for more information); and (ii) the Group's share-based compensation cost, which was recorded at a lower growth rate of 36.8% as compared to that of income tax expense.

Both WuXi Biopharma and Shanghai Biologics have been accredited as "High and New Technology Enterprise" by relevant government authorities. WuXi Biopharma is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2016. Shanghai Biologics is entitled to a one-year's exemption from Enterprise Income Tax ("**EIT**") followed by three years of 50% tax reduction with effect from the beginning of 2016 in accordance with Guo Fa No. 40. Accordingly, the applicable EIT rate of Shanghai Biologics for the year ended December 31, 2017 is 12.5% (for the year ended December 31, 2016: Nil). Shanghai Biologics anticipates to continue enjoying the preferential income tax rate in the years of 2018 and 2019.

Net Profit and Net Profit Margin

As a result of the foregoing, the net profit of the Group increased by 79.0% from approximately RMB141.1 million for the year ended December 31, 2016 to approximately RMB252.6 million for the year ended December 31, 2017. The net profit margin of the Group for the year ended December 31, 2017 was 15.6%, as compared to 14.3% for the year ended December 31, 2016. The increase of net profit margin was primarily due to (i) a higher gross profit margin driven by an increase in the milestone fee revenue, which allowed the Group to enjoy a higher profit margin on top of the service fees; better capacity utilization and more efficient business operation; (ii) sound spending control of administrative expenses lowered its growth rate as compared to that of the revenue; (iii) an increase in government subsidy, interest income from IPO proceeds, and gains from funds investment (recorded in other gains or losses); (iv) a decrease in Listing expense; partially offset by (v) a net foreign exchange loss due to the appreciation of the Renminbi against the U.S. dollar.

The adjusted net profit of the Group increased by 85.1% from RMB220.5 million for the year ended December 31, 2016 to approximately RMB408.1 million for the year ended December 31, 2017. Adjusted net profit margin increased from 22.3% for the year ended December 31, 2016 to 25.2% for the year ended December 31, 2017. The increase of adjusted net profit margin was primarily due to (i) a higher gross profit margin as discussed above; (ii) sound spending control of administrative expenses lowered its growth rate as compared to that of the revenue; and (iii) an increase in government subsidy, interest income from IPO proceeds, and gains from funds investment (recorded in other gains or losses).

EBITDA

The EBITDA of the Group increased by 54.8% from approximately RMB292.8 million for the year ended December 31, 2016 to approximately RMB453.4 million for the year ended December 31, 2017. The EBITDA margin of the Group for the year ended December 31, 2017 was 28.0%, compared to 29.6% for the year ended December 31, 2016. The lower EBITDA margin of the Group for the year ended December 31, 2017 was primarily due to (i) the impact of foreign exchange losses, partially offset by (ii) a higher gross profit margin and (iii) lower growth rate of administrative expenses.

The adjusted EBITDA of the Group increased by 63.6% from approximately RMB372.2million for the year ended December 31, 2016 to approximately RMB608.9 million for the year ended December 31, 2017. The adjusted EBITDA margin of the Group for the year ended December 31, 2017 was 37.6%, which has remained the same as that for the year ended December 31, 2016.

Basic and Diluted Earnings Per Share

The basic earnings per share of the Group increased by 60.0% from RMB0.15 for the year ended December 31, 2016 to RMB0.24 for the year ended December 31, 2017. The diluted earnings per share of the Group increased by 46.7% from RMB0.15 for the year ended December 31, 2016 to RMB0.22 for the year ended December 31, 2017. Please refer to note 11 to the consolidated financial statements. The increase in the basic and diluted earnings per share was primarily due to the increase in the net profit resulted from the strong business growth of the Group.

Adjusted basic earnings per share for the year ended December 31, 2017 amounted to RMB0.38, representing an increase of 65.2% when compared with that of RMB0.23 for the year ended December 31, 2016. Adjusted diluted earnings per share for the year ended December 31, 2017 amounted to RMB0.35, representing an increase of 52.2% when compared with that of RMB0.23 for the year ended December 31, 2016. The increase in both the adjusted basic earnings per share and the adjusted diluted earnings per share was primarily due to the increase in the adjusted net profit resulted from the strong business growth of the Group as discussed in above section headed "Net Profit and Net Profit Margin".

Plant and equipment

The plant and equipment of the Group increased by 54.4% from approximately RMB1,152.8 million as at December 31, 2016 to approximately RMB1,780.2 million as at December 31, 2017, primarily as a result of on-going construction of manufacturing facilities.

Inventories

The inventories of the Group increased by 71.5% from approximately RMB79.0 million as at December 31, 2016 to approximately RMB135.5 million as at December 31, 2017, primarily as a result of the growth of the Group's business. Along with the Group's increased number of on-going integrated projects from 103 as of December 31, 2016 to 161 as of December 31, 2017, the Group is required to reserve a higher inventory level for safe service provision.

Service Work in Progress

The service work in progress of the Group increased by 65.0% from approximately RMB122.7 million as at December 31, 2016 to approximately RMB202.4 million as at December 31, 2017, primarily as a result of the growth of the Group's business. Following its "follow-the-molecule" strategy, the Group had achieved more projects progressing from pre-IND stage into next stages such as early-phase (phase I and II) and late-phase (phase III), which have carried higher records of service work in progress.

Trade and Other Receivables

The trade and other receivables of the Group increased by 46.5% from approximately RMB419.4 million as at December 31, 2016 to approximately RMB614.3 million as at December 31, 2017, primarily due to a net increase in other receivables from approximately RMB125.5 million as at December 31, 2016 to approximately RMB300.0 million as at December 31, 2017, including a major increase in value added tax recoverable and receivables for purchase of raw materials on behalf of customers. The trade receivables had a slight increase of 6.9% from approximately RMB293.9 million as at December 31, 2016 to approximately RMB314.3 million as at December 31, 2017, which has proven the improvement of the Group's accounts receivable management.

Financial assets designated as at FVTPL

The Group held financial assets at FVTPL for RMB641.3 million as at December 31, 2017, as compared to nil as at December 31, 2016.

Following the receipt of IPO proceeds in June 2017, coupled with the smooth settlement of trade receivables during the Reporting Period, the Group has cumulated a high cash balance in the U.S. dollar pending gradual spending through next couple of years. Aiming at achieving returns in excess of the U.S. dollar current/time deposit while keeping a low risk of collectability, the Group entered into several contracts of funds (the "**Fund**") with a financial institution. The Fund invests primarily in debt securities with the objective of achieving returns in excess of those achieved by holding a portfolio of the U.S. money market instruments such as certificate of deposits, commercial papers with underlying assets denominated in the U.S. dollar over time. Besides, it retains a focus on preservation of principal and liquidity. All securities purchased by the Fund must be on an approved for purchase list created by the funds credit analyst team, which covers credits across the maturity spectrum to ensure consistency of views across the Fund's strategies. The investment in the Fund could be withdrawn within 3 business days. The Group considers its investment in the Fund is of low risk of collectability. The Group also entered into a contract of financial product with a bank for a period of six months, of which the contracted return rate is 2.45% per annum. Such financial assets have been designated as at financial assets at FVTPL on initial recognition.

Trade and Other Payables

The trade and other payables of the Group increased by 40.6% from approximately RMB558.1 million as at December 31, 2016 to approximately RMB784.7 million as at December 31, 2017, primarily due to increases in trade payables to third parties, advances from third-party customers, and payables for purchase of plant and equipment.

Liquidity and Capital Resources

The Group's bank balances and cash, time deposits and financial assets amounted to approximately RMB2,060.0 million in total as at December 31, 2017, as compared to approximately RMB169.1 million as at December 31, 2016.

Significant Investments, Material Acquisitions and Disposals

As at December 31, 2017, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Indebtedness

Borrowings

There was no bank borrowing drawn by the Group as at December 31, 2017, compared to approximately RMB905.0 million as at December 31, 2016. During the first half year of 2017, the Group incurred new bank borrowings to (i) repay the loans borrowed from related parties, which were primarily used to fund the working capital needs of the Group; and (ii) fund the on-going construction of the new facilities at the Wuxi site. All bank borrowings were subsequently repaid by the end of September 2017.

Contingent Liabilities and Guarantees

As at December 31, 2017, the Group did not have any material contingent liabilities or guarantees.

Currency Risk

The Group principally operates in the PRC with a major portion of the procurements being settled in RMB, which is the functional currency of the Group's entities. The Group also has certain subsidiaries in foreign operations. Foreign exchange risk arises from the recognised revenue and expenses, assets and liabilities and net investments in foreign operations. The Group's entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the U.S. dollars.

During the Reporting Period, a majority of the Group's revenue was generated from sales denominated in U.S. dollar, while most of the cost of services and operation costs and expenses of the Group were settled in RMB. As a result, the Group's margins are pressured when the Renminbi appreciates against the U.S. dollar. As at December 31, 2017, the Group also records monetary assets and liabilities denominated in U.S. dollar, including the unused portion of IPO proceeds that the Group received in June 2017. Such net assets in U.S. dollar are exposed to foreign exchange risk through year-end revaluation, when the Renminbi appreciates against the U.S. dollar.

The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. Since January 2018, the Group has engaged into a series of forward contracts to hedge its cash flow. (The Group did not record any derivative financial instrument on book as at December 31, 2017.)

Charges of Assets

As at December 31, 2017, the Group had pledged bank deposits with an amount of approximately RMB21.2 million, which decreased by approximately 36.3% from approximately RMB33.3 million as at December 31, 2016. The balance mainly represented deposits placed in banks as collaterals for the banks to issue letters of credit for the Group's imported raw materials and equipment.

Contractual Obligations

As at December 31, 2017, the Group had contractual obligations in an amount of RMB448.3 million, which decreased by approximately 39.0% from approximately RMB734.9 million as at December 31, 2016, primarily due to (i) an approximately RMB215.5 million decrease in capital commitments; (ii) an approximately RMB30.1 million decrease in operating lease commitments; and (iii) an approximately RMB41.0 million decrease in obligation under a financial lease.

Gearing Ratio

Gearing ratio is calculated using interest-bearing borrowings less bank balances and cash, divided by total equity and multiplied by 100%. As at December 31, 2017, the Group was in a net cash position and thus, gearing ratio is not applicable (as at December 31, 2016: 272.1%).

Employees and Remuneration Policies

As at December 31 2017, the Group had a total of 2,543 employees, of whom 1,182 were located in Shanghai, 1,226 were located in Wuxi, Jiangsu Province, 116 were located in Suzhou, Jiangsu Province, and 19 were located in the United States and the United Kingdom. The staff costs, including Directors' emoluments but excluding any contributions to retirement benefit scheme contributions and share-based payment expenses, were approximately RMB394.8 million for the year ended December 31, 2017, as compared to approximately RMB244.1 million for the year ended December 31, 2016. The remuneration package of employees generally includes salary and bonus elements. In general, the Group determines the remuneration package based on the qualifications, position and performance of its employees. The Group also makes contributions to social insurance fund, including basic pension insurance, medical insurance, unemployment insurance, childbirth insurance, work-related injury insurance funds, and housing reserve fund as applicable to the countries where the Group operates.

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

In addition, the Group has an effective training system for its employees, including orientation and continuous on-the-job training, to accelerate the learning progress and improve the knowledge and skill levels of its workforce. Its orientation process covers subjects, such as corporate culture and policies, work ethics, introduction to the biologics development process, quality management, and occupational safety, and its periodic on-the-job training covers streamlined technical know-hows of its integrated services, environmental, health and safety management systems and mandatory training required by applicable laws and regulations.

The remuneration of the Directors and senior management is reviewed by the Remuneration Committee and approved by the Board. The relevant experiences, duties and responsibilities, time commitment, working performance and the prevailing market conditions are taken into consideration in determining the emoluments of the Directors and senior management.

Final Dividend

The Board does not recommend any payment of final dividend for the year ended December 31, 2017.

OTHER INFORMATION

AGM and Closure of Register of Members

The AGM of the Company will be held on Tuesday, June 12, 2018. A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the qualification as members of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, June 7, 2018 to Tuesday, June 12, 2018, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, June 6, 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The CG Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the period from January 1, 2017 to June 12, 2017.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code since the Listing Date up to the date of this announcement save that the Nomination Committee had not held any meeting during the Reporting Period as the Listing only commenced on June 13, 2017. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

As the Shares were listed on the Stock Exchange on June 13, 2017, the Model Code and Written Guidelines were not applicable to the Company during the period from January 1, 2017 to June 12, 2017.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines throughout the period from the Listing Date to December 31, 2017. No incident of non-compliance of the Guidelines for Securities Transactions by Employees who are likely to be in possession of inside information of the Company was noted by the Company either.

USE OF PROCEEDS FROM LISTING

The total proceeds from the issue of new Shares by the Company in its Listing (after deducting the underwriting fees and related Listing expenses) amounted to approximately RMB3,437.8 million[1], and the balance of unutilized net proceeds of approximately RMB1,858.0 million as at December 31, 2017.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2017:

Use of proceeds	**Planned applications (RMB million)**	**Percentage of total net proceeds (%)**	**Actual usage up to December 31, 2017 (RMB million)**	**Unutilized net proceeds as at December 31, 2017 (RMB million)**
To repay all of the Group's outstanding bank facilities	1,238.6[2]	37%	1,238.6	—
To construct new facilities	1,739.7	52%	238.9	1,500.8
For the Group's working capital and other general corporate purposes	275.9	8%	32.4	243.5
To improve and maintain the Group's existing facilities	113.7[2]	3%	—	113.7
Total	3,367.9[1]	100%	1,509.9	1,858.0

Notes:

(1) It included approximately RMB69.9 million which forms part of the Listing expenses payable settled after the receipt of IPO proceeds. By excluding this portion, the net proceeds planned for applications amount to approximately RMB3,367.9 million.

(2) Net IPO proceeds were received in Hong Kong dollar and translated to Renminbi for application planning. The plan was adjusted slightly due to the fluctuation of the foreign exchange rates since the Listing.

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

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

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive Directors, namely, Mr. Teh-Ming Walter Kwauk, Mr. William Robert Keller, and a non-executive Director, Mr. Edward Hu. The chairman of the Audit Committee is Mr. Teh-Ming Walter Kwauk.

The Audit Committee has reviewed the annual results of the Group for the year ended December 31, 2017 and has recommended for the Board's approval thereof.

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the consolidated financial statements for the year ended December 31, 2017.

EVENTS AFTER THE REPORTING PERIOD

The Group has the following events taken place subsequent to December 31, 2017:

- On January 15, 2018, the Group has adopted the restricted share award scheme and appointed Computershare Hong Kong Trustees Limited as the trustee for the administration of the scheme, where new Shares will be issued and allotted to the trustee under the general mandate granted by the Shareholders from time to time and be held on trust for the grantees until the end of each vesting period. For more details, please refer to the Company's announcements dated January 15, 2018 and January 18, 2018.
- Since January 2018, the Group has entered into a series of foreign currencies forward contracts to mitigate the currency risk after obtaining the Board's approval.
- On January 15, 2018, Dr. Chiang Syin, a former U.S. FDA officer, was appointed as the Chief Quality Officer of the Company, his leadership can bring the Company's quality and regulatory organization to a new level. Dr. Syin will accelerate the Group's pace to build a world-class quality organization for biologics commercial manufacturing.
- On January 24, 2018, five internationally recognized scientists, entrepreneurs and visionary thinkers were appointed the Company's newly formed Scientific Advisory Board ("**SAB**"). The SAB will support the Company's mission of becoming a technology leader and a trusted partner for biopharmaceutical companies worldwide to advance the science and technology of biologics development and ultimately benefiting patients worldwide.
- On March 6, 2018, the Company obtained the U.S. FDA's approval for Ibalizumab and became one of the biologics development and manufacturing service providers to obtain the U.S. FDA cGMP validation and officially commenced the first commercial manufacturing project, validating the Company's full industry chain. The medication had been granted fast-track application, priority review, breakthrough therapy and orphan drug designations. It is the first drug in a new class of antiretroviral medications that can provide significant benefit to patients who have run out of HIV treatment options.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.wuxibiologics.com.cn). The annual report for the year ended December 31, 2017 containing all the information in accordance with the requirements under the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

RESULTS

The Board is pleased to announce the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended December 31, 2017 and the Group's consolidated statement of financial position as at December 31, 2017, together with the comparative figures for the previous year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2017

	NOTES	**2017**	2016
		RMB'000	RMB'000
Revenue	4	**1,618,829**	989,029
Cost of services		**(958,272)**	(599,919)
Gross profit		**660,557**	389,110
Other income	5	**34,694**	7,523
Other gains and losses	6	**(103,610)**	(1,538)
Selling and marketing expenses		**(27,622)**	(15,326)
Administrative expenses		**(134,019)**	(94,606)
Research and development expenses		**(74,479)**	(53,282)
Other expenses	8	**(16,143)**	(31,880)
Finance cost	7	**(35,691)**	(24,155)
Profit before tax	8	**303,687**	175,846
Income tax expense	9	**(51,059)**	(34,750)
Profit and total comprehensive income for the year		**252,628**	141,096
		RMB	RMB
Earnings per share – Basic	11	**0.24**	0.15
– Diluted	11	**0.22**	0.15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2017

	NOTES	**2017**	2016
		RMB'000	RMB'000
Non-current Assets			
Plant and equipment		**1,780,172**	1,152,770
Deferred tax assets		**6,855**	2,370
Deposits paid for acquisition of land use rights		**17,128**	—
Other long-term deposits		**11,378**	—
		1,815,533	1,155,140
Current Assets			
Inventories		**135,547**	78,988
Service work in progress		**202,389**	122,702
Trade and other receivables	12	**614,302**	419,376
Income tax recoverable		**—**	6,426
Financial assets designated as at fair value through profit or loss	13	**641,333**	—
Pledged bank deposits	14	**21,189**	33,262
Time deposits	14	**914,788**	—
Bank balances and cash	14	**503,881**	169,102
		3,033,429	829,856
Current Liabilities			
Trade and other payables	15	**784,669**	558,088
Loan from a related party		**—**	183,417
Income tax payable		**13,405**	8,949
Bank borrowings		**—**	39,000
Obligations under a finance lease		**—**	11,371
		798,074	800,825
Net Current Assets		**2,235,355**	29,031
Total Assets Less Current Liabilities		**4,050,888**	1,184,171

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

As at December 31, 2017

	NOTES	**2017**	2016
		RMB'000	RMB'000
Non-current Liabilities			
Bank borrowings		**—**	866,000
Obligations under a finance lease		**—**	29,655
Deferred revenue		**19,711**	12,559
Deferred tax liabilities		**6,817**	5,490
		26,528	913,704
Net Assets		**4,024,360**	270,467
Capital and Reserves			
Share capital	16	**192**	158
Reserves		**4,024,168**	270,309
Total Equity		**4,024,360**	270,467

Notes:

1. **General Information**

The Company was established in the Cayman Islands as an exempted company with limited liability on February 27, 2014, and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since June 13, 2017. The address of the registered office of the Company is PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company is an investment holding company. The Group is principally engaged in provision of discovery, development and manufacturing of biologics services.

As at the date of issuance of these consolidated financial statements, the immediate and ultimate holding company of the Company is WuXi Biologics Holdings Limited ("**Biologics Holdings**"), a company incorporated in the British Virgin Islands, which is ultimately controlled by Dr. Ge Li ("**Dr. Li**"), Dr. Ning Zhao, the spouse of Dr. Li, Mr. Xiaozhong Liu and Mr. Zhaohui Zhang who are all acting in concert (collectively known as "**Controlling Shareholders**").

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

2. **Application of New and Revised International Financial Reporting Standards ("IFRSs")**

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time in the current year:

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealized Losses*
Amendments to IFRS 12	*As part of the Annual Improvements to IFRSs 2014-2016 Cycle*

Except for amendments to IAS 7 *Disclosure Initiative*, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. **Basis of Preparation**

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of the reporting period.

Basis of consolidation

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

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

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

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

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

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

4. Revenue and Segment Information

The Group has only one single operating segment and no further analysis of this single segment is presented.

Entity-wide disclosure

Geographical information

Substantially all of the Group's operations and non-current assets are located in the PRC. An analysis of the Group's revenue from external customers, analyzed by their respective country/region of operation, is set out below:

	2017	2016
	RMB'000	*RMB'000*
Revenue		
– United States of America	**900,639**	505,045
– PRC	**552,039**	385,307
– Europe	**65,305**	21,094
– Rest of the world	**100,846**	77,583
	1,618,829	989,029

Information about major customers

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

	2017	2016
	RMB'000	*RMB'000*
Customer A	**192,689**	N/A*
Customer B	**N/A***	159,547
Customer C	**N/A***	185,904

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

5. Other Income

	2017	2016
	RMB'000	*RMB'000*
Administrative service income from WuXi AppTec (Shanghai) Co., Ltd.	**—**	81
Bank interest income	**3,149**	413
Interest income from time deposits	**5,597**	—
Government grants and subsidies related to		
– Asset (Note i)	**1,298**	1,478
– Income (Note ii)	**24,650**	5,551
	34,694	7,523

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 have been received for the Group's contribution to the local high-tech industry and economy. These grants are unconditional and accounted for as immediate financial support with neither future related costs expected to be incurred nor related to any assets.

6. Other Gains and Losses

	2017	2016
	RMB'000	*RMB'000*
Net foreign exchange (loss) gain	**(99,025)**	1,417
Provision of allowance for doubtful debts, net	**(13,747)**	(5,696)
Net gain on changes in fair value of financial assets designated as at FVTPL	**6,877**	—
Others	**2,285**	2,741
	(103,610)	(1,538)

7. Finance Cost

	2017	2016
	RMB'000	*RMB'000*
Interest expense	**36,292**	29,759
Interest on finance lease	**476**	690
Less: amounts capitalized	**(1,077)**	(6,294)
	35,691	24,155

Borrowing costs capitalized during the year ended December 31, 2017 arose on bank borrowings and are calculated by applying a capitalization rate of 4.75% (year ended December 31, 2016: 4.75%).

8. Profit before Tax

Profit before tax has been arrived at after charging:

	2017	2016
	RMB'000	*RMB'000*
Depreciation for plant and equipment	**122,748**	93,185
Staff cost (including directors' emoluments):		
– Salaries and other benefits	**394,825**	244,095
– Retirement benefit scheme contributions	**51,529**	33,006
– Share-based payment expense	**65,076**	47,551
	511,430	324,652
Auditors' remuneration	**3,100**	998
Minimum operating lease payment in respect of rented premises	**34,524**	17,679
Listing expenses (included in other expenses)	**16,143**	31,880
Loss on disposal of plant and equipment	**1,001**	90
Write down of inventories (included in cost of services)	**2,665**	—
Allowance for doubtful debts	**13,747**	5,696
Research and development costs recognized as expense	**74,479**	53,282
Cost of inventories recognized as expense	**303,401**	211,274

9. Income Tax Expense

	2017	2016
	RMB'000	*RMB'000*
Current tax:		
– PRC Enterprise Income Tax ("**EIT**")	**50,721**	30,012
– Hong Kong profits tax	**1,633**	1,875
– the U.S. Federal and State Income taxes	**1,173**	—
– the UK Income taxes	**45**	—
Under (Over) provision in prior years:		
– EIT	**645**	(1,865)
	54,217	30,022
Deferred tax:		
– Current year	**(3,158)**	4,728
	51,059	34,750

Hong Kong Profits Tax for the Hong Kong subsidiaries is calculated at 16.5% of the estimated assessable profit for the years ended December 31, 2017 and 2016.

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

In 2016, WuXi Biopharma renewed its "High and New Technology Enterprise" status, which has been approved by the relevant government authorities, and it is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2016.

Shanghai Biologics was accredited as a "High and New Technology Enterprise" in November 2016 and therefore is entitled to a one-year's exemption from EIT followed by three years of 50% tax reduction with effect from the beginning of 2016 in accordance with Guo Fa No. 40. Accordingly, the applicable EIT rate of Shanghai Biologics for the year ended December 31, 2017 is 12.5% (for the year ended December 31, 2016: Nil).

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

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

10. Dividends

No dividends were declared or paid by the Company during the year ended December 31, 2017.

11. Earnings per Share

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

	2017	2016
	RMB'000	*RMB'000*
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**252,628**	141,096

	2017	2016
Number of Shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,074,088,204**	963,998,559
Effect of dilutive potential ordinary shares:		
Share Options	**86,267,013**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,160,355,217**	963,998,559

The computation of diluted earnings per share for the year ended December 31, 2016 does not assume the exercise of Pre-IPO share options since their exercise prices plus fair value of services yet to be rendered are higher than the average share prices of the Company.

12. Trade and Other Receivables

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**307,221**	223,515
Unbilled revenue	**24,447**	76,949
Allowance for doubtful debts	**(17,364)**	(6,598)
	314,304	293,866
Other receivables	**15,012**	9,064
Advances to suppliers	**12,256**	4,532
Deferred listing expenses	**—**	4,705
Prepayments	**927**	972
Receivables for purchase of raw materials on behalf of customers	**108,295**	39,084
Custom duty recoverable (Note)	**30,285**	36,209
Interest receivable	**5,597**	—
Value added tax recoverable	**127,626**	30,944
	284,986	116,446
Total trade and other receivables	**614,302**	419,376

Note: WuXi Biopharma has been recognized by the relevant government authority as a foreign-invested research and development center, which makes it eligible for a waiver of import tax on imported raw materials and equipment. The related import tax has been levied by way of "paid and refund" basis. The amount represents the related import tax paid by WuXi Biopharma to PRC Customs which shall be refunded upon the application documents of the import tax refund have been validated by the PRC Customs.

The Group grants a credit period ranging from 30 to 60 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 (excluding the unbilled revenue), at the year ends of 2017 and 2016 respectively:

	2017	2016
	RMB'000	*RMB'000*
Within 60 days	**217,573**	185,992
61 to 180 days	**68,570**	25,318
181 days to 1 year	**3,714**	5,607
	289,857	216,917

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date on which the credit was initially granted up to the reporting date. The credit quality of the trade receivables that are neither past due nor impaired had not changed during the year ended December 31, 2017.

Aging of trade receivables which are past due but not impaired

	2017	2016
	RMB'000	*RMB'000*
61 to 180 days	**68,570**	25,318
181 days to 1 year	**3,714**	5,607
	72,284	30,925

Movement of allowance for doubtful debts on trade receivables and unbilled revenue

	2017	2016
	RMB'000	*RMB'000*
As at January 1,	**(6,598)**	(2,456)
Provided	**(13,751)**	(6,890)
Reversed	**4**	1,194
Written off	**2,981**	1,554
As at December, 31	**(17,364)**	(6,598)

Included in the allowance for doubtful debts are individually impaired trade and unbilled receivables.

The Group determines the allowance for impaired debts based on the evaluation of collectability and aging analysis of the receivables and on management's judgment including the assessment of change in credit quality and the past collection history of each customer.

Trade and other receivables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2017	2016
	RMB'000	*RMB'000*
US$	**179,964**	207,245
Euro ("**EUR**")	**3,302**	—
Japanese yen ("**JPY**")	**1,605**	—

13. Financial Assets Designated as at Fair Value through Profit or Loss

During the current year, the Group entered into several contracts of funds (the "Fund") with a financial institution. The Fund invests primarily in debt securities including but not limited to U.S. treasury securities, securities issued or guaranteed by the U.S. government or by its agencies, corporate securities and asset-backed securities, with the objective of achieving returns in excess of those achieved by holding a portfolio of U.S. money market instruments over a comparable period. The entire contracts have been designated as at financial assets at FVTPL on initial recognition. As at December 31, 2017, the fair value of the Fund is US$87,750,000 per the investment statement of the financial institution, equivalent to RMB573,378,000.

During the current year, the Group also entered into a contract of Financial Product with a bank for a period of six months, which has been designated as at financial assets at FVTPL on initial recognition. The return of the Financial Product was determined by reference to the performance of the underlying instruments in the currency market, the interbank market, the bond market, the security and equity market and the derivative financial assets. The principle of the Financial Product is US$10,400,000, equivalent to RMB67,955,000 as at December 31, 2017; and the expected return rate stated in the contract is 2.45% per annum. In the opinion of the directors of the Company, the fair value of the Financial Product as at December 31, 2017 approximated its principal amount as the fair value change is insignificant.

Financial assets designated as at FVTPL that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2017	2016
	RMB'000	*RMB'000*
US$	**641,333**	—

14. Bank Balances and Cash/Pledged Bank Deposits/Time Deposits

Bank balances and cash of the Group comprised of cash and short term bank deposits with an original maturity of three months or less. The short term bank deposits carry interest at market rates which ranged from 0.001% to 1.65% per annum as at December 31, 2017 (December 31, 2016: 0.01% to 2.9%).

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

As at December 31, 2017, the Group had fixed-term deposits in a bank with original maturity date of six months ("Time Deposits"). The Time Deposits carried fixed interest rates of from 1.93% to 2.53% per annum.

Bank balances and cash, pledged bank deposits and time deposits that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2017	2016
	RMB'000	*RMB'000*
US$	**1,386,109**	134,165
Hong Kong dollars ("HK$")	**4,603**	—

15. Trade and Other Payables

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**137,293**	105,029
Other payables and accrual	**64,846**	21,199
Advances from customers	**254,746**	132,432
Payable to related parties in relation to Group Reorganization (Note i)	**—**	84,317
Option fee received (Note ii)	**26,136**	27,780
Payable for purchase of plant and equipment	**213,022**	103,342
Payable in relation to listing of Company shares	**—**	25,782
Salary and bonus payables	**85,240**	56,343
Other taxes payable	**3,386**	1,864
	784,669	558,088

Note i: Amount represents consideration payable to a related party for the purchase of the equities of the subsidiaries of the Group. The consideration is interest free and repayable on demand. The related party and the Group are under common control of the Controlling Shareholders. The consideration had been repaid in full on May 31, 2017.

Note ii: Amount represents a US$4 million non-refundable option fee received from an independent third party for granting the party an option to purchase certain of the Group's assets. In December 2015, an agreement (hereafter referred to as the "Option to Purchase Agreement") was entered into between the Company and a Company's strategic customer, pursuant to which the Company granted the customer an option to acquire certain of its biologics manufacturing facilities. The total consideration for the option was US$8 million, 50% of which had been paid in March 2016 and the remaining 50% would be payable upon the Company completing certain required documentations. Pursuant to the Option to Purchase Agreement, the customer has a right to exercise the purchase option on or before June 30, 2020, which upon mutual agreement between the Company and the customer, may be extended until no later than June 30, 2023. Should the customer choose to exercise the purchase option, it has to pay the Company an acquisition price for the biologics manufacturing facilities determined on the basis as specified in the Option to Purchase Agreement; and the Company has to fulfill certain stipulated conditions including completing the transfer of the title to the biologics manufacturing facilities to the customer or its designated person, and obtaining all necessary regulatory approvals and consents in relation to the transfer of the facilities. The option fee would then be applied for part payment for the manufacturing facilities acquisition price. Should the customer choose to terminate the agreement without exercising the purchase option, the customer could apply the option fee to pay for any service fees due and payable to the Group for services rendered by the Group, up to a maximum of 50% of the option fee paid.

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 aging analysis of trade payables presented based on invoice date at the end of the reporting period:

	2017	2016
	RMB'000	*RMB'000*
Within three months	**129,184**	102,123
Over three months but within one year	**6,660**	2,906
Over one year but within two years	**1,449**	—
	137,293	105,029

Trade and other payables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2017	2016
	RMB'000	*RMB'000*
US$	**294,453**	264,220
EUR	**17,191**	2,198
Swiss Francs ("**CHF**")	**6,362**	—

16. Share Capital

	Number of shares	Amount
		US$
ORDINARY SHARES OF US$0.000025 EACH		
AUTHORIZED:		
At January 1, 2016, December 31, 2016 and December 31, 2017	2,000,000,000	50,000

ISSUED AND FULLY PAID:

	Number of shares	Amount	Shown in the financial statements as
		US$	*RMB'000*
At January 1, 2016	40,000	1	—
Increase in issued share capital (note (a))	963,960,000	24,099	158
At December 31, 2016	964,000,000	24,100	158
Issue of shares by initial public offerings (note (b))	170,118,057	4,253	29
Issue of shares by exercise of over-allotment option (note (c))	28,947,000	724	5
At December 31, 2017	1,163,065,057	29,077	192

Notes:

(a) On January 12, 2016, an aggregate of 963,960,000 shares of the Company were issued at a par value of US$0.000025, equivalent to approximately RMB158,000.

(b) On June 13, 2017, the Company issued a total of 170,118,057 new ordinary shares of US$0.000025 each at the price of HK$20.60 per share by means of initial public offering.

(c) On June 14, 2017, the Company issued a total of 28,947,000 new ordinary shares of US$0.000025 each at the price of HK$20.60 per share by means of fully exercise of over-allotment option.

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

DEFINITIONS

"AGM"	annual general meeting of the Company
"Audit Committee"	the audit committee of the Board
"Biologics Holdings"	WuXi Biologics Holdings Limited, a company incorporated under the laws of the British Virgin Islands on December 17, 2015 with limited liability and a controlling shareholder of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"CAGR"	compound annual growth rate
"CFDA"	China Food and Drug Administration
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"cGMP"	Current Good Manufacturing Practice regulations, regulations enforced by the Food and Drug Administration of the United States on pharmaceutical and biotech firms to ensure that the products produced meet specific requirements for identity, strength, quality and purity
"Chairman"	the Chairman of the Board
"China" or "the PRC"	the People's Republic of China, excluding, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region and Taiwan
"Company" or "the Company"	WuXi Biologics (Cayman) Inc. (藥明生物技術有限公司*), an exempted company incorporated in the Cayman Islands with limited liability on February 27, 2014
"Controlling Shareholders"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, includes the Founding Individuals, Biologics Holdings, G&C Limited, G&C I Limited, G&C III Limited, G&C V Limited, G&C VI Limited, G&C VII Limited, G&C IX Limited, G&C Partnership L.P., Group & Cloud Limited, i-growth Ltd, I-Invest World Ltd and New WuXi ESOP L.P.
"Director(s)"	the director(s) of the Company

"European Union"	a politico-economic union of 28 member states that are located primarily in Europe
"Founding Individuals"	Dr. Ge Li, Dr. Ning Zhao, Mr. Xiaozhong Liu and Mr. Zhaohui Zhang
"Group" or "the Group"	the Company and its subsidiaries
"H.K. dollar" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IND"	investigational new drug, an experimental drug for which a pharmaceutical company obtains permission to ship across jurisdictions (usually to clinical investigators) before a marketing application for the drug has been approved
"Listing" or "IPO"	the listing of the Shares on the Main Board of the Stock Exchange on June 13, 2017
"Listing Date"	June 13, 2017, being the date on which the Shares were listed on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Nomination Committee"	the nomination committee of the Board
"Main Board"	the Main Board of the Stock Exchange
"MAH"	Marketing Authorization Holder
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules

"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company with effect from January 5, 2016, and amended on August 10, 2016, the principal terms of which are summarised in "Statutory and General Information — E. Pre-IPO Share Option Scheme" in Appendix IV to the Prospectus
"Prospectus"	the prospectus issued by the Company dated May 31, 2017
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the one-year period from January 1, 2017 to December 31, 2017
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of China
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shanghai Biologics"	WuXi Biologics (Shanghai) Co., Ltd. (上海藥明生物技術有限公司), a company incorporated in the PRC on January 6, 2015 and an indirect wholly-owned subsidiary of the Company
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	ordinary share(s) in the capital of the Company with nominal value of US$0.000025 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S. dollar(s)" or "US$"	United States dollars, the lawful currency of the United States of America
"U.S. FDA"	the United States Food and Drug Administration
"Written Guidelines"	the Guidelines for Securities Transactions by Directors adopted by the Company

"WuXi Biopharma"	WuXi AppTec Biopharmaceuticals Co., Ltd. (無錫藥明康德生物技術股份有限公司), a company incorporated in the PRC on May 25, 2010 and an indirect wholly-owned subsidiary of the Company

In this announcement, the terms "associate", "controlling shareholder" and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

By order of the Board
WuXi Biologics (Cayman) Inc.
Dr. Ge Li
Chairman

Hong Kong, March 19, 2018

As at the date of this announcement, the Board comprises Dr. Zhisheng Chen and Dr. Weichang Zhou as executive Directors; Dr. Ge Li, Mr. Edward Hu, Mr. Yibing Wu and Mr. Yanling Cao as non-executive Directors; and Mr. William Robert Keller, Mr. Teh-Ming Walter Kwauk and Mr. Wo Felix Fong as independent non-executive Directors.

* *For identification purpose only*