康龙化成
PHARMARON

Pharmaron Beijing Co., Ltd.*

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

Stock Code: 3759

2019 ANNUAL REPORT

* For identification purposes only

PREMIER R&D SERVICE PROVIDER FOR THE LIFE SCIENCES INDUSTRY

About Pharmaron

Pharmaron is a premier R&D service company supporting the life science industry. Founded in 2004, Pharmaron has invested in its people and facilities and established its comprehensive service offerings throughout the pharmaceutical R&D lifecycle. With operations in China, US and UK staffed by over 7,000 employees, Pharmaron has an excellent track record in the delivery of R&D solutions to its partners in North America, Europe, Japan and China.

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Corporate Information

EXECUTIVE DIRECTORS

Dr. LOU Boliang (樓柏良) *(Chairman)*
Mr. LOU Xiaoqiang (樓小強)
Ms. ZHENG Bei (鄭北)

NON-EXECUTIVE DIRECTORS

Mr. CHEN Pingjin (陳平進)
Mr. HU Baifeng (胡柏風)
Mr. LI Jiaqing (李家慶)
Mr. ZHOU Hongbin (周宏斌)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. DAI Lixin (戴立信)
Ms. LI Lihua (李麗華)
Ms. CHEN Guoqin (陳國琴)
Ms. SHEN Rong (沈蓉)
Mr. TSANG Kwan Hung Benson (曾坤鴻)

SUPERVISORS

Dr. YANG Kexin (楊珂新) *(Chairperson)*
Mr. LIU Jun (劉駿)
Ms. ZHANG Lan (張嵐)

AUDIT COMMITTEE

Ms. SHEN Rong (沈蓉) *(Chairperson)*
Ms. LI Lihua (李麗華)
Ms. CHEN Guoqin (陳國琴)

REMUNERATION AND APPRAISAL COMMITTEE

Ms. SHEN Rong (沈蓉) *(Chairperson)*
Dr. LOU Boliang (樓柏良)
Mr. LOU Xiaoqiang (樓小強)
Ms. LI Lihua (李麗華)
Ms. CHEN Guoqin (陳國琴)

NOMINATION COMMITTEE

Ms. CHEN Guoqin (陳國琴) *(Chairperson)*
Dr. LOU Boliang (樓柏良)
Ms. ZHENG Bei (鄭北)
Ms. SHEN Rong (沈蓉)
Ms. LI Lihua (李麗華)

STRATEGY COMMITTEE

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Mr. LOU Xiaoqiang (樓小強)
Mr. CHEN Pingjin (陳平進)
Mr. LI Jiaqing (李家慶)
Mr. DAI Lixin (戴立信)

COMPANY SECRETARY

Ms. MAK Po Man Cherie (麥寶文)

AUTHORIZED REPRESENTATIVES

Mr. LOU Xiaoqiang (樓小強)
Ms. MAK Po Man Cherie (麥寶文)

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COMPANY WEBSITE

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Chairman's Statement

Dear Shareholders:

2019 marks a unique year for Pharmaron, as it has been our first year as a public company. On January 28, 2019, the Company successfully completed the initial public offering of RMB-denominated ordinary shares (A shares) and was listed on the ChiNext of Shenzhen Stock Exchange. On November 28, 2019, the Company announced HKD-denominated H shares was listed on the main board of the Hong Kong Stock Exchange. Bolstered by domestic and overseas capital markets, the successful listings marked our entry into a new stage of development. I am delighted to share Pharmaron's key performance highlights in 2019 with our shareholders.

I. Dedication to further enhancing and developing our fully-integrated pharmaceutical R&D service platform to accelerate our clients' discovery, development and commercialization of innovative drugs.

In 2019, the revenue was RMB3,757.2 million, representing an increase of 29.2% over the same period; gross profit was RMB1,331.7 million, representing an increase of 40.5% over the same period; achieving a gross profit margin of 35.4%; profit for the year attributable to the owners of the parent was RMB547.2 million, representing an increase of 62.8% over the same period in 2018. With continuous development of our established laboratory services and chemistry, manufacturing and control (CMC) services, we strategically set our footprint in the clinical development space. By implementing the strategies highlighted in our 2018 annual report (disclosed on the Shenzhen Stock Exchange), the quality development of these services enabled us to improve our R&D service capability and operating ability and strengthen our position as an industry leader.

1. Our pharmaceutical R&D service platform provided services to 1,038 clients (192 were new clients added) in 2019, which includes the top 20 global pharmaceutical companies. At the same time, our extensive experience in new drug R&D added impetus to the R&D of innovative drugs in China. In 2019, we assisted domestic pharmaceutical and biotech companies in filing clinical trial applications for 29 investigational new drugs (IND), 21 of which were filed with multi-jurisdictions, including China, the US and Europe. This demonstrates our growing contribution to the new drug research and development in China and the world.

2. In 2019, our well-recognized service capabilities and qualities allowed us to achieve a steady growth in laboratory services. In CMC services, 588 APIs or advanced intermediates were supplied through clinical stages, including 9 for Phase III clinical trials. In clinical development service, we have a unique integrated service platform that combines radioisotope based compound synthesis-clinical-analysis for clinical metabolism studies. To integrate together with our oversea clinical operation, we strategically expanded our clinical services in China, which includes, among other things, the acquisition of Nanjing Sirui Biotechnology Co., Ltd., a China-based Contract Research Organization (CRO), and the strategic investment in Beijing LinkStart Biotechnology Co., Ltd., a clinical Site Management Organization (SMO), specialized in providing third-party independent clinical on-site management services.

3. With the strengthened R&D capabilities and capacities across our service lines, the synergy created from integration of different R&D disciplines became more apparent. While our bioscience service platform, which includes DMPK/ADME, *in vitro* Biology and *in vivo* Pharmacology, continuously deepens the integration with the laboratory chemistry business at the drug discovery stage, increasing CMC businesses derived from our existing drug discovery clients. In 2019, the overlap rate of clients from drug safety assessment with CMC businesses grew to 68% as a result of increased interest from our clients in our integrated IND enabling service. Our end-to-end R&D service platforms with seamless integration approach gained more client recognition as it significantly improved R&D efficiency and reduced new drug R&D costs.

4. In 2019, our safety assessment facility in Beijing passed the US FDA audit for the third consecutive time since the first audit in 2009. Together with our existing GLP certification of China's NMPA (formerly known as the CFDA) and Belgium's OECD GLP accreditation, we continuously support our clients to conduct regulatory filings in parallel with various jurisdictions.

5. In order to meet the increasing business demand, the Company continues to invest in capacity expansion. In 2019, we added 3,500 square meters at our animal facilities for safety assessment services, started laboratory service operation in Shanghai and expanded our operations in the UK and the US. In addition, we commenced the construction of Phase II of our Ningbo Hangzhou Bay R&D service center in 2019, which will provide additional space for up to 2,500 more scientists and technicians for our laboratory and CMC services by the end of 2021. Also, the construction of Phase III of our Tianjin CMC facility started in 2019, which will be completed by the end of 2020. Furthermore, with our strategy to expand downstream to late-stage clinical and commercial manufacturing, we commenced the construction of our manufacturing facility in Shaoxing in 2019. The construction of Phase I of the Shaoxing facility, with a gross area of 81,000 square meters, is expected to complete by 2022.

II. Continuously cultivate a learning culture and promote sustainable development

We are committed to building a strong talent pool by recruiting drug R&D scientists from both home and abroad to meet our business demand. As of December 31, 2019, we had a total of 7,393 employees. By using a multi-dimensional and comprehensive on-the-job learning platform, we focused on the development of young staff competent for our corporate development. We systematically recruited, trained and developed talents in various professional fields and retained a team composed of staff in multi-levels (i.e. senior, middle and junior), which served as a talent pool for our long-term business development.

1. In 2019, we successfully hosted the Ninth Pharmaron Symposium on Synthetic and Medicinal Chemistry at the headquarters in Beijing, and the Second Pharmaron Symposium on Chemistry for Life Sciences at the Hoddesdon site in the U.K. Both symposia included well-known academia and industry experts who presented the most recent advancement in science and technology, which served as a learning platform for our team to master the latest technology of biomedical industry.

2. We continued to enhance our multi-dimensional and comprehensive on-job learning platform. This includes Pharmaron College, the visiting scholar program, training courses by prominent scholars and Friday seminars, just to mention a few. As of December 2019, Pharmaron College had 85 graduates in the doctoral program and 77 graduates in the master's program. With our visiting scholar program, we work closely with the Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences and the University of Oxford in the U.K. to train young scientists and seek for a model to develop high-end talents.

3. Pharmaron lectures/postdoctoral fellowship program continued as part of our efforts to contribute to the talent development at universities and encourage students to join the pharmaceutical industry. Currently we have set up Pharmaron Lectures programs in Shenzhen Graduate School of Peking University and Shanghai Jiao Tong University, in China, and Oxford University, in the UK, and Toronto University, in Canada, respectively, in addition to a Pharmaron sponsored postdoctoral program at the Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences.

2020 will be the first year for our "New Five-Year Plan." Going forward, we are well positioned to reach greater heights by utilizing our proven competitive advantage with Pharmaron's fully-integrated R&D service platform. Adhering to the long-term development strategy, we will continue to establish an integrated pharmaceutical R&D service platform both vertically and horizontally and further expand our global footprints. We will remain focused on technology development and innovation, and vigorously develop and introduce R&D technologies for the discovery and development of innovative drugs to maintain our leading position in the service industry.

I would like to extend my sincere gratitude to our friends, shareholders and business partners for their continuous trust and support. We will continue to strengthen our efforts in new drug discovery and development to realize our mission fully: "Supporting Our Partners' Success in Discovery, Development and Commercialization of Innovative Medicines."

Financial Highlights

	Year ended December 31,		
	2019	2018	Change
	RMB'000	RMB'000	%
Revenue	**3,757,160**	2,908,123	29.2
Gross profit	**1,331,701**	948,050	40.5
Profit for the year attributable to the owners of the parent	**547,190**	336,042	62.8
Non-IFRSs adjusted net profit for the year attributable to the owners of the parent	**549,133**	313,212	75.3

During the Reporting Period, the Group recorded aggregate revenue of approximately RMB3,757.2 million, representing an increase of approximately RMB849.0 million, or 29.2%, as compared to the year ended December 31, 2018.

During the Reporting Period, our gross profit was approximately RMB1,331.7 million, as compared to RMB948.1 for the year ended December 31, 2018. Gross profit margin increased from 32.6% to 35.4% as compared to the year ended December 31, 2018.

During the Reporting Period, the profit attributable to owners of the parent was approximately RMB547.2 million, representing an increase of approximately 62.8% as compared to the year ended December 31, 2018.

During the Reporting Period, our Non-IFRSs adjusted net profit attributable to owners of the parent was approximately RMB549.1 million, representing an increase of 75.3%, as compared to the year ended December 31, 2018.

The Board proposed to declare a final dividend of RMB1.50 (inclusive of tax) per 10 shares or an aggregate of approximately RMB119.2 million for the year ended December 31, 2019.

Financial Summary

	For the year ended December 31,			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Operating results				
Revenue	1,634,239	2,294,118	2,908,123	**3,757,160**
Gross profit	497,906	774,465	948,050	**1,331,701**
Profit for the year	171,334	218,664	335,843	**530,672**
Profit attributable to owners of the parent	171,334	222,497	336,042	**547,190**
Profitability				
Gross profit margin	30.5%	33.8%	32.6%	**35.4%**
Profit margin for the year	10.5%	9.5%	11.5%	**14.1%**
Earnings per share (RMB)				
Earnings per share – Basic	0.3421	0.3767	0.5689	**0.8284**
Earnings per share – Diluted	0.3421	0.3767	0.5689	**0.8282**

	As at December 31,			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Total assets	2,912,771	4,143,664	4,802,079	**9,935,037**
Total liabilities	1,153,146	2,145,560	2,475,508	**2,097,019**
Non-controlling interests	–	12,618	12,991	**70,955**
Equity attributable to owners of the parent	1,759,625	1,985,486	2,313,580	**7,767,063**
Gearing ratio	39.6%	51.8%	51.6%	**21.1%**

SUPPORTING OUR PARTNERS' SUCCESS IN DISCOVERY, DEVELOPMENT AND COMMERCIALIZATION OF INNOVATIVE MEDICINES

Laboratory Chemistry

Biosciences

Chemistry, Manufacturing and Control

Safety Assessment

Radiolabelled Sciences

Clinical Development


3M 9042

STATE-OF-THE-ART FACILITIES LOCATED IN CHINA, UK AND US

PHARMARON IN CHINA

Beijing Headquarters
Services: Laboratory and CMC services

Beijing TSP
Services: Safety Assessment

PHARMARON IN CHINA

Ningbo
Services: Laboratory and CMC services

Shanghai
Services: Synthetic Chemistry

Tianjin
Services: CMC services

Xi'an
Services: Laboratory services

PHARMARON IN UNITED KINGDOM

Cardiff
Services: Radiolabelled Chemistry

Hoddesdon
Services: Discovery & Early Development

Rushden
Services: Radiolabelled Chemistry & Metabolism

PHARMARON IN UNITED STATES

Baltimore
Services: Clinical Research

Germantown
Services: Analytical Sciences

Louisville
Services: Logistics, ChemInformatics

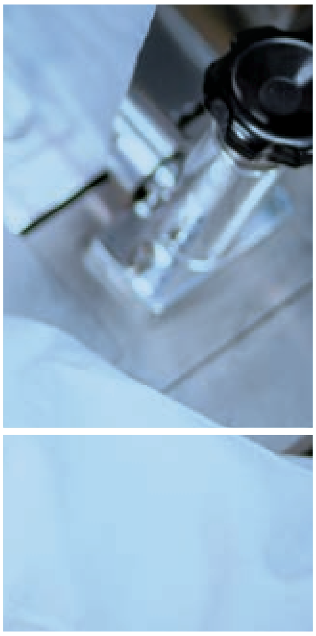
Management Discussion and Analysis

BUSINESS REVIEW

Principal Business

The Company is a leading fully-integrated pharmaceutical R&D service platform with global operations to accelerate drug innovation for our customers. The Company's R&D and manufacturing services platform evolved from laboratory chemistry where we are able to design a broad range of small molecule compounds for various major therapeutic areas and synthesize such compounds in a large scale. Leveraging on our core laboratory chemistry business, the Company has established a comprehensive bioscience platform covering biology, DMPK/ADME, *in vitro* biology and *in vivo* pharmacology to provide customers with integrated drug discovery services, thereby accumulating a wide range of customer base. Along with the rapid growth of our drug discovery business, the Company gradually expanded its pharmaceutical R&D service platform to drug development business and became a leading player among integrated pharmaceutical R&D service providers. The Company will continue to expand our capabilities downstream to late-stage clinical development and commercial manufacturing services.

The Company has a well-established R&D service platform for the discovery stage of small molecule innovative drugs, based on which the Company has expanded its expertise to various stages of drug development and manufacturing. In order to meet customers' need for pharmaceutical R&D services, the Company expands its service scope to clinical development and CMC services. The Company's drug development service platform mainly provides drug safety assessment services with GLP compliance accredited by NMPA, FDA and OECD, development services for chemical and formulations, manufacturing services for GMP chemical APIs and finished dosages, integrated service platform that combines radioisotope based compound synthesis-clinical-analysis for clinical metabolism studies, as well as clinical trial services including drug & device registration and application, medical affairs, clinical operation, data management, biostatistics and biological sample analysis in both U.S. and China. Leveraging on our comprehensive service offerings, we provide integrated and customized solutions to pharmaceutical and biotech companies throughout the entire pharmaceutical R&D lifecycle.



In addition to establishing a fully-integrated pharmaceutical R&D and manufacturing services platform, the Company strives to integrate our drug discovery and development service platform throughout the research, development and manufacturing stages in order to accelerate our customers' R&D programs in an efficient manner. With our end-to-end development strategy which follows the lifecycle of the pharmaceutical R&D, the Company is able to provide customers with high-quality, efficient and comprehensive pharmaceutical R&D services, helping them improve the efficiency and success rate of their R&D programs. In addition, such development strategy creates a unique competitive advantage and is important for the Company to achieve stable growth of our business and maintain long-term relationship with our customers. As of December 31, 2019, the Company has served many reputable companies which includes the top 20 global pharmaceutical companies, with over 6,400 scientists and technicians in China, the U.K. and the U.S. and a total of 7,393 employees. Our highly skilled and experienced management team possess diverse expertise and extensive knowledge, and have significantly contributed to the growth of our institutional knowledge base. In addition, their international backgrounds, together with their deep understanding of the Chinese market and our open and embracing corporate culture, provide us with global expansion capabilities.

FINANCIAL REVIEW

The Company provides fully-integrated drug research, development and manufacturing services for innovative pharmaceutical products throughout the research and development cycle. Our principal businesses can be categorized into three service segments: laboratory services, CMC services and clinical development services. During the Reporting Period, the Company recorded revenue of RMB3,757.2 million, representing an increase of 29.2% over the same period of last year, Non-IFRSs adjusted net profit attributable to owners of the parent was approximately RMB549.1 million, representing an increase of 75.3%, as compared to the year ended December 31, 2018, and net cash flows generated from operating activities of RMB938.6 million, representing an increase of 18.7% over the same period of last year. Rapid growth was seen in business results and steady development was achieved in each business segment.

Revenue

1. Laboratory services

The Company's laboratory services primarily include laboratory chemistry, DMPK/ADME, *in vitro* biology and *in vivo* pharmacology, safety assessment and discovery biologics. As the core and cornerstone of small molecule drug discovery as well as the starting point of the Company's business development, laboratory chemistry represents significant portion of the revenue of laboratory services. With more than 3,200 laboratory chemistry researchers, the Company has one of the largest and most experienced chemical synthesis service teams in the world. During the Reporting Period, laboratory chemistry achieved steady growth, while bioscience services entered the fast lane of development. Such rapid growth is primarily attributable to our solid scientific foundation, stable team and reasonable structure of the business segments after years of development. Besides, during the Reporting Period, we further expanded and deepen the coverage of our pharmaceutical R&D platform to provide more integrated and customized R&D services for our customers.

In order to meet the increasing business demand, the Company continued to expand its services capacity. In 2019, we added 3,500 square meters animal facilities for our safety assessment services, and started laboratory service operation in Shanghai. In addition, we commenced the construction of Phase II of our Ningbo Hangzhou Bay R&D service center in 2019, which will provide additional space for up to 2,500 more scientists and technicians for our laboratory and CMC services by the end of 2021. At the same time, in order to meet the business needs, the Company continues to expand its R&D team and improve the caliber of its personnel. As of December 31, 2019, the Company had 4,301 employees engaged in laboratory services business, up by 595 compared to that as of December 31, 2018.

As global pharmaceutical R&D investment continues to grow and the penetration rate for pharmaceutical R&D outsourcing continues to increase, along with our newly commissioned facilities, strengthened technical capabilities and deepened integration among different service offerings, the business volume from high-quality customers and projects is on the rise, and our revenue from laboratory services has achieved steady growth. During the Reporting Period, the Company recorded revenue of RMB2,379.5 million in laboratory services, representing an increase of 25.5% over the same period of last year.

2. *CMC services*

Our experienced CMC team delivers customized and cost-efficient solutions in drug development and manufacturing, including process development and manufacturing, material science/pre-formulation, formulation development and manufacturing, and analytical development services to support pre-clinical and clinical development, which can help our clients significantly reduce R&D costs and expedite the R&D process. During the Reporting Period, the Company recorded revenue of RMB901.6 million in CMC services, representing an increase of 39.6% compared to that in 2018. The reasons for the increase in our revenue from CMC services primarily include increased demand from many of our customers' drug discovery projects that have entered into the drug development stage; the expanded coverage, enhanced technical capabilities and enlarged manufacturing capacity of our CMC services; and the continued development of innovative drug market in China.

During the Reporting Period, the Company continued to optimize its CMC service platform, which not only improved its CMC service capability but also improved its quality of business. Our China team had 568 completed an on-going projects, including 485 preclinical projects, 54 Phase I clinical projects, 20 Phase II clinical projects and 9 Phase III clinical projects. As for the overseas operation of CMC services, our U.K. Team carried out 20 preclinical and early clinical-stage projects in 2019, showing a significant increase in business volumes. Through the deep collaboration between the Company's China and U.K. teams, the Company's international service capabilities will be further strengthened with this complementary service offering. During the Reporting Period, the Company accepted 59 QA audits and 5 EHS audits from customers including large global pharmaceutical companies and continued to gain recognition from customers in terms of technical capability and service quality.

With the implementation of China's Drug Marketing Authorization Holder System and the rise of a large number of biotech start-ups, the focus of pharmaceutical R&D in China is shifting from generic drug R&D to innovative drug R&D, and it is expected that the Chinese CMC market will continue to grow. In order to meet the growing demand for CMC services, the Company actively expands its CMC service team. As of December 31, 2019, the Company had 1544 employees engaged in CMC services, up by 198 compared to that as of December 31, 2018.

3. *Clinical development services*

Our clinical development services include clinical research services, site management services, regulatory bioanalysis services and radiolabelled sciences. During the Reporting Period, the Company recorded revenue of RMB456.3 million in clinical development services, representing an increase of 31.3% over the same period of last year. In terms of customer referral, as of our clinical center in the United States, had completed a total of 6 projects from Chinese customers in 2019, which shows the benefit of effective integration and interaction between different service offering and beyond geographic boundary.

During the Reporting Period, the Company completed the acquisition of Nanjing Sirui Biotechnology Co., Ltd. in May 2019 as part of its planned expansion in the domestic clinical development service market. Together with its existing capability in clinical services, the Company expanded its clinical development

service offerings for innovative drugs and medical devices, including registration and application, medical affairs, clinical operation, data management and biostatistics, pharmacovigilance, bioanalysis and other businesses. In June 2019, the Company completed the strategic investment in Beijing LinkStart Biotechnology Co., Ltd. ("**LinkStart**") which provides third-party independent clinical research site management services and has a nationwide business operation. With the development of domestic innovative drug market, the Company is committed to make further contribution in the domestic clinical development area in the future.

In order to meet the growing demand for clinical development services, during the Reporting Period, the Company had further expanded clinical development operation in the U.K. and the U.S., and also increased the talent pool in clinical development services globally. As of December 31, 2019, the Company had 556 employees engaged in clinical development services, representing an increase of 281 as compared to December 31, 2018.

Gross Profit and Gross Profit Margin

During the Reporting Period, our gross profit was approximately RMB1,331.7 million, as compared to RMB948.1 million for the year ended December 31, 2018. Gross profit margin increased from 32.6% to 35.4% as compared to the year ended December 31, 2018.

Gross profit of our laboratory services increased from RMB709.6 million for the year ended December 31, 2018 to RMB956.1 million for the year ended December 31, 2019. Gross profit margin of our laboratory services increased from 37.4% for the year ended December 31, 2018 to 40.2% for the year ended December 31, 2019, primary due to the operating efficiency and economies of scale arising from the increase in business volume with strengthened technical capabilities and deepened integration among different service offerings.

Gross profit of our CMC services increased from RMB139.8 million for the year ended December 31, 2018 to RMB249.7 million for the year ended December 31, 2019 primarily due to the increased demand for our CMC services and our additional facilities in Ningbo, China commenced operations. Gross profit margin of our CMC services increased from 21.7% for the year ended December 31, 2018 to 27.7% for the year ended December 31, 2019, primarily due to the ramp-up of our newly commissioned facilities in China and the U.K.

Gross profit of our clinical development services increased from RMB88.6 million for the year ended December 31, 2018 to RMB113.9 million for the year ended December 31, 2019 primarily due to the growth of our clinical research and radiolabelled science services provided to customers in the overseas market. Gross profit margin of our clinical development services slightly decreased from 25.5% for the year ended December 31, 2018 to 25.0% for the year ended December 31, 2019, as a result of a combination effect of operating efficiency from the increased business volume and our continued development of services capability in the U.S., the U.K. and China.

Other Income and Gains

During the Reporting Period, other income and gains was approximately RMB70.2 million, representing an increase of approximately 30.5% or RMB16.4 million as compared to the year ended December 31, 2018. The increase was mainly due to: (1) increase in interest income of RMB9.2 million; (2) increase in government grants of RMB12.4 million; (3) increase in gains on fair value change of equity investment of RMB9.9 million; (4) one-off fair value gain of RMB10.4 million resulted from re-measurement of our equity interest in CR Medicon when it became our subsidiary in 2019; (5) net-off of the decrease in foreign exchange gains of RMB28.2 million.

Selling and Distribution Expenses

The selling expenses in the Reporting Period were approximately RMB73.0 million, increased by approximately 33.6% or approximately RMB18.3 million as compared to the year ended December 31, 2018. The increase was primarily due to increase in headcount of our business development staff to support our expansion of operation.

Administrative Expenses

The administrative expenses of the Group in the Reporting Period were approximately RMB526.4 million, as compared to approximately RMB420.5 million for the year ended December 31, 2018. The increase was mainly due to our continued business expansion. Our administrative expenses as a percentage to revenue was continued decrease from 14.5% in 2018 to 14.0% in 2019, which was mainly due to the economies of scale and our expense control effort.

Research and Development Costs

The research and development expenses of the Group in the Reporting Period were approximately RMB62.9 million, representing an increase of approximately 98.9% or RMB31.3 million as compared to the year ended December 31, 2018. The increase was primarily due to our increased internal R&D activities for exploring and expanding into new service offerings.

Finance Costs

During the Reporting Period, finance costs was approximately RMB82.5 million, representing a slight increase of approximately 0.1% or RMB0.1 million as compared to the year ended December 31, 2018.

Income Tax Expense

The income tax expense in the Reporting Period was approximately RMB101.9 million, representing an increase of 69.5% or approximately RMB41.8 million as compared to the year ended December 31, 2018. It was due to the increase in profit before tax as a result of the growth of the Group's business operations.

Profit in the Reporting Period

As a result of the foregoing, the profit attributable to owners of the parent in the Reporting Period was RMB547.2 million, increased by 62.8% as compared to RMB336.0 million for the year ended December 31, 2018.

Non-IFRSs Adjusted Net Profit for the Year Attributable to the Owners of the Parent

To supplement our consolidated financial statements which are presented in accordance with IFRSs, we use adjusted net profit for the year attributable to the owners of the parent as an additional financial measure. We define adjusted net profit for the year attributable to the owners of the parent as profit/(loss) for the year before certain expenses as set out in the table below. Adjusted net profit attributable to owners is not an alternative to (i) profit before tax or profit for the year (as determined in accordance with IFRSs) as a measure of our operating performance, (ii) cash flows from operating, investing and financing activities 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-IFRSs adjusted net profit for the year attributable to the owners of the parent 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-

IFRSs 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-IFRSs adjusted net profit for the year attributable to the owners of the parent is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRSs. Shareholders and potential investors should not view the non-IFRSs adjusted net profit for the year attributable to the owners of the parent on a stand-alone basis or as a substitute for results under the IFRSs, or as being comparable to results reported or forecasted by other companies.

	Year ended December 31, 2019 RMB'000	Year ended December 31, 2018 RMB'000
Profit for the year attributable to the owners of the parent	**547,190**	336,042
Add:		
Share-based compensation expenses	**9,496**	–
Foreign exchange related gains or losses	**(1,579)**	(25,530)
Losses on derivative financial instruments related to foreign exchange	**7,364**	1,814
Non-IFRS net profit for the year attributable to the owners of the parent	**562,471**	312,326
Add:		
Realized and unrealized gains or losses from investments	**(13,338)**	886
Non-IFRS adjusted net profit for the year attributable to the owners of the parent	**549,133**	313,212

Cash Flows

During the year ended December 31, 2019, net cash flows from operating activities of the Group amounted to RMB938.6 million, representing an increase of RMB147.8 million or 18.7% over the year ended December 31, 2018. The increase was mainly due to the increase in our revenue and profit during the Reporting Period.

During the year ended December 31, 2019, net cash flows used in investing activities of the Group amounted to RMB1,045.2 million, representing an increase of RMB330.6 million or 46.3% over the year ended December 31, 2018. The increase was mainly due to (1) increase in purchases of property, plant and equipment of RMB205.3 million; (2) acquisition of our subsidiary Nanjing Sirui of RMB59.5 million; (3) increase in capital injection in our associates of RMB60.0 million.

During the year ended December 31, 2019, net cash flows from financing activities of the Group amounted to RMB4,245.9 million, which was mainly from the net proceeds received from issuance of our A Shares and H Shares during the year.

Liquidity and Financial Resources

The Group has maintained a sound financial position during the year ended December 31, 2019. As at December 31, 2019, the Group's cash and bank balance amounted to approximately RMB4,442.2 million. For the year ended December 31, 2019, net cash flows from operating activities of the Group amounted to approximately RMB938.6 million.

The Group recorded total current assets of approximately RMB5,944.5 million as at December 31, 2019 (2018: approximately RMB1,276.1 million) and total current liabilities of approximately RMB1,269.7 million as at December 31, 2019 (2018: approximately RMB1,308.0 million). The current ratio (calculated by dividing the current assets by the current liabilities) of the Group was approximately 4.7 as at December 31, 2019 (2018: approximately 1.0).

Borrowings and Gearing Ratio

As at December 31, 2019, the Group had aggregated interest-bearing bank and other borrowings of RMB844.4 million. Among the total borrowings, RMB300.7 million will be due within one year and RMB543.8 million will be due after one year.

As at December 31, 2019, the gearing ratio, calculated as total liabilities over total assets, was 21.1%, as compared with 51.6% as at December 31, 2018.

Capital Structure

Total equity attributable to the shareholders of the Company amounted to approximately RMB7,767.1 million as at December 31, 2019 as compared to approximately RMB2,313.6 million as at December 31, 2018.

Pledge of Assets

As at December 31, 2019, the Group mortgaged buildings, land and equipment with a net carrying amount of approximately RMB1,333.2 million (December 31, 2018: approximately RMB1,465.0 million); the mortgaged right-of-use assets had a net carrying amount of approximately RMB81.7 million (December 31, 2018: approximately RMB83.5 million); and no investment properties were mortgaged (December 31, 2018: approximately RMB44.4 million).

Those pledged assets above have been used to secure the Group's interest-bearing bank loans and other borrowings.

Besides, as at December 31, 2019, the Group pledged deposits of approximately RMB17.6 million (December 31, 2018: approximately RMB13.5 million) to issue letters of credit and for environmental protection.

Contingent Liabilities

As at December 31, 2019, the Group did not have any material contingent liabilities.

Capital Expenditure

The capital expenditure of the Group for property, plant and equipment (the "**PPE**"), land use right and other intangible assets amounted to approximately RMB754.6 million for the Reporting Period (December 31, 2018: approximately RMB641.0 million).

Capital Commitments

As at December 31, 2019, the Group had capital commitment of approximately RMB566.0 million (December 31, 2018: approximately RMB31.6 million), which were wholly attributable to purchase of items of PPE.

Miscellaneous

Initial public offering and listing of A Shares and H Shares in 2019

On January 28, 2019, the Company was successfully listed on the ChiNext of Shenzhen Stock Exchange with an initial issuance of 65,630,000 ordinary shares in RMB (A Shares) at RMB7.66 per A Share. On November 28, 2019, the Company successfully completed its initial public offering of H shares and was listed on the main board of Hong Kong Stock Exchange. Upon the exercise of the over-allotment option, the Company issued a total of 134,016,500 ordinary shares in HK$ (H Shares) at HK$39.50 per H Share. The Company's successful listing in Shenzhen and Hong Kong in 2019 marks its entry into a brand new stage of development supported by domestic and foreign capital markets.

CORE COMPETITIVENESS ANALYSIS

The Company provides customers with fully-integrated services covering drug research, development and manufacturing services for innovative pharmaceutical products throughout the research and development cycle, which lead to significant competitive advantages in business model, R&D service capabilities, customer collaboration and supporting domestic and foreign pharmaceutical/biotech companies in innovative drug R&D.

1. Leading fully-integrated pharmaceutical R&D service platform with strong capabilities and comprehensive service offerings across the globe

The Company has a well-established pharmaceutical R&D service platform for the discovery stage of small molecule innovative drugs, based on which the Company has expanded its expertise to various stages of drug development and manufacturing. The Company is in a leading position in drug discovery, preclinical and early clinical-stage research, and is committed to expanding its capabilities downstream to late clinical-stage development and commercial manufacturing. In the process of expanding R&D services, the Company has successfully evolved from a pure laboratory chemistry service provider to an end-to-end pharmaceutical R&D service platform with operations in China, the U.S. and the U.K. The Company has established comprehensive expertise in different R&D process, so as to assist customers in accelerating their R&D programs and cater to a full spectrum of customers' needs. The Company has established a good reputation in the global pharmaceutical R&D service industry and a strong partnership with top pharmaceutical and biotech companies. Through the comprehensive early-stage drug R&D services we provide to customers, we have accumulated profound understanding of the unique scientific challenges facing their new pharmaceutical R&D projects, which better positions the Company to press ahead with such projects in the late development stage. The Company's profound industry knowledge, strong execution capability and end-to-end solutions will shorten the drug discovery and development cycle and reduce the associated risks, thereby creating value for customers.

As a fully-integrated pharmaceutical R&D service provider, the Company's comprehensive pharmaceutical R&D platform has the following three core competences:

(1) A comprehensive chemistry platform throughout the entire process of new drug research and development

As a fully-integrated service provider for innovative pharmaceutical products, especially small molecule drugs, the Company's expertise and advantage in chemistry technology is crucial throughout the whole process of new drug R&D.

In the drug discovery stage, the Company has accumulated abundant experience in compound design, structure-activity relationship, synthesis capability and compound library synthesis. In the drug development stage, leveraging its experience accumulated from the drug discovery stage, the Company accumulated profound understanding of the unique scientific challenges for scaling up the compound production, which enables us to expedite the entire pharmaceutical R&D process and improve efficiency for our customers.

With our comprehensive chemistry platform, the Company can satisfy customers' demand for pharmaceutical R&D and manufacturing in each stage of the pharmaceutical R&D process, including laboratory synthesis process at the drug discovery stage, small-scale process and GLP/GMP compliance manufacturing at the preclinical drug development stage, mid-scale process and GMP compliance manufacturing at the clinical stage as well as process development for GMP compliance commercial manufacturing, which fully cater to the diversified needs of different types of customers. In addition to providing R&D services for compound synthesis process, combined with its formulation development services, the Company is able to provide customers with fully-integrated pharmaceutical R&D and manufacturing solution from initial compounds to finished drugs.

(2) A DMPK/ADME service platform throughout the entire stage of new drug R&D

The Company provides DMPK/ADME services covering the whole R&D process from drug discovery to drug development. The early DMPK/ADME studies is of great importance as it can provide key basis for our customers to determine their late stage drug development strategy. In addition, the Company is the only pharmaceutical R&D service provider that offers integrated pharmaceutical R&D solutions that combine radioisotope based compound synthesis-clinical-analysis techniques with our AMS isotope analysis technologies, which is an important tools for the ADME studies during the clinical development stage.

(3) Total solutions for the IND enabling services

With the integrated drug discovery and early-stage drug development services, the Company is able to provide a complete set of R&D services for the filing of IND application of a new drug candidate, including preclinical safety assessment, CMC materials, pharmacology and pharmacokinetic data as well as clinical trial proposal IND application for new drug candidates. Also, the Company can support IND application in China, the U.S. or Europe in parallel, which provide flexibility to the customers in speeding up their drug development process.

2. Global operations, profound experience in pharmaceutical R&D and state-of-the-art technologies to provide customized solutions

The Company operates globally through our laboratories, clinical and manufacturing facilities in China, the U.S. and the U.K.. In order to stay at the forefront of technologies and maintain our competitiveness, the Company is devoted to further enhancing our technical capability through internal research and development efforts, cooperation with universities and research institutions, collaboration with our customers and acquisitions.

The Company has put in place our chemoproteomics platform, which has multiple applications in pharmaceutical R&D such as facilitating identification of novel biological targets and hits and conducting safety evaluation in a unique way. Furthermore, the Company's technology platform combining microautoradiography and immunohistochemistry with radiolabeled testing helps us better understand the mechanism of action so as to achieve efficacy and safety.

The Company's profound experience in global pharmaceutical R&D, together with its global operations and world-class technical capabilities, allow us to offer our customers a unique proposition that combines our technical expertise and efficient services. The Company has a proven track record of offering customized solutions to customers to address their specific needs by integrating the expertise from our global operations. For example, our clinical pharmacology team in the U.S. has worked seamlessly with our Chinese team to conduct first-in-human (FIH) studies in the U.S. after the applications for clinical trial approval have been prepared and submitted by the Chinese team. In addition, the Company's experience in project application in various jurisdictions and its service mode of providing customers with total solution approach enable our customers to file investigational new drug (IND) applications for their drug candidates in China, the U.S. or Europe in parallel, which makes the application for clinical trial approval of our customers more flexible and efficient.

3. Well positioned to capture growth opportunities arising from the continued industry landscape evolvement

The Company is well positioned to capture the growth opportunities in the global pharmaceutical R&D service market arising from the industry landscape evolvement. As it is a trend for pharmaceutical companies and biotech start-ups to enter into deeper collaborations with their preferred service providers to achieve higher efficiency for their R&D projects, pharmaceutical R&D service providers with end-to-end service offerings and good track record like the Company are generally partners of choice to these companies. The number of biotech start-ups and their R&D expenditures increase rapidly. These biotech start-ups rely heavily on the comprehensive R&D support provided by fully-integrated platforms to supplement their internal R&D resources, which achieves greater cost effectiveness and time efficiency than establishing comprehensive internal R&D capabilities. Through long-term collaboration with partners and customers, the Company will contribute to transforming the drug discovery and development industry in a more efficient way and continuously benefit from the growing demand for pharmaceutical R&D outsourcing services.

Along with the trend for large China-based pharmaceutical companies to shift their R&D focus from generic drugs to innovative drugs and the rapidly increasing number of biotech start-ups in China, demand for pharmaceutical R&D outsourcing services in the Chinese market remains strong. Rooted in the fastest growing pharmaceutical R&D service market in the world and leveraging on the profound experience that has been accumulated through the global operations over the years, the Company is well positioned to capitalize on the strong growth drivers in China's pharmaceutical R&D industry, further strengthen its leadership in such market.

4. Reputable, loyal and expanding customer base that contributes to our sustainable growth and business collaboration

The Company has a large, diverse and loyal customer base consisting of more than 1,000 customers, including top 20 pharmaceutical companies in the world and many reputable biotech companies. The Company's fully-integrated solution and deep understanding of customers' needs allow it to provide customized pharmaceutical R&D services for customers according to their needs. With further progress made in the existing customers' projects, the loyal and growing customer base will enable us to develop new services in drug development and at early clinical stage.

The Company benefits from its strategic partnership with specific customers. Through know-how sharing and trainings provided during our deep collaboration with these customers, the Company is able to further improve technical capabilities and enhance service excellence, thereby creating a virtuous cycle. With our strong technical expertise, advanced technological infrastructure, profound industry knowledge, strong execution capability and quality customer services, the Company is able to become our customers' strategic partner and help them form their drug development or R&D outsourcing strategies, which in turn reinforces our close relationships with such customers. In addition to our strong scientific capabilities, the Company puts emphasis on areas like environmental protection, health, safety and intellectual property protection. The Company takes such measures as establishing intellectual property protection system and building information system to ensure that our customers' intellectual properties are well protected, and is widely recognized and trusted by customers in this respect. The Company's high-quality services enable us to accumulate good reputation among our existing customers, and to further expand our customer base by acquiring new customers through word-of-mouth referrals.

5. Dedicated, stable and visionary management team and experienced talent pool

The Company's management team is led by Dr. LOU Boliang, our chairman and chief executive officer. With over 30 years of experience in the pharmaceutical industry, he is highly respected in the industry for his excellent leadership that contributes to the Company's rapid development. The Company's senior management team has been with us for more than 10 years. The Company has nearly 100 scientific and technical leaders, three of whom were named in the national "Thousand Talent Program" and 14 named in Beijing "Haiju Talents Program". Members of our highly skilled, experienced and international management team possess diverse expertise and extensive knowledge, and have significantly contributed to the growth of the Company's institutional knowledge base. The Company focuses on its home-grown scientific team consisting of selected, young and promising scientists, which enables us to form a cohesive and vibrant mid-level management team composed of 992 technical directors and high-end scientific research talents and distributed in all scientific disciplines of the Company. In addition, the Company's visionary management team has established a highly experienced and skilled talent pool with strong execution capabilities. As of December 31, 2019, the Company had over 6,400 scientists and technicians in China, the U.K. and the U.S..

The highly professional technical team ensures the Company's continuous provision of high-quality and high-level R&D services for customers. The open platform for talent development ensures the Company to continuously attract talents from around the globe. During its development, the Company always puts the talent strategy in the first place and attaches great importance to the training and development of its employees. In order to develop and train our talents, the Company provides training to our employees through our in-house training system including the "Pharmaron College". The Company offers visiting scholar programs at renowned laboratories and institutions and holds various seminars, forums and academic symposiums regularly, through which our team members acquire updates on the most advanced technology and techniques. Besides, the Company has entered into joint training plans for talents with University of Oxford and Shanghai Institute of Organic Chemistry of Chinese Academy of Sciences respectively to explore the training mode for high-end scientific research talents. The above measures have greatly improved the scientific research capabilities and cohesion of the Company and its employees.

Our dedicated, stable and visionary management team and experienced talent pool are valuable assets to us and set the foundation for the Company's long-term success.

OUTLOOK FOR 2020

Discussion and Analysis of Future Development

1. *Industry competition and development*

The Company is engaged in drug research, development and manufacturing services, and provides customers with fully-integrated services for innovative pharmaceutical products throughout the research and development cycle. Its business is closely related to the development of the pharmaceutical industry and pharmaceutical R&D outsourcing market.

(1) Market conditions of pharmaceutical R&D and outsourcing services

Under the pressure of increasing R&D costs and patent cliff, as well as limited by their own R&D capacity, pharmaceutical companies gradually turn to pharmaceutical R&D/manufacturing outsourcing services with an aim to reduce their R&D costs of drugs and improve their R&D efficiency. The increasing investment in pharmaceutical R&D also provides a solid foundation and guarantee for the market development of outsourcing services for R&D and manufacturing. In the future, the size of global pharmaceutical research, development and manufacturing service market and the size of China's pharmaceutical service market are expected to maintain sound growth. According to Frost & Sullivan's forecast, the size of global pharmaceutical service market is expected to be US$94.4 billion in 2019, representing an expected CAGR of 10.3% from 2014 to 2019. With the R&D costs for new drugs surging around the globe, pharmaceutical companies are more inclined to outsource pharmaceutical R&D to speed up their R&D of new drugs. It is estimated that the size of global pharmaceutical service market will increase to US$147 billion by 2023. Compared to global pharmaceutical service market, China's pharmaceutical service market is smaller in size but is growing at a faster growth rate. According to Frost & Sullivan's forecast, the size of China's pharmaceutical service market is expected to reach US$10.8 billion in 2019, and it is expected to increase to US$29.9 billion by 2023, twice the growth rate of global pharmaceutical service market.

(2) Market conditions of drug discovery R&D services

Drug discovery is a multidisciplinary and systematic work and process. According to Frost & Sullivan's forecast, the size of global drug discovery service market is expected to be US$13 billion in 2019, representing a market penetration rate (the proportion of the revenue from services in the total R&D investment) of 37.0%. It is estimated that the size of global drug discovery service market will increase to US$19.1 billion by 2023, representing a CAGR of 10.1% from 2019 to 2023, far exceeding the growth rate of investment in drug discovery R&D in the same period, and the penetration rate of global drug discovery R&D service market will reach 42.5%; meanwhile, the size of China's drug discovery service market is estimated to be US$1.5 billion in 2019, accounting for 51.7% (i.e., the penetration rate of drug discovery R&D services) of the entire drug discovery R&D market. It is estimated that the size of China's drug discovery R&D service market will increase to US$4.2 billion by 2023, exceeding the growth rates of both the investment in drug discovery and the global drug discovery R&D services in the same period. The market penetration rate of China's drug discovery R&D services will also rise to 59%.

(3) *Market conditions of pharmaceutical development and manufacturing services*

Pharmaceutical development and manufacturing services cover the whole process of preclinical research, clinical research, drug registration and commercial manufacturing. According to Frost & Sullivan's forecast, the size of global pharmaceutical CMO service market is expected to be US$30.3 billion in 2019, representing a market penetration rate of 18.4%. It is estimated that the size of global pharmaceutical CMO service market will increase to US$51.8 billion by 2023, representing a CAGR of 14.3% from 2019 to 2023; meanwhile, the size of China's pharmaceutical CMO service market is expected to be US$3 billion in 2019, accounting for 9.8% of the entire pharmaceutical CMO service market. It is estimated that the size of China's pharmaceutical CMO service market will increase to US$8.5 billion by 2023, 15.7% higher than the growth rate of global pharmaceutical CMO service in the same period. The market penetration rate of China's pharmaceutical CMO services will also rise to 21.2%.

(4) *Market conditions of clinical development services*

Drug clinical development services cover phase I to phase III of human clinical trials and post-commercialization research of drugs. With the steady growth in investments in drug research and development, patent cliff for a number of major pharmaceutical products drawing near and the raise in prominence of small to medium size biotech companies globally, pharmaceutical companies appreciates the use of contract research services, particularly the contracting of clinical development services, having a relatively high cost of human resources, in order to advances the drug development stages more efficiently. According to research conducted by Frost and Sullivan, the global market for drug clinical development services reached US$40.6 billion in 2019 and is expected to reach US$60.2 billion by 2024, representing an expected CAGR of 8.2%; at the same time, the market for drug clinical development services in China has reached US$3.6 billion, accounting for 8.9% of the global market for drug clinical development services. With the increase of early stages drug licenses and domestic development of early stages drugs in China, the market for drug clinical research service will continue to grow rapidly, it is expected that by 2024, the market for drug clinical research service in China will reach USD12.0 billion, representing an expected CAGR of 27.0%, far exceeding the global market growth rate of 8.2% during the period.

2. *Outlook and strategy of the Company's future development*

The Company will continue to build and improve our fully-integrated and international pharmaceutical R&D service platform, which has always been our core development strategy. Through the fully-integrated service platform, the Company is able to provide customers with more flexible and efficient services, customize business teams equipped with various professional skills for customers according to their needs in a timely manner, and promptly respond to the requirements of relevant R&D projects. Therefore, the fully-integrated service platform can supplement and strengthen customers' R&D capabilities in different research and development stages and promote collaboration between different disciplines, so as to help customers successfully and efficiently complete pharmaceutical R&D work.

The Company constantly improves its R&D capabilities and professional skills when providing services for foreign customers, which enables us to further enhance our R&D capabilities to meet international standards. At the same time, the Company's abundant international experience also facilitates domestic customers' filing for overseas products application and entry into the international market. Furthermore, the Company attaches great importance to the talents in our cross-border acquisitions, which provides a more effective talent reserve for the Company's internationalization. With the rapid growth of China's pharmaceutical R&D investment, the Company will pay more attention to the domestic market and seize opportunities in the booming domestic innovative pharmaceutical R&D market; meanwhile, the Company will continue to strengthen cooperation with large pharmaceutical companies and biotech start-ups and strive to seek for more new customers in the international market.

In 2020, based on its long-term development strategy, the Company will focus on the following work:

(1) Further enhance our fully-integrated pharmaceutical R&D service platform and expand our global footprint

The Company will vigorously enhance the synergy and advantages of our fully-integrated pharmaceutical R&D service platform and expand our global footprint. Vertically, we aim to strengthen the collaboration and achieve seamless cooperation between different disciplines in the same stage of new drug R&D, which promotes interdisciplinary transformations and create value for our customers by saving time and costs for the pharmaceutical R&D process. In 2020, we will continue to vertically drive the business growth of bioscience based on our profound experience and reputation accumulated from our laboratory chemistry services, turn bioscience business into the next business highlight of laboratory services, and facilitate the continued growth of our pharmaceutical R&D service platform. Horizontally, we will strengthen the synergies of the same discipline in different stages of new drug R&D, further improve our professional expertise of such discipline and diversify our service content, so as to maintain our leading position. In 2020, the Company will continue to enhance its CMC and clinical development capabilities in the drug development stage, and further improve the production capacity of facilities in Ningbo and Tianjin and upgrade its service quality system.

(2) *Continue to develop and acquire innovative pharmaceutical R&D technologies*

Advanced technologies are crucial for the Company to maintain its leading position in the industry. In addition to working closely with renowned research institutions and universities, the Company will continue to invest in new technologies and innovation, including but not limited to high-throughput organic reaction systems, expansion of DNA-encoded library capacity, strengthening the construction of chemical proteomics platform for innovative biological target discovery, identification and safety assessment of hits/ lead compounds, cutting-edge imaging technologies for mechanism of action and diagnostic purposes etc., in order to further upgrade the technologies on our pharmaceutical R&D service platform.

(3) *Further strengthen capabilities for biologics*

In recent years, the Company has established biologics discovery services in its laboratory service line. With this foundation, the Company will further expand its team and recruit more scientists and technical personnel in 2020 to expand its service offerings in the biologics area. Also, the Company will accelerate the development of biologics analysis and testing services platform as well as building up development and manufacturing capability for biologics in the early development stage. The Company will also looking into acquisition opportunities to bring in new R&D capabilities in the biologics discovery and development areas.

(4) *Continue to strengthen our talent pool to support our long-term and sustainable growth*

With growing demand of innovative drug R&D service market, it becomes necessary for the Company to continuously attract excellent pharmaceutical R&D talents from in China and abroad to meet the needs of its future business. The Company will continue develop future scientific research and management talents through multi-dimensional and comprehensive on-the-job learning platform, including the Pharmaron College, and systematically recruited, trained and developed talents in various professional fields and retained a team composed of staff in multi-levels (i.e. senior, middle and junior), which served as a talent pool for our long-term business development.

(5) *Broaden customer base and deepen collaborations with customers*

China is the second largest pharmaceutical market and the fastest growing pharmaceutical R&D service market in the world. For the domestic market with great potential, the Company will further optimize the service offerings for the domestic customers based on its profound experience in international R&D service and the features of domestic customers' needs. Moreover, the Company will expand its marketing channels and carry out targeted marketing and brand building for the domestic market. As for overseas market, the Company will deepen the relationship with existing customers, conduct in-depth analysis and tap into customers' demands, and at the same time attract more new customers. Also, the Company will expand its service coverage and continue to expand its service capabilities downstream, in an effort to provide customers with more convenient, faster and high-quality services, improve customer loyalty and enhance the Company's brand recognition.

(6) *Continue to improve service quality, strengthen safety and focus on compliance*

It is the Company's long standing goal and culture to provide customers with the highest quality products and services and the Company has always put great emphasis on quality control and quality assurance and building the Company's quality system by strictly follows the highest level of quality standards in the industry globally. Meanwhile, the Company will continue to place safety as the priority of daily operation and management. Additionally, the Company will undertake social responsibilities of a listed company, comply with all applicable regulatory requirements imposed the relevant authorities, and adhere to compliance requirements with a higher standard.

3. *Potential risks*

(1) *Risk of declining demand in pharmaceutical R&D service market*

The Company is a leading fully-integrated pharmaceutical R&D service platform with global operations to accelerate drug innovation for our customers. The Company's performance depends on the number and size of R&D projects outsourced from customers (including both pharmaceutical companies and biotech start-ups). In the past few years, the Company's business scale has grown rapidly as it benefited from the rising demand for pharmaceutical R&D services brought by the growing global pharmaceutical market, the increase in customers' R&D budget and the increased penetration rate of pharmaceutical R&D outsourcing. While the global pharmaceutical industry is expected to keep growing driven by such factors as aging population, higher disposable income and increased spending on healthcare, there is no guarantee, however, that the pharmaceutical industry will grow at the rate we project. If the growth of the global pharmaceutical market slows down in the future, customers may suspend their pharmaceutical R&D projects or reduce their pharmaceutical R&D budget, which will have an adverse impact on the Company's business performance and prospects.

In the future, the Company will firmly implement fully-integrated strategy, constantly improve its scientific research capabilities and service quality and enhance its market competitiveness. At the same time, the Company will rely on its strong technical reserves and abundant customer resources to further cultivate the domestic and international markets, thereby ensuring a steady increase in the Company's market share.

(2) *Risk of losing scientific and technological talents and senior management members*

The Company has established a talent team with extensive experience and strong execution capability, which possesses the ability to provide customers with high-quality services in a timely manner and keep up with the cutting-edge technology and latest development of pharmaceutical R&D. However, there is a limited supply of qualified R&D personnel with requisite experience and expertise and such qualified personnel are also highly-sought after by large pharmaceutical companies, biotech start-ups and scientific research institutes. If the Company fails to maintain competitiveness in attracting and retaining excellent scientific and technological personnel in the future, we may not be able to provide customers with high-quality services, which could have a material adverse impact on its business.

A stable senior management team is crucial to the Company's business development. In particular, the Company is dependent on the senior management team led by Dr. LOU, our chairman and chief executive officer, for their management, supervision and planning of our business. The Company's senior management team has been with us for more than 10 years and has made significant contributions to the Company's growth in the past. Despite that each of our senior management member has signed a non-competition agreement with us, the Company may not be able to enforce these provisions should any of them leaves the Company to join a competitor or to start his/her own business which competes with the Company, and our business operations could be materially and adversely affected.

For the above risks, the Company will optimize and improve the human resource management system, further strengthen efforts in various aspects such as attraction, assessment, training and incentives, and constantly improve the long-term incentive mechanism (including equity incentives) for all kinds of talents, striving to establish a talent team with first-class caliber that can adapt to international competition.

(3) Risks regarding intellectual property protection

Protection of intellectual property rights associated with customers' R&D services is critical to all of our customers. The service agreements and confidentiality agreements signed between the Company and our customers typically require the Company to exercise all reasonable precautions to protect the integrity and confidentiality of our customers' confidential information. Any unauthorized disclosure of our customers' intellectual property or confidential information could subject the Company to liability for breach of contract and result in significant damage to our reputation, which could have a material adverse impact on the Company's business and operating results.

In the future, the Company will further improve the existing confidentiality policy, software and hardware, and continue to carry out internal training for employees to enhance their awareness of confidentiality and intellectual property protection.

(4) Risks regarding policies and regulation

There are strict laws, regulations and industry standards in many countries or regions to which drugs are intendedly to be ultimately sold (such as China, the U.S., the U.K. and several European Union countries) to regulate drug development and manufacturing. The pharmaceutical regulatory authorities of these countries (e.g., FDA or NMPA) also conduct planned or unplanned facility inspections over drug development and manufacturing agencies (e.g., our customers and us) to ensure that relevant facilities meet regulatory requirements. During the past periods, the Company has passed the inspection of relevant regulatory authorities on drug discovery, development and manufacturing processes and facilities in all major aspects. If the Company fails to continuously meet the requirements of regulatory policies or fails to pass the on-site inspection by regulatory authorities in the future, it may be disqualified or subject to other administrative penalties, resulting in the termination of cooperation by our customers.

In addition, the operation of the Company is subject to national and regional laws on environmental protection, health and safety, including but not limited to the use of hazardous chemicals that are flammable, explosive and toxic and the treatment of pollutants (waste gas, waste water, waste residue or other pollutants). If the relevant environmental protection policies become more stringent in the future, the Company's costs for environmental compliance will rise.

In response to policy and regulatory risks, on the one hand, the Company will pay close attention to the trend of pharmaceutical policies and actively implement national policies, and endeavor to take the lead in future competition; on the other hand, the Company has established a series of management systems for environmental protection and safety production, and no major accidents regarding environmental protection or safety production have occurred since the establishment of such systems. The Company will continue to strictly implement all internal systems related to environmental protection and safety production in the future and make timely adjustments according to laws and regulations to ensure the Company's continuous fulfillment of regulatory policy requirements.

(5) Risk of failure to obtain the licenses required for carrying out businesses

The Company is subject to a number of laws and regulations on pharmaceutical R&D and manufacturing. These laws and regulations require that the Company obtain a number of approvals, licenses and permits from different competent authorities to operate our business, some of which are subject to regular renewal. If the Company fails to obtain the approval, license and permit required for its operation, it will have to suspend its operation as ordered by the relevant regulatory authorities.

In response to the above risks, the Company will carefully follow up on the implementation of relevant laws and regulations and strengthen communication with government departments, so as to obtain all kinds of qualifications required for our business smoothly. At the same time, the Company will also strictly monitor the internal production management system, so that relevant qualifications can be renewed.

(6) Risks regarding exchange rates

The Company's exchange currency risk mainly relates to USD, GBP and EUR. During the Reporting Period, the Company's income from overseas customers took up a much higher portion than that from domestic customers, and a considerable portion of our income came from sales denominated in USD. However, most of the Company's personnel and operating facilities are located in China, and the relevant operating costs and expenses are denominated in RMB. In recent years, as affected by China's political and economic conditions, trade tensions between the U.S. and China, international economic and political developments, as well as the decision of the Chinese government to further promote the reform of the RMB exchange rate system and enhance the flexibility of RMB exchange rates, the exchange rates between RMB and USD and other currencies fluctuate. If RMB appreciates against USD in the future, the amount of the Company's operating income in RMB converted from USD will decline accordingly, which will have an adverse impact on the Company's operating results.

In response to the risk of exchange rate fluctuations, the Company has reduced and will continue to reduce such risk through hedging transactions.

(7) *Risks regarding market competition*

The global pharmaceutical R&D service market for innovative drugs is highly competitive. The Company is committed to building a fully-integrated service platform with laboratory service, clinical research and CMC service capabilities. Therefore, the Company expects to compete with domestic and international competitors at specific stages of pharmaceutical R&D. At the same time, the Company also competes with the discovery, trial, development and commercial manufacturing departments within pharmaceutical companies. As more competitors enter the market, level of competition is expected to keep escalating. The Company is confronted with market competition in terms of service quality, breadth of integrated service, timeliness of delivery, R&D service strength, intellectual property protection, depth of customer relationship, price, etc. If the Company fails to maintain competitiveness in all of the above aspects in the future, its business and operating results will be adversely affected.

In the future, the Company will continue to deepen the construction of fully-integrated pharmaceutical R&D and manufacturing service platform and strengthen the construction of scientific research teams to improve service quality. Meanwhile, the Company will also take advantage of its leading position in the industry and word-of-mouth referrals accumulated over the years to actively develop new customers and further strengthen its ability to resist market competition risks.

(8) *Risks regarding technological innovation*

With the continuous market development and innovation of R&D technologies, advanced technologies are vital for the Company to maintain its leading position in the industry. The Company shall keep up with the development direction of new technologies and processes to maintain our leading position in the industry. If the Company fails to develop or exploit new technologies and processes to provide services for customers, customers' demand for our services may stagnate or decline, which may have an adverse impact on the Company's performance.

In response to the above risks, the Company will continue to invest a large amount of human and capital resources to develop new technologies and upgrade our service platform. If target companies with new technologies that appeal to us, the Company will also consider acquisitions to inject new service capabilities into our platform.

(9) *Risks regarding service quality*

Service quality and customer satisfaction are one of the important factors for the Company to maintain performance growth. The Company's pharmaceutical research, development and production services mainly provide customers with experimental data and samples, which serve as an important basis for customers to carry out subsequent R&D and manufacturing. Meanwhile, our customers have the right to review the standard operating procedures and records of the Company's services, and check the facilities used to provide services to them. If the Company fails to maintain high service quality, or the experimental data or samples we provide are defective, or our service facilities fail to pass customers' review, the Company may face liquidated damages and suffer loss of customers due to reputation damage, which will have an adverse impact on the Company's business.

In the future, the Company will continue to steadily advance quality management and strive to improve the Company's quality control system, in an attempt to provide customers with high-quality products and services.

OTHER INFORMATION

Employee Remuneration and Relations

As at December 31, 2019, the Group had a total of 7,393 employees, as compared to 6,171 employees as at December 31, 2018. The Group provides employees with competitive remuneration and benefits, and the Group's remuneration policies are formulated according to the assessment of individual performance and are periodically reviewed. The Group provide employees with opportunities to work on cutting-edge drug development projects with world-class scientists, as well as opportunities to continued academic learning in the Group's Pharmaron College.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Significant Investments and Future Plans for Material Investments or Capital Assets

Except for the subsequent events disclosed in the paragraph headed "Material Events after the Reporting Period" below, the Group has no significant investment, or plan authorized by the Board for other material investments or additions of capital assets during the Reporting Period.

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

The Group has no material acquisitions or disposal of subsidiaries, associates and joint ventures during the Reporting Period.

Financial Instruments

Details of the financial instruments held by the Company are set out in note 46 to the consolidated financial statements.

Material Events after the Reporting Period

The establishment of Ningbo Kangjun Ningyuan Equity Investment Partnership Enterprise (L.P.)

On January 20, 2020, the Company (as the limited partner) and Kangjun Investment Management (Beijing) Co., Ltd. (as the general partner, also a connected person of our Group under Chapter 14A of the Listing Rules) entered into a limited partnership agreement in relation to the establishment of and investment in Ningbo Kangjun Ningyuan Equity Investment Partnership Enterprise (L.P.). The Fund will be registered in the PRC as a limited partnership with the primary objective of investment in, among others, equity interests and/or convertible loans of companies or entities in the biomedical industry. For details of the transaction, please refer to the announcements of the Company dated January 20, 2020 and February 6, 2020.

Evaluation on the impact of the 2019 Novel Coronavirus

Since the outbreak of the 2019 Novel Coronavirus ("**COVID-19**") in January 2020 in China and around the world, the Group has actively taken measures to implement the regulations and requirements issued by the local governments on coronavirus epidemic prevention and control.

Due to the coronavirus outbreak, the Group postponed the resumption of operations to February 10, 2020, one week after the original resumption date. As such, there were slight delays in meeting the delivery schedule for some of the orders of the Group in February 2020.

The Group will continuously evaluate the development of the coronavirus situation and its impact on the financial position and operation of the Group. As of the date of this announcement, no significant adverse impact has been identified.

Acquisition of additional 20% interest in LinkStart

In February 2020, the Company entered into an agreement with an independent third party, Mr. Yuejiang Yu, to acquire additional 20% equity interest of an associate, LinkStart, for a cash consideration of RMB60,000,000. The acquisition is expected to be completed later in the second quarter of 2020. After the completion of this transaction, the Company will hold 68% equity interest of LinkStart and LinkStart will become a subsidiary of the Company. LinkStart provides site management services in China, which includes data entry and document management, on-site drug management and bio-sample management till site closure.

Subscription of Shares of AccuGen Group

Pursuant to a Seed Preferred Share Purchase Agreement dated March 5, 2020 entered into by and between, amongst others, Pharmaron (Hong Kong) International Limited ("**Pharmaron HK**"), a wholly-owned subsidiary of the Company, and AccuGen Group, Pharmaron HK has agreed to purchase and subscribe for shares representing 50% of the equity interests (on a diluted basis) in AccuGen Group (the "**Subscription**"). It is expected that the Subscription will be completed in the second quarter of 2020, subject to satisfaction or waiver of certain closing conditions. AccuGen Group is an exempted limited company incorporated in the Cayman Islands and is principally engaged in providing research, development and manufacturing services of cell and gene therapy products.

Profile of Directors, Supervisors and Senior Management

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

DIRECTORS

The Board currently comprises 12 Directors, of which three (3) are executive Directors, four (4) are non-executive Directors and five (5) are independent non-executive Directors. The following table sets forth information in respect of our Directors:

Name	Age	Position	Date of Appointment as Director
Dr. LOU Boliang	56	Chairman, chief executive officer and executive Director	October 27, 2016
Mr. LOU Xiaoqiang	51	Chief operating officer, president and executive Director	October 27, 2016
Ms. ZHENG Bei	52	Executive vice president and executive Director	October 27, 2016
Mr. CHEN Pingjin	49	Non-executive Director	October 13, 2017
Mr. HU Baifeng	38	Non-executive Director	October 13, 2017
Mr. LI Jiaqing	46	Non-executive Director	October 27, 2016
Mr. ZHOU hongbin	46	Non-executive Director	October 27, 2016
Mr. DAI Lixin	95	Independent non-executive Director	October 27, 2016
Ms. LI lihua	55	Independent non-executive Director	October 27, 2016
Ms. CHEN Guoqin	47	Independent non-executive Director	October 27, 2016
Ms. SHEN Rong	50	Independent non-executive Director	October 27, 2016
Mr. TSANG Kwan Hung Benson	54	Independent non-executive Director	November 28, 2019

SUPERVISORS

Our Supervisory Committee consists of three Supervisors. The following table sets forth information in respect of our Supervisors:

Name	Age	Position	Date of Appointment as Supervisors
Dr. YANG Kexin	56	Chairman of the Supervisory Committee	October 27, 2016
Mr. LIU Jun	29	Supervisor	October 13, 2017
Ms. ZHANG Lan	37	Employee representative Supervisor	October 27, 2016

EXECUTIVE DIRECTORS

Dr. LOU Boliang (樓柏良), aged 56, is the chairman, chief executive officer and an executive Director of our Company. Dr. LOU co-founded our Group together with Mr. LOU and Ms. ZHENG in July 2004. He is primarily responsible for the overall management, strategic planning and corporate development of our Group. He is also actively involved in formulating our business development strategy and developing strategic relationship with our customers. He also serves as a director of most of the subsidiaries of our Group. Dr. LOU is the brother of Mr. LOU and the brother-in-law of Ms. ZHENG.

Since November 2006, Dr. LOU has been a director of Pharmaron Holdings Limited, which was our business and asset holding vehicle prior to the restructuring in connection with our A Share Offering.

Dr. LOU has over 25 years of experience in the life sciences and biotech industry. Prior to founding our Group, Dr. LOU worked at several life sciences and biotech companies such as Cytel Corporation, Ontogen Corporation and Advanced SynTech (formerly known as Helios Health, Inc.).

Dr. LOU obtained a master's degree and a doctorate degree in science at the Shanghai Institute of Organic Chemistry (中國科學院上海有機化學所) in May 1986 and May 1989, respectively. From 1990 to 1994, he conducted post-doctoral research at the University of Montreal in Canada.

Dr. LOU's awards and recognitions include:

- President's Special Award of the Chinese Academy of Sciences (1989);
- Beijing Overseas Returnee Entrepreneur Award (2008); and
- Bo-Da Contribution Award from the Office of Beijing Economic and Technological Development Area (BDA) (2010).

Mr. LOU Xiaoqiang (樓小強), aged 51, is the chief operating officer, president and an executive Director of our Company. Mr. LOU co-founded our Group together with Dr. LOU and Ms. ZHENG in July 2004. Mr. LOU is primarily responsible for the overall operations of the business of our Group. In particular, Mr. LOU is responsible for the execution of our Group's growth strategy both in China and globally. He also serves as a director at several subsidiaries of our Group. Mr. LOU is the brother of Dr. LOU and the husband of Ms. ZHENG.

From March 2007 to January 2016, Mr. LOU was a director of Pharmaron Holdings Limited.

Prior to joining our Group, he worked in sales and management roles at various electronics companies.

Mr. LOU was previously a manager, supervisor and/or director of three PRC companies which had their business licenses revoked for not submitting its annual corporate filings[1]. Based on the opinion of our PRC Legal Adviser[3], our Directors are of the view that the revocation of the business license of these companies does not impact Mr. LOU's competence as a director under Rule 3.08 and Rule 3.09 of the Listing Rules.

Mr. LOU obtained a bachelor's and a master's degree in material science and engineering from Beijing University of Aeronautics and Astronautics (北京航空航天大學) in July 1990 and March 1993, respectively. Mr. LOU obtained a master's degree in business administration from the China-Europe International Business School (中歐國際工商學院) in September 2009.

Ms. ZHENG Bei (鄭北), aged 52, is the executive vice president and an executive Director of our Company. Ms. ZHENG co-founded our Group together with Dr. LOU and Mr. LOU in July 2004. Ms. ZHENG is primarily responsible for the administration and asset management of our Group. In particular, she is responsible for the facilities expansion of our Group. Ms. ZHENG is the wife of Mr. LOU and the sister-in-law of Dr. LOU.

From March 2007 to January 2016, Ms. ZHENG was a director of Pharmaron Holdings Limited.

Ms. ZHENG was previously a manager, supervisor and/or director of two PRC companies which had their business licenses revoked for not submitting its annual corporate filings[2]. Based on the opinion of our PRC Legal Adviser[3], our Directors are of the view that the revocation of the business license of the above companies does not impact Ms. ZHENG's competence as a director under Rule 3.08 and Rule 3.09 of the Listing Rules.

Ms. ZHENG received her master's degree in law from Peking University (北京大學) in July 1992.

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1 Shaoxing Kangbi Medical Technology Co. Ltd. (紹興康比醫藥技術有限公司) ("Shaoxing Kangbi"), Beijing Yizhian Information Security Technology Co., Ltd. (北京易指安信息安全技術有限公司) ("Beijing Yizhian"), and Beijing Jiahuida Technology Co. Ltd. (北京嘉匯達科技有限公司) ("Beijing Jiahuida"). Shaoxing Kangbi and Beijing Jiahuida were dormant companies and Beijing Yizhian was engaged in sales of fingerprint identification products immediately prior to its license being revoked, respectively. The licenses were revoked in November 2004, October 2003 and October 2000, respectively.

2 Shaoxing Kangbi and Beijing Jiahuida, which had no actual operation of business prior to its license being revoked in November 2004 and October 2000, respectively.

3 On the basis that (i) no dishonesty or fraudulent act on the part of Mr. LOU or Ms. ZHENG had been involved in the license revocation of these companies or business enterprises; and (ii) 15 years have passed since the license revocation of these companies or business enterprises, our PRC Legal Adviser advised that Mr. LOU and Ms. ZHENG may act as the legal representative, director, supervisor or senior management of other PRC companies.

NON-EXECUTIVE DIRECTORS

Mr. CHEN Pingjin (陳平進), aged 49, is our non-executive Director. Mr. CHEN is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. CHEN joined our Group on October 13, 2017.

Since April 2016, Mr. CHEN has served as a deputy general manager of Gold Stone Investment Co., Ltd. (金石投資有限公司) ("Gold Stone Investment"), a subsidiary of CITIC Securities Co., Ltd. (中信証券股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600030) where he has successively served various roles from December 2006 to March 2016.

Mr. CHEN obtained his bachelor's degree in electrical engineering from East China Jiaotong University (華東交通大學) in July 1992. He obtained his master's degree in information economics from Beijing Jiaotong University (北京交通大學) (formerly known as Northern Jiaotong University (北方交通大學)) in April 1998.

Mr. HU Baifeng (胡柏風), aged 38, is our non-executive Director. Mr. HU is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. HU joined our Group on October 27, 2016 and was our Supervisor from October 2016 to October 2017.

Since March 2018, he has served as a board director of Ampleon Cooperatief UA, a company primarily engaged in the financial holdings business in the Netherlands. Since February 2017, Mr. HU has served as a director of Gold Stone Investment. From May 2014 to January 2017, Mr. HU served as a director at CITIC M&A Fund. From 2006 to 2013, he worked at the investment department of several companies.

Mr. HU obtained his bachelor's degree in economics from Hunan University (湖南大學) in June 2003. He obtained his master's degree in economics from the University of Ottawa in Canada in October 2005.

Mr. LI Jiaqing (李家慶), aged 46, is our non-executive Director. Mr. LI is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. LI joined our Group on March 12, 2007. From March 2007 to January 2016, Mr. LI was a director of Pharmaron Holdings Limited. Since 2007, he has served as a managing director of Legend Capital. From December 2011 to February 2018, he served as a director of Wuxi Lead Intelligent Equipment Co., Ltd. (無錫先導智能裝備股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300450). From March 2011 to February 2014, he served as a supervisor of Shanghai Amarsoft Information Technology Co., Ltd. (上海安碩信息技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300380). From September 2010 to April 2018, Mr. LI served as a director of Yunnan Hongxiang Yixintang Pharma Co., Ltd. (雲南鴻翔一心堂藥業(集團)股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002727). From 2001 to 2007, he successively served as vice president, senior vice president, and executive director of Legend Capital.

Mr. LI obtained his dual bachelor's degree in mechanical engineering and economic management and a master's degree in management from Tsinghua University (清華大學) in July 1996 and July 1999, respectively. He obtained his master's degree in business administration from the Engineering School of Paris in France in June 2001.

Mr. ZHOU Hongbin (周宏斌), aged 46, is our non-executive Director. Mr. ZHOU is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. ZHOU joined our Group on October 27, 2016.

Since September 2015, he has served as a director of Milkyway Chemical Supply Chain Service Co., Ltd. (密爾克衛化工供應鏈服務股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603713). Since June 2015, he has served as a supervisor of Guangzhou Kingmed Diagnostics Group Co., Ltd. (廣州金域醫學檢驗集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603882). Since April 2015, he has served as a managing director of Legend Capital. From 2005 to 2015, he successively served as investment manager, investment vice president, investment director and executive director of Legend Capital.

Mr. ZHOU obtained his bachelor's degree in urban construction and master's degree in engineering from Wuhan University (武漢大學) in July 1994 and June 1997, respectively. He obtained his doctorate degree in management from Fudan University (復旦大學) in July 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. DAI Lixin (戴立信), aged 95, was appointed as an independent non-executive Director on October 27, 2016. Mr. DAI is primarily responsible for supervising and providing independent advice to the Board.

Mr. DAI has over 70 years of experience in the chemical sciences industry. In 1953, Mr. DAI was assigned by the Chinese Academy of Sciences (中國科學院) to work in the Shanghai Institute of Organic Chemistry (上海有機科學研究所) (the "SIOC"), where he has continued his study of organic chemistry till now. He served successively in SIOC as an assistant researcher, associate researcher and since 1986 as a research professor. From 1950 to 1953, he served in administration positions in the Shanghai Iron and Steel Company (上海鋼鐵公司) and the Shanghai Bureau of Minerals and Metallurgy (上海礦治局). In 1948, he joined the Shanghai Third Iron and Steel Factory (上海鋼鐵公司第三鋼鐵廠) as an engineer in the analytical laboratory. From 1947 to 1948, he worked as a teacher in Zhong-Hua Vocational School (中華職業學校).

Mr. DAI obtained his bachelor's degree from the Chemistry Department of Zhejiang University (浙江大學) in 1947. In 1993, Mr. DAI was elected as an academician of the Chinese Academy of Sciences. He has published more than 200 academic papers and 11 books and has authorized 13 patents in China. He has supervised 38 students to obtain doctorate degrees and 3 students to obtain master degrees. He is a member of the Chinese Chemical Society (中國化學會) and also a member of Shanghai Society of Chemistry and Chemical Industry (上海市化學化工學會), and currently an honorary chairman of the latter society. Mr. DAI has won twice the National Natural Science 2nd Class Awards (國家自然科學獎二等獎) in 2002 and in 2013, the Ho Leung Ho Lee Foundation Science and Technology Progress Award (何梁何利基金科學與技術進步獎) in 2002 and the Chiral Chemistry Lifetime Achievement Award of Chinese Chemical Society (中國化學會手性化學成就獎) in 2014, and the Lifetime Achievement Award by the Chinese Chemical Society in 2018.

Ms. LI lihua (李麗華), aged 55, was appointed as an independent non-executive Director on October 27, 2016. Ms. LI is primarily responsible for supervising and providing independent advice to the Board.

Since May 2017, she has been a lawyer at Beijing Huamao & Guigu Law Firm (北京市華貿硅谷律師事務所). From May 2013 to March 2017, she was a lawyer at Beijing Zhong Yi Law Firm (北京市眾一律師事務所).

Ms. LI obtained her master's degree in law from Peking University (北京大學) in July 1995.

Ms. CHEN Guoqin (陳國琴), aged 47, was appointed as an independent non-executive Director on October 27, 2016. Ms. CHEN is primarily responsible for supervising and providing independent advice to the Board.

Since February 2001, she has been a lawyer at S&P Law Firm (北京市尚公律師事務所), a law firm based in Beijing, where she currently serves as a director and senior partner.

Ms. CHEN obtained her bachelor's degree in economics from Xiamen University (廈門大學) in July 1995. Ms. CHEN obtained her master's degree in law from the Beijing University of International Business and Economics (北京對外經濟貿易大學) in June 2006.

Ms. SHEN Rong (沈蓉), aged 50, was appointed as an independent non-executive Director on October 27, 2016. Ms. SHEN is primarily responsible for supervising and providing independent advice to the Board.

Since July 1991, she successively served various roles at Zhonghua Certified Public Accountants LLP (眾華會計師事務所(特殊普通合夥)) (formerly known as Shanghai Academy of Social Sciences CPAs (上海眾華滬銀會計師事務所)) and currently serves as a senior partner.

Ms. SHEN obtained her bachelor's degree in economics at the Shanghai University of Finance and Economics (上海財經大學) in July, 1991. She obtained her master's degree in business administration at Maastricht School of Management in the Netherlands in August, 2002.

Mr. TSANG Kwan Hung Benson (曾坤鴻), age 54, was appointed as an independent non-executive Director on August 15, 2019 (effective from the Listing Date). Mr. TSANG is primarily responsible for supervising and providing independent advice to the Board.

Since July 2018, he has served as an independent director and chairman of the audit committee of Athenex Inc., a company listed in the United States (NASDAQ: ATNX). Since July 2017, he has served as a director of the board of Puritek Canada Inc., the Canadian investment arm of Puritek China Company. Since July 2014, he has served as a director of the board of Hydraservices Inc., a waste management and odour control solutions company based in Canada. From October 2017 to December 2018, he served as an executive-in-residence adviser at ShangPharma Innovation Inc., an early stage pharmaceutical company based in the United States. From March 2010 to June 2015, he served as the chief financial officer of ATA Inc., a large scale computer-based testing service provider listed in the United States (NASDAQ: ATAI). From November 2010 to March 2013, he served as an independent director at ShangPharma Corp., a pharmaceutical R&D contract service organization company previously listed in the United States (NYSE: SHP), which was privatized in September 2013.

From July 2006 to February 2009, he served as the chief financial officer of Wuxi Pharma Tech Cayman Inc., a pharmaceutical R&D contract service organization company previously listed in the United States (NYSE: WX), which was privatized in December 2015. From 1988 to 2006, Mr. TSANG served in finance and audit roles at various companies.

Mr. TSANG obtained his Chartered Accountant certificate in Canada and Hong Kong in 1991 and 1993, respectively. He is a member (non-practising) of the Hong Kong Institute of Certified Public Accountants. He obtained his bachelor's degree in commerce and his master's degree in business administration at McMaster University in Canada in June 1987 and May 1988, respectively.

SUPERVISORS

Dr. YANG Kexin (楊珂新), aged 56, was appointed as the chairman of the Supervisory Committee on October 27, 2016 and is primarily responsible for the overall operation of the Supervisory Committee and supervision of the performance of the Directors and senior management members. Dr. YANG joined our Group on July 1, 2004 and is currently our vice president of chemical technology.

Dr. YANG obtained his master's degree in organic chemistry at Lanzhou University (蘭州大學) in June 1986. He obtained his doctorate degree in organic chemistry at the University of Calgary in Canada in November 1992.

Mr. LIU Jun (劉駿), aged 29, was appointed as a Supervisor on October 13, 2017. Mr. LIU is primarily responsible for the supervision of the performance of the Directors and senior management members.

Since March 2018, he has served as a board director of Ampleon Netherlands B.V., a company primarily engaged in the electronic components manufacturing business in the Netherlands. Since February 2017, he has served as a vice president at Gold Stone Investment, where he is responsible for project investment and post-investment management. Since October 2013, he has successively served as senior manager and vice president at CITIC M&A Fund, where he is primarily responsible for fund establishment and management.

Mr. LIU obtained his bachelor's degree in chemistry at the Renmin University of China (中國人民大學) in June 2011. He obtained his master's degree in financial mathematics at University of Chicago in June 2012.

Ms. ZHANG Lan (張嵐), aged 37, was appointed as the employee representative Supervisor on October 27, 2016 and is primarily responsible for the supervision of the performance of the Directors and senior management members. Ms. ZHANG joined our Group on April 5, 2006 and currently serves as our associate director.

Ms. ZHANG obtained her bachelor's degree in English at Tangshan Teacher's College (唐山師範學院) in Hebei, China in June 2005.

SENIOR MANAGEMENT

CHAIRMAN & CEO

Boliang LOU, Ph.D.

Dr. LOU Boliang (樓柏良), aged 56, is the chairman, chief executive officer and an executive Director of our Company. Dr. LOU co-founded our Group together with Mr. LOU and Ms. ZHENG in July 2004. He is primarily responsible for the overall management, strategic planning and corporate development of our Group. He is also actively involved in formulating our business development strategy and developing strategic relationship with our customers. He also serves as a director of most of the subsidiaries of our Group. See "– Executive Directors" for more details.

PRESIDENT & COO

Larry LOU, EMBA, M.Eng

Mr. LOU Xiaoqiang (樓小強), aged 51, is the chief operating officer, president and an executive Director of our Company. Mr. LOU co-founded our Group together with Dr. LOU and Ms. ZHENG in July 2004. Mr.LOU is primarily responsible for the overall operations of the business of our Group. In particular, Mr. LOU is responsible for the execution of our Group' growth strategy both in China and globally. He also serves as a director at several subsidiaries of our Group. See "– Executive Directors" for more details.

EXECUTIVE VICE PRESIDENT

Bei ZHENG, M.A.

Ms. ZHENG Bei (鄭北), aged 52, is the executive vice president and an executive Director of our Company. Ms. ZHENG co-founded our Group together with Dr. LOU and Mr. LOU in July 2004. Ms. ZHENG is primarily responsible for the administration and asset management of our Group. In particular, she is responsible for the facilities expansion of our Group. See "– Executive Directors" for more details.

CHIEF SCIENTIFIC OFFICER

Hua YANG, Ph.D.

Dr. YANG Hua (陽華), aged 57, is our chief scientific officer. He joined our Group in July 2007 as our chief scientific officer and is primarily responsible for the overall research and scientific development strategy for the integrated services platform of our Group. Since March 2017, he has also served as a director of one of our subsidiaries.

Prior to joining our Group, he successively served in various roles, including assistant director, at AstraZeneca R&D Montreal. Since joining our Group in 2007, Dr. YANG has extensively engaged in the service R&D platform building, encompassing discovery, preclinical and clinical development and their integration.

Dr. YANG obtained his doctorate degree at The Victoria University of Manchester (currently known as the University of Manchester) in England in November 1990. He also conducted his post-doctoral research at the University of Montreal in Canada. Dr. YANG is a co-author and co-inventor for 46 peer-reviewed scientific publications and patent applications.

CHIEF FINANCIAL OFFICER

Gilbert LI, CFA, CPA

Mr. LI Shing Chung Gilbert (李承宗), aged 41, is our chief financial officer and secretary of our Board. He joined our Group in January 2008 as our financial controller and was appointed as our chief financial officer in January 2015. He was appointed as the secretary of the Board in October 2016 and is primarily responsible for the overall financial function of our Group. In particular, he is responsible for the financing and M&A activities of our Group. Mr. LI also serves as a supervisor or director at several subsidiaries of our Group.

Prior to joining our Group, Mr. LI had served at various roles in accounting and financial areas. From 2000 to 2003, he served as assistant manager of KPMG, a multinational financial audit, tax and advisory firm.

Mr. LI obtained his bachelor's degree in business administration from the Hong Kong University of Science and Technology in November 2000. Mr. LI obtained his master's degree in business administration from the China Europe International Business School (中歐國際工商學院) in July 2012. Mr. LI is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants and a Chartered Financial Analyst.

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2019 (the "year").

CORPORATE GOVERNANCE

The Board of Directors (the "Board") of the Company strives to maintain a high standard of corporate governance and believes that effective and reasonable corporate governance practices are essential to the development of the Group and at the same time protect and enhance shareholders' rights.

The Company's corporate governance practices are based on the principles and code provisions set out in the Appendix 14 Corporate Governance Code (the "CG Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Stock Exchange") (the "Listing Rules").

Save as disclosed herein, the Company has complied with the code provisions as set out in the CG Code for the period from November 28, 2019 (the "Listing Date") to December 31, 2019 (the "Related Period"). Prior to the Listing Date, the CG Code did not apply to the Company.

THE BOARD

Duties and Delegation of Authority to the Management

The Board must be accountable to shareholders and lead the Company in a responsible and effective manner. The Board implements the resolutions made at the general meetings, determines the Company's business plans, investment plans and the establishment of the Company's internal management departments, formulates the Company's annual financial budget plans, final account plans, and profit distribution plans, and employs senior management personnel.

To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Strategy Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee, and has granted these special committees with their respective responsibilities. The Board has granted various responsibilities to each Board committee, and the responsibilities are set out in their respective working rules.

The Board has delegated power and responsibility to the senior management to carry out daily management, administration and operation of the Company. Authorized functions and tasks are reviewed regularly. The management of the Company will also provide sufficient advice to the Board and Board committees in a timely manner for directors to make informed decisions.

All directors perform their duties in good faith, act in the best interests of the Company, comply with applicable laws and regulations, and always act in the interests of the Company and shareholders.

Corporate Governance Function of the Board

The Board is responsible for performing the corporate governance functions set out in Article D.3.1 of the CG Code. These functions include, as a minimum, the following contents:

(1) to develop and review the Company's policies and practices on corporate governance;

(2) to review and monitor the training and continuous professional development of directors and senior management;

(3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(5) to review the Company's compliance with the CG Code and disclosure in the annual report.

Board Structure

The Board currently consists of twelve directors and one chairman. The Board members consist of three executive Directors, four non-executive Directors and five independent non-executive Directors.

The Board members as at the end of the Reporting Period and up to the date of this annual report are as follows:

Executive Directors:

Dr. LOU Boliang *(Chairman, Chief Executive Officer and Executive Director)*
Mr. LOU Xiaoqiang *(Chief Operating Officer, President and Executive Director)*
Ms. ZHENG Bei *(Executive Vice President and Executive Director)*

Non-Executive Directors:

Mr. CHEN Pingjin
Mr. HU Baifeng
Mr. LI Jiaqing
Mr. ZHOU Hongbin

Independent Non-Executive Directors:
Mr. DAI Lixin
Ms. LI Lihua
Ms. CHEN Guoqin
Ms. SHEN Rong
Mr. TSANG Kwan Hung Benson
(appointed as an independent non-executive Director on August 15, 2019, which took effect from the Listing Date.)

Pursuant to the Articles of Association, Directors shall be elected or removed from office by Shareholders at a Shareholders' general meeting. Each term of office of a Director shall be three years. Director may be re-elected and re-appointed upon expiry of his/her term of office.

The biographies of all Directors are set out under the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report. Dr. LOU Boliang is the Brother of Mr. LOU Xiaoqiang and the Brother-in-law of Ms. ZHENG Bei. Mr. LOU Xiaoqiang is the Brother of Dr. LOU Boliang and the Spouse of Ms. ZHENG Bei. Ms. ZHENG Bei is the Spouse of Mr. LOU Xiaoqiang and the Sister-in-law of Dr. LOU. Save as disclosed above, there are no material relationships among members of the Board (including financial, business, family or other material or relevant relationships).

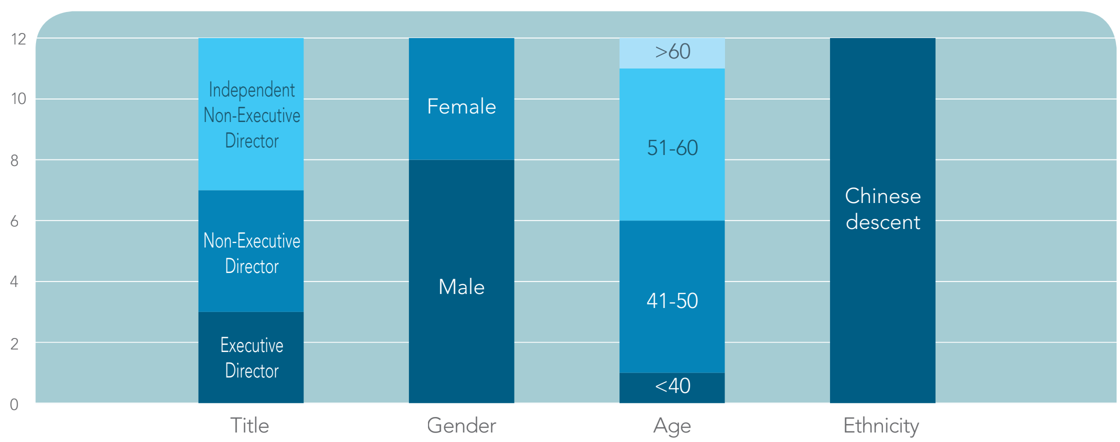
Board Diversity Policy

Our Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Pursuant to the CG Code, the Board has adopted the Board Diversity Policy. The Company understands and believes that the board diversity is of great benefit to the improvement of the Company's performance. In order to achieve sustainable and balanced development, the Company considers the increasing diversity of the Board as a key element to support its achievement of strategic objectives and sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered having due regard for the benefits of diversity on the Board. The Company is committed to selecting the best candidate to serve as a Board member. The selection of candidates will be based on a range of diversified factors, including but not limited to gender, age, cultural background and ethnicity in addition to educational background, professional experience, skills, knowledge and length of service. The final decision will be based on the strengths of the candidate and the contributions the candidate makes to the Board. The composition of the Board (including gender, age, and length of service) will be disclosed annually in the corporate governance report.

The Board of the Company has reviewed the members, structure and composition of the Board, and considers that the Board structure is reasonable, and the directors have experience and skills in various aspects and fields to help the Company maintain a high level of operations.

The following figure shows the Board diversification as of December 31, 2019:



Chairman and Chief Executive Officer

Pursuant to Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer shall be separate and performed by different individuals.

Up to the date of this annual report, there is no distinction between the positions of chairman and chief executive officer of the Company, and Dr. LOU Boliang ("Dr. LOU") currently holds both positions. Dr. LOU is responsible for the overall management, strategic planning and corporate development of the Group.

In view of Dr. LOU's experience, personal profile and his roles in our Company as mentioned above and that Dr. LOU has assumed the role of chief executive officer of our Company since our commencement of business, the Board considers it beneficial to the business prospect and operational efficiency of our Company that upon Listing, Dr. LOU acts as the chairman of the Board and continues to act as the chief executive officer of our Company. While this will constitute a deviation from Code Provision A.2.1 of the Code as set out in Appendix 14 to the Listing Rules, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of our Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors; (ii) Dr. LOU and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Company accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of our Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Company are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of our Company in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

Independent Non-Executive Directors

The Board at all times met the requirements of Rules 3.10 (1) and 3.10 (2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. In addition, under Rule 3.10A of the Listing Rules, independent non-executive Directors shall represent at least one-third of the Board. The Company had five independent non-executive Directors during the Related Period, accounting for five-twelfths of Board members, so the Company has complied with the relevant regulations.

Pursuant to the Articles of Association, the term of office of independent non-executive Directors is the same as that of other directors of the Company. Director may be re-elected and re-appointed upon expiry of his/her term of office, but the term of re-appointment shall not exceed six years. The Company's independent non-executive Directors shall have more than five years of legal, economic or other work experience necessary to perform the duties of independent non-executive Directors, master the basic knowledge of company operations, be familiar with the rules of the place where the Company's shares are listed, and ensure sufficient time and energy to perform duties.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. After assessing their independence, the Company considers that all independent non-executive Directors meet the independence required by the Listing Rules.

Appointment, Re-election and Removal of Directors

The system and procedures for the appointment, re-election and removal of Directors are set out in the Articles of Association of the Company. Pursuant to the Articles of Association, Directors shall be elected or removed from office by Shareholders at a Shareholders' general meeting. Each term of office of a Director shall be three years. Director may be re-elected and re-appointed upon expiry of his/her term of office. Before the expiration of a Director's term, his/her duties shall not be released by the Shareholders' general meeting without reason. The Shareholders' general meeting may, in compliance with relevant laws, administrative regulations, and relevant regulations of the securities regulatory authority of the place where the Company's shares are listed, remove any director whose term has not expired by ordinary resolution, but this does not affect the director's claims for damages pursuant to any contract.

Each of the current directors has entered into a service contract with the Company for a term of three years, counting from the date of obtaining the relevant shareholders' approval for appointment, and terminating in accordance with their respective terms.

In addition, the term of office of the directors in the first session of the Board is three years, from October 27, 2016 to October 26, 2019. In view of the fact that the Company was processing a listing application on the main board of the Stock Exchange at the time, the Company, in order to avoid affecting the relevant applications and normal business operations, signed a Supplementary Agreement on the Appointment of Directors with directors on October 26, 2019, agreeing to extend the term of the first session of the Board. The directors shall continue to perform his/her duties in accordance with the Company Law of the People's Republic of China, the Articles of Association and the original contract provisions until the election of the new session of the Board is completed.

None of the Directors or Supervisors has or is proposed to enter into a service contract with any member of our Group, other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

Board Meetings

Pursuant to the Articles of Association, the Board shall hold at least four meetings each year, which shall be convened by the Chairman and notified to all the directors and supervisors fourteen days prior to the meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. If a director is unable to attend the meeting in person, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the name of the agent, the delegation matters, the scope of authorization and the period of validity. However, directors may not vote on any board resolution that approves a contract, transaction or arrangement or any other relevant proposal in which he/she or any of his/her close associates (as defined in the applicable Listing Rules in force from time to time) have a significant interest. Board meetings are held on site as a principle. A director who fails to attend a Board meeting or to entrust a representative to attend is deemed to have waived his/her voting right at the relevant meeting. The Board shall make minutes of the decisions on the matters considered at the meeting, and the directors present at the meeting shall sign the minutes of the meeting.

All directors have full and timely access to all relevant information about the meeting matters, and can seek independent professional advice and services from the Company secretary and senior management. After making a reasonable request to the Board, any director may, where appropriate, request independent professional advice at the expense of the Company.

During the year, the Board held eight meetings on January 14, 2019, February 25, 2019, March 12, 2019, April 18, 2019, April 26, 2019, July 29, 2019, August 14, 2019 and October 24, 2019, respectively.

Directors' Training and Professional Development

During the year, all directors have received directors' training in writing or by attending lectures. Directors' training is mainly about (i) directors' duties and relevant regulations; (ii)responsibilities for the Prospectus; (iii) the Model Code for Securities Transactions by Directors of Listed Issuers and disclosure of rights and interests; (iv) statutory disclosure obligations for inside information; (v) Chapter 13 of the Listing Rules – Continuing Obligations; (vi) Chapter 14 of the Listing Rules – Notifiable Transactions; and (vii) Chapter 14A of the Listing Rules – Connected Transactions.

Directors keep receiving the latest news on the development of statutory and regulatory systems and business conditions, prompting them to perform their duties. The Company also arranges training for directors when necessary to ensure that the directors have a proper understanding of the Group's business and operations, and fully understand the duties and obligations of directors under the Listing Rules and relevant statutory requirements.

The personal training records received by the directors during the year are summarized as follows:

Name of directors	Attending or participating in relevant seminars/ reading relevant materials
Executive Directors	
Dr. LOU Boliang	✓
Mr. LOU Xiaoqiang	✓
Ms. ZHENG Bei	✓
Non-Executive Directors	
Mr. CHEN Pingjin	✓
Mr. HU Baifeng	✓
Mr. LI Jiaqing	✓
Mr. ZHOU Hongbin	✓
Independent Non-Executive Directors	
Mr. DAI Lixin	✓
Ms. LI Lihua	✓
Ms. CHEN Guoqin	✓
Ms. SHEN Rong	✓
Mr. TSANG Kwan Hung Benson (appointed as an independent non-executive Director on August 15, 2019, which took effect from the Listing Date.)	✓

Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules of the Stock Exchange as the Company's code of conduct for directors and supervisors in securities transactions. Prior to the listing date, the Model Code did not apply to the Company. After making specific inquiries to all directors and supervisors, the directors and supervisors each confirmed that they have complied with the required rules set out in the Model Code during the Related Period.

Pursuant to Code B.13 of the Model Code, directors have also requested that any employee of the Company or director or employee of a subsidiary of the Company who may obtain inside information about the securities of the Company as a result of serving or being employed by the Company or a subsidiary shall not trade in securities of the Company as prohibited by the Model Code (just as a director).

Special Board Committees

Pursuant to the CG Code, the Board has established four special committees including the Strategy Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee, and has granted these special committees with their respective responsibilities. The composition, main duties and work of these special committees during the year are set out below:

Strategy Committee

As at the date of this annual report, the Strategy Committee consists of Dr. LOU Boliang (chairman), Mr. LOU Xiaoqiang, Mr. CHEN Pingjin, Mr. LI Jiaqing and Mr. DAI Lixin with Dr. LOU being the chairman of the Strategy Committee. The main duties of the Strategy Committee include but are not limited to:

The main duties of the Strategy Committee are to review the Company's long-term development strategy and major investment decisions and to make recommendations on such matters. Details are as follows: (i)researching and recommending on long-term development strategy of our Company; (ii) researching and recommending on significant capital expenditure, investment and financing projects of our Company; (iii)researching and recommending on major capital operation (including but not limited to the increase or reduction of registered share capital, issuance of bonds, subsidiary merger, separation, dissolution or change of company form, profit distribution plan and make up for losses program), asset management project, and annual financial budget plan of our Company;(iv) researching and recommending on significant matters relating to the development of our Company; (v) monitoring the above matters and assessing, examining and recommending on significant changes; and (vi) performing such other duties determined by the Board and stipulated in the listing rules or regulatory rules of the place where the shares of our Company are listed.

The Strategy Committee did not hold any meeting during the year.

Audit Committee

As at the date of this annual report, the Audit Committee consists of Ms. SHEN Rong (chairperson), Ms. LI Lihua and Ms. CHEN Guoqin. All members of the Audit Committee are independent non-executive Directors.

The Audit Committee is mainly responsible for reviewing and supervising the Company's financial reports and audit work, including: (i) proposing to engage or replace its external auditor and supervising and evaluating the work of the external auditor; (ii) directing internal audit work and supervising the establishment, improvement and implementation of the Company's internal audit system; (iii) coordinating the communication between the management, internal auditor and external auditor; (iv) reviewing the Company's financial information and its disclosure and expressing opinions; (v) assessing the effectiveness of internal controls and supervising financial reporting systems, risk management, and monitoring systems, reviewing the Company's internal control system, and auditing and supervising major connected transactions; and (vi) other duties as conferred by the Board and other matters stipulated in related laws and regulations.

The Audit Committee held four meetings during the year. The Audit Committee considered the following matters:

(1) The eleventh meeting of the Audit Committee of the first session of the Board was held on April 3, 2019, and considered and approved the Resolution on the Summary of the Audit Work for 2018, Resolution on the Internal Control Work Report in the Second Half for 2018, Resolution on the Company's Self-Evaluation Report on Internal Control for 2018 and Resolution on the Financial Report Draft for 2018.

(2) The twelfth meeting of the Audit Committee of the first session of the Board was held on April 18, 2019, and considered and approved the Resolution on the Financial Report for 2018, Resolution on the Full Text and Summary of the Company's Annual Report for 2018, Resolution on the Appointment of Accounting Firm for 2019, Resolution on the Special Review on the Occupation of Funds by the Company's Controlling Shareholders and Other Related Parties, Resolution on the Confirmation of Daily Connected Transactions in 2018 and Estimate of Daily Connected Transactions in 2019 and Resolution on Estimating Trading Limits for Financial Derivatives in 2019.

(3) The thirteenth meeting of the Audit Committee of the first session of the Board was held on August 14, 2019, and considered and approved the Resolution on the Changes in Accounting Policies, Resolution on the Company's Semi-Annual Report and Summary for 2019 and Resolution on the Confirmation of the Company's Connected Legal Persons, Connected Natural Persons and Connected Persons.

(4) The fourteenth meeting of the Audit Committee of the first session of the Board was held on October 24, 2019, and considered and approved the Resolution on the Third Quarterly Report of the Company for 2019, Resolution on Engaging H-Share Auditor for 2019 and Resolution on Changing the Auditor for 2019.

The Audit Committee has reviewed and confirmed the audited consolidated financial statements set out in this annual report, and discussed with the management on the Company's financial statements and internal controls. The Audit Committee is of the opinion that the preparation of these financial statements complies with applicable accounting standards and regulations and has made appropriate disclosures.

The Audit Committee is also aware of the Group's existing risk management and internal control systems, and is aware that these systems will be reviewed annually.

Nomination Committee

As at the date of this annual report, the Nomination Committee consists of Ms. CHEN Guoqin (chairperson), Dr. LOU Boliang, Ms. ZHENG Bei, Ms. LI Lihua and Ms. SHEN Rong. Among them, independent non-executive Directors serve as the chairperson and make up the majority.

The main duties of the Nomination Committee are as follows: (i) reviewing at least once a year the structure, number and composition of the Board (including skills, knowledge and experience), and making recommendations on any changes to the Board in line with the Company's strategy; (ii) making recommendations to the Board on the size and composition of the Board based on the Company's operating activities, assets scale and shareholding structure; (iii) studying the selection criteria and procedures of directors and senior management and making recommendations to the Board; (iv) extensively searching for qualified candidates as directors and senior management, identifying qualified candidates as directors and providing advice to the Board on the nomination of candidates; (v) reviewing and making recommendations on candidates as directors and senior management; (vi) evaluating the independence of independent non-executive Directors; (vii) making recommendations to the Board on the appointment or re-appointment of directors and the succession plan of directors (especially the chairperson and chief executive officer); and (viii) other duties as conferred by the Board.

During the year, the Nomination Committee held one meeting, in which the following matters were considered:

The second meeting of the Nomination Committee of the first session of the Board was held on July 29, 2019, and considered and approved the Resolution on the Additional Selection of Independent Non-Executive Director Candidates for the Company.

Remuneration and Appraisal Committee

As at the date of this annual report, the Remuneration and Appraisal Committee consists of Ms. SHEN Rong (chairperson), Dr. LOU Boliang, Mr. LOU Xiaoqiang, Ms. LI Lihua and Ms. CHEN Guoqin. Among them, independent non-executive Directors serve as the chairperson and make up the majority.

The main duties of the Remuneration and Appraisal Committee are as follows: (i) making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) formulating remuneration plans or schemes (remuneration plans or schemes mainly include but are not limited to performance evaluation standards, procedures and the major evaluation system, and main schemes and systems for rewards and penalties, etc.), based on the main scope, responsibilities, importance of management positions of directors and senior management personnel, and the corporate policies and goals set by the Board, and reviewing and approving management's remuneration proposal; (iii) evaluating the remuneration level of the Company's senior management based on the industry's remuneration level provided by the market; (iv) recommending to the Board the remuneration of individual executive directors and senior management personnel, including non-pecuniary benefits, pension rights and compensation amounts (including compensation for loss or termination of office or appointment); (v) making recommendations to the Board on the remuneration of non-executive Directors; (vi) considering the remuneration paid by similar companies, the time and responsibilities required, and the conditions of employment for other positions within the Company; (vii) reviewing and approving compensation to executive Directors and senior management for their loss or termination of their positions or appointments to ensure that such compensation is consistent with the terms of the contract and is otherwise fair and reasonable; (viii) reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; (ix) ensuring that no director or any of his/her associates can participate in determining his/her own remuneration; (x) reviewing the performance of the Company's directors and senior management personnel, conducting annual performance reviews, and issuing a special report to the Board; and (xi) other duties as conferred by the Board.

During the year, the Remuneration and Appraisal Committee held two meetings, in which the following matters were considered:

(1) The third meeting of the Remuneration and Appraisal Committee of the first session of the Board was held on April 18, 2019, and considered and approved the Resolution on the Remuneration Program of the Company's Directors, Supervisors, and Senior Management and the Resolution on the 2018 Annual Performance Evaluation of the Company's Senior Management.

(2) The fourth meeting of the Remuneration and Appraisal Committee of the first session of the Board was held on July 29, 2019, and considered and approved the Resolution on the Restricted Stock and Stock Option Incentive Plan for 2019 (Draft) of Pharmaron Beijing Co., Ltd. and its Abstract, the Resolution on Deliberating the Measures for Management of Restricted Stock and Stock Option Incentive Plan for 2019 of Pharmaron Beijing Co., Ltd., the Resolution on Verifying the List of Incentive Targets Granted for the First Time by the Company's Restricted Stock and Stock Option Incentive Plan for 2019 and the Resolution on Requesting the Shareholders' General Meeting to Authorize the Board to Handle Equity Incentive-Related Matters.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

The following table sets forth the records of each director's attendance at the Board and board committee meetings as well as the Shareholders' General Meeting for the year ended December 31, 2019 during their term of office:

	Attendance/Number of Meetings					
Name of Directors	Board	Audit Committee	Nomination Committee	Remuneration and Appraisal Committee	Annual general meeting for 2018	Other General Meetings
Executive Directors						
Dr. LOU Boliang	8/8	N/A	1/1	2/2	1/1	3/3
Mr. LOU Xiaoqiang	8/8	N/A	N/A	2/2	1/1	1/3
Ms. ZHENG Bei	8/8	N/A	1/1	N/A	1/1	3/3
Non-executive Directors						
Mr. CHEN Pingjin	8/8	N/A	N/A	N/A	1/1	1/3
Mr. HU Baifeng	8/8	N/A	N/A	N/A	0/1	1/3
Mr. LI Jiaqing	8/8	N/A	N/A	N/A	0/1	0/3
Mr. ZHOU Hongbin	8/8	N/A	N/A	N/A	0/1	1/3
Independent non-executive Directors						
Mr. DAI Lixin	8/8	N/A	N/A	N/A	0/1	1/3
Ms. LI Lihua	8/8	4/4	1/1	2/2	1/1	0/3
Ms. CHEN Guoqin	8/8	4/4	1/1	2/2	1/1	2/3
Ms. SHEN Rong	8/8	4/4	1/1	2/2	1/1	0/3
Mr. TSANG Kwan Hung Benson (who was appointed as an independent non-executive Director on August 15, 2019 and took on corresponding duties from the Listing Date)	0	N/A	N/A	0	0	0

REMUNERATION OF DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

Pursuant to Code Provision B.1.5 of the Corporate Governance Code, the annual remuneration of the senior management (including Directors and Supervisors) of the Company by band for the year ended December 31, 2019 is set out below:

Remuneration Band (RMB)	Number of Individuals
0-1,000,000	11
1,000,001-3,000,000	5
3,000,000 above	1

DIRECTOR NOMINATION POLICY

According to the Articles of Association, the methods and procedures to nominate directors are as follows: (i) the candidates for Directors (excluding independent Directors) of the Board shall be nominated by the Board or shareholder(s) severally or jointly holding more than 3% of the total number of the voting shares of the Company, and shall be elected at a general meeting of the Company; (ii) the candidates for independent Directors shall be nominated in such a way and procedure as specified by laws, administrative regulations, departmental rules, listing rules of the stock exchange where the Company's shares are listed or the Articles of Association; and (iii) the written notice on the intention for nominating candidates for Directors and candidates' willingness to accept the nominations shall be sent to the Company no earlier than the issue date of the notice of the general meeting and no later than the 7th day prior to the convention of the general meeting. The Company shall give relevant nominees and candidates for Directors at least seven days to submit the aforesaid notice and document (this period is calculated from the day after the issue date of the notice of the general meeting). The candidates for Directors who accept the nominations shall promise that the information publicly disclosed about them is true and complete, and that they will diligently fulfill the duties as Directors if elected.

According to the Terms of Reference of the Nomination Committee of the Board, the procedures for electing and appointing Directors and senior management are as follows: (i) the Nomination Committee shall proactively communicate with relevant departments of the Company to understand the demand for new Directors and senior management and work out written reports; (ii) the Nomination Committee may extensively seek for candidates for Directors and senior management within the Company, the Company's subsidiaries/associated corporations/joint ventures as well as in the recruitment market; (iii) to collect the information on occupation, education background, job title, detailed work experience and all concurrent positions of the proposed candidates, and work out written reports; (iv) to seek the consent of the proposed candidates for nomination; otherwise, they shall not be put on the list of candidates for Directors and senior management; (v) to convene the meeting of the Nomination Committee, and check the eligibility according to the qualifications required for Directors and senior management; (vi) to submit the recommendation and relevant materials about the candidates for Directors and senior management to the Board one or two months prior to the election of new Directors and the appointment of new senior management members; and (vii) to follow up other matters according to decisions and feedback of the Board.

REMUNERATION POLICY

The Company endeavors to improve the measures for managing the remuneration of Directors, Supervisors, and senior management. The remuneration system for the Company's Directors, Supervisors, and senior management adheres to the principle of unifying incentives and constraints in combination with market regulation.

Directors receive remunerations in different forms, including salaries, subsidies, benefits in kind, discretionary bonuses, and retirement scheme contributions made on their behalf.

During the year, no remuneration was paid to, or receivable by, our Directors, Supervisors or any of the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office. Further, none of the Directors, Supervisors or the five highest paid individuals has waived or agreed to waive any remuneration arrangements.

The Company establishes a remuneration management system that matches its strategies, and attracts and retains talents who satisfy the requirements, to enhance its competitiveness and the motivation of employees. The remuneration of employees mainly consists of the basic salary, post salary, welfare benefit, and monthly (topic)/quarterly/year-end bonus. Based on the formulation and decomposition of annual operating targets, the Company establishes an objective assessment system and specifies efficiency indicators for each department. Under the system, the monthly (topic)/quarterly/year-end bonus is determined based on the Company's monthly, quarterly, and annual operating benefits and the completion of indicators by each department.

DIVIDEND POLICY

Pursuant to the Articles of Association, the Board may declare dividends in the future after taking into account the Company's results of operations, financial condition, cash requirements and availability, and other factors as it may deem relevant at such time. Although the calculation of the Company's net profit and undistributed profit is in accordance with PRC GAAP, which may differ from the numbers calculated under IFRS, the Company does not expect such difference to be material and to have any substantive impact on its dividend policy. Any declaration and payment as well as the amount of dividends will be subject to the Company's Articles of Association, applicable PRC Laws, and approval by the Company's Shareholders. Under the Articles of Association, when the Company makes a profit in the current year and the accumulated undistributed profit is positive, the Company shall give priority to the distribution of cash dividends provided that there is no material capital expenditure or investment in the next 12 months. The total amount of the cash dividends distributed shall be at least 20% of the total dividends in the same distribution.

SUPERVISORY COMMITTEE

As at the date of this annual report, the Supervisory Committee consists of three members, two of whom are appointed by shareholders and one by employees. The term of office of Supervisors is three years, and Supervisors can be re-elected upon the expiration of the term of office.

According to the Articles of Association, the Supervisory Committee convenes one meeting at least every six months. The Chairman of the Supervisory Committee is responsible for convening the meeting.

As at the date of this annual report, the Supervisory Committee consists of the following members:

Dr. YANG Kexin
Mr. LIU Jun
Ms. ZHANG Lan

The list and biographies of the Supervisors of the Company are set out in section headed "Profile of Directors, Supervisors, and Senior Management" of this annual report. Save as disclosed herein, there are no other significant relationships among the members of the Supervisory Committee.

The Supervisory Committee shall be accountable to the general meeting and the Supervisory Committee shall perform the following duties: (i) to review the Company's reports prepared by the Board and to provide comments in writing; (ii) to review the Company's financial condition; (iii) to examine the financial information such as the financial reports, business reports, and plans for distribution of profit to be submitted by the Board to the general meetings, to engage certified public accountants or practicing auditors in the name of the Company to assist in the review whenever queries arise; (iv) to supervise the conducts of the Directors and senior management in discharge of their duties and to advise on the dismissal of any Director and senior management who are in breach of laws, administrative regulations, the Articles of Association, or resolutions of the general meetings; (v) to demand rectification from the Directors and senior management of the Company where their conducts are detrimental to the interests of the Company; (vi) to propose to convene an extraordinary general meeting, and to convene and preside over the general meeting where the Board fails to perform its duties to convene or preside over a general meeting as required under the Company Law; (vii) to propose motions at a general meeting; (viii) to take legal actions against Directors and senior management in accordance with Article 151 of the Company Law; (ix) to conduct investigations whenever queries or unusual conditions in the operation of the Company arise and, if necessary, to engage professional institutions such as accounting firms and law firms to assist in their work with expenses to be borne by the Company; and (x) other duties as stipulated by the Articles of Association.

As at the date of this annual report, the Supervisory Committee convened a total of seven meetings.

COMPANY SECRETARY

Ms. Mak Po Man Cherie ("Ms. Mak") has acted as the secretary of the Company since August 28, 2019.

Ms. Mak is the Vice President of Corporate Services Group (Hong Kong) Limited and is responsible for advising the Board on corporate governance and ensure compliance with the Board's policies and procedures, applicable laws, and rules and regulations. Ms. Mak confirms that she received no less than 15 hours of professional trainings in accordance with Rule 3.29 of the Hong Kong Listing Rules during the year.

The main contact person of Ms. Mak in the Company is Mr. LI Shing Chung Gilbert, the chief financial officer and secretary of the Board.

FINANCIAL REPORTING

The Board is accountable to the Shareholders and is committed to presenting comprehensive and timely information to the Shareholders on assessment of the Company's performance, financial position, and prospects.

The responsibility of Ernst & Young, as the Company's external auditor to the Financial Statements, is set out in section headed "Independent Auditor's Report" of this annual report.

RESPONSIBILITIES OF DIRECTORS CONCERNING FINANCIAL STATEMENTS

All Directors of the Company had committed their responsibilities for the preparation of the financial statements of the Company for the year ended December 31, 2019.

The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board prepared the financial statements on a going concern basis.

AUDITORS' REMUNERATION

The Company engaged Ernst & Young and Ernst & Young Hua Ming LLP as its international auditor and domestic auditor respectively. For the year ended December 31, 2019, the details of the remuneration payable by the Company to the auditors for the audit services and non-audit services were as follows:

Services	**Remuneration** (RMB'000)
Audit services - Annual audit	3,480.0
Non-audit services (Note)	4,806.6
Total	8,286.6

Note: Non-audit services comprise the professional services rendered as the reporting accountant in relation to the listing of the Company's shares on the Main Board of the Stock Exchange and consultancy services for Environmental, Social and Governance Reporting.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is fully responsible for evaluating and determining the nature and extent of the risks that the Company is willing to take in achieving its strategic objectives. The Board is also responsible for strengthening and standardizing the Company's internal management, enhancing the Company's self-discipline, realizing corporate governance goals, and improving the quality of information disclosure, managerial and administrative expertise, and capabilities of forestalling and defusing various risks, to push forward the Company's standardized operations and sustainable development. According to the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Accounting Law of the People's Republic of China, Audit Law of the People's Republic of China, Audit Regulations of the People's Republic of China, Guidelines for the Standardized Operation of Listed Companies on the ChiNext Market of Shenzhen Stock Exchange, Rules Governing the Listing of Stocks on Stock Exchanges, Basic Standard for Enterprise Internal Control, Corporate Governance Code in Appendix 14 of the Hong Kong Listing Rules, and other laws and regulations and the Articles and Association, and in light of the actual management needs of the Company, the Company has formulated and adopted the Risk Management System, Early Warning System for Major Risks and Emergency Response System, Internal Control Management System, and Internal Audit Management System. The Company's risk management system is designed to improve the risk prevention capabilities, enhance competitiveness, and advance the sustainable and healthy development of the Company. The internal audit system is intended to improve the quality and efficiency of internal audit, perfect the Company's mechanisms for supervision and risk control, and step up the Company's self-improvement and development. To strengthen the Company's management of major risks and emergencies, the mechanism for early warning and emergency response has been established to minimize losses, maintain the Company's normal operating order, and protect the legitimate interests of investors. The systems aim at managing rather eliminating the risk of failure to achieve business objectives and providing reasonable assurance of no material misstatement or loss.

FUNCTIONAL STRUCTURE OF RISK MANAGEMENT AND INTERNAL CONTROL

The Company implements hierarchical risk management. The Company's organizational system for comprehensive risk management includes: the Board, the Audit Committee and the Internal Audit Department, the general manager office, the Risk Management Working Group, and branches and subsidiaries of other functional departments. Branches and subsidiaries may establish an organizational system for risk management in light of the actual situation.

Being the Company's highest leading body in charge of comprehensive risk management, the Board is responsible for the effectiveness of comprehensive risk management. The Directors are also responsible for establishing, improving, and earnestly implementing the internal control system and evaluating the effectiveness of the system. The Board acknowledges its responsibility for the Company's risk management and internal control systems, and is responsible for reviewing the effectiveness of such systems.

The Audit Committee and the Internal Audit Department are mainly responsible for studying and proposing a supervision and evaluation system for comprehensive risk management, establishing systems relating to supervision and evaluation, conducting supervision and evaluation, and issuing supervision and evaluation reports. The general manager office is the executive bodies of the Company in charge of risk management. The Internal Audit Department implements the internal audit function of the Company and reports directly to the Audit Committee. The Audit Committee and the Internal Audit Department are also responsible for supervising the establishment and implementation of the Company's internal control.

The Risk Management Working Group, whose members are mainly from the Company's main business and functional areas, is the leading organization of the Company in charge of risk management. It is responsible for planning, advancing, organizing, coordinating, and supervising the risk management of various departments/enterprises. The various departments/enterprises of the Company are the executive bodies of the Company in charge of specific risk management.

The Internal Control Department is responsible for leading and organizing each department/branch and subsidiary to identify internal control problems, urge efforts to do resolve the problems, and continuously optimize the Company's internal control system.

The Internal Audit Department of the Company shall supervise and evaluate the risk management carried out by the Company and the effects of the risk management at least once a year, and the supervision and evaluation reports shall be directly submitted to the Board or the Audit Committee. In addition, the Company checks its internal control voluntarily on a regular basis every year, and the Internal Audit Department evaluates the implementation effects of the internal control. Major matters, including the Company's acquisition and sale of assets, connected transactions, engaging in derivative transactions, providing financial assistance, providing guarantee for others, using proceeds, and entrusting wealth management, are necessary items for the plan of inspection and supervision of internal control. They also provide convenience for the Board to make judgments on the effectiveness of the Company's monitoring and risk management.

The general manager office and the various departments/enterprises of the Company are the executive bodies of risk management and risk control. They are responsible for collecting, analyzing, and feeding back problems detected in risk management and informing the Risk Management Working Group of the problems in time.

SPECIFIC PROCEDURES FOR IDENTIFYING, EVALUATING, AND MANAGING MAJOR RISKS

1. Risk identification

Risk identification refers to the process of identifying possible risks in the Company's enterprises, various important business activities, and important business processes and the types of the risks.

2. Risk analysis

Risk analysis refers to the clear definition and description of the risks identified and their characteristics as well as the analysis and description of the likelihood and conditions of risks. By using a combination of qualitative and quantitative methods, the Company analyzes and ranks the risks identified based on the likelihood and impact of the risks, and determines key risks to be controlled in priority.

3. Risk evaluation

Risk evaluation refers to the evaluation of the impact of risks on the Company's attainment of goals, the value of risks, and so on.

4. Risk response

The Company shall implement dynamic management of the information about risks and conducts risk identification, analysis, and evaluation on a regular or irregular basis, to re-evaluate new risks and changes in existing risks.

5. Risk management strategy

The Company's Risk Management Working Group calls on relevant departments to weigh risks and returns and determine risk response strategies based on the results of risk evaluation and in combination with risk tolerance. Through a reasonable analysis of risks, the Company will know exactly the risk preferences of Directors, managers and other senior management personnel, and employees in key positions. Accordingly, the Company will take appropriate control measures to avoid significant losses to its operations due to personal risk preferences. The Company shall use a combination of countermeasures of risks such as risk aversion, risk reduction, risk sharing, and risk tolerance to achieve effective control of risks.

6. Risk monitoring and improvement

The Company shall establish a channel for communicating risk management information, which runs through the entire risk management process and links superiors and subordinates, departments, and business units, to ensure timely, accurate, and complete information communication, thus laying a foundation for the supervision and improvement of risk management. Relevant departments and enterprises of the Company shall conduct self-inspection and inspection of risk management on a regular basis to detect and fix defects in a timely manner. The self-inspection and inspection can be carried out together with internal control inspection.

PROCESSING AND PUBLISHING INSIDE INFORMATION

The Company has formulated and adopted the Information Disclosure Regulations concerning the procedures for handling and publishing inside information and internal control, to promote the Company's standardized operations, regulate information disclosure behavior, strengthen information disclosure management, ensure the truthfulness, accuracy, completeness, timeliness, and fairness of information disclosure, and protect the legitimate rights and interests of the Company and its investors. The Company is aware of its responsibilities under the Securities and Futures Ordinance and the Hong Kong Listing Rules, the most important principle of which is that if the Company determines relevant information as inside information, it shall publish the information as soon as reasonably practicable while paying close attention to applicable laws and regulations when handling the information.

REGULATIONS FOR EVALUATION AND MANAGEMENT OF INTERNAL CONTROL

The Company has formulated the Regulations for Evaluation and Management of Internal Control according to the Company Law of the People's Republic of China, Rules Governing the Listing of Stocks on Stock Exchanges, Basic Standard for Enterprise Internal Control, Practice Note on the Evaluation of Internal Control of Enterprises, and other laws and regulations and normative documents and in line with the Company's actual circumstances. This aims to standardize the evaluation of Company's internal control, detect defects in internal control in a timely manner, and propose and implement improvement plans, thus ensuring the effective operation of internal control. The evaluation of internal control described in the regulations refers to the process implemented by the Board and management of the Company to comprehensively evaluate the effectiveness of the Company's internal control, draw an evaluation conclusion, and issue an evaluation report. The effectiveness of internal control refers to the reasonable guarantee provided through the establishment and implementation of internal control for the realization of control objectives.

ANNUAL REVIEW

On March 27, 2020, the Board meeting reviewed the risk management and internal control during the year. The results of the internal control, internal audit, and risk management during the year showed the following highlights:

(1) According to the identification of defects in internal control and rectification over financial reporting of the Company, during the Reporting Period, the Company did not have any significant defect in internal control over financial reporting. According to the identification of defects in internal control and rectification over non-financial reporting of the Company, during the Reporting Period, no significant defects in internal control over non-financial reporting were found.

(2) The Company's various systems that are sound and meeting the requirements of development and strategic goals have been continuously implemented.

(3) With a high awareness of risk identification in the risk management process, the Company has consistently implemented the control measures for risk and management, and the management also has a strong ability to respond to risks. The Company's risk management measures are in line with its development goals and strategies.

(4) The Company's operation and management are economical and have been consistently implemented; and such implementation is in line with the Company's development goals and strategies.

(5) Favorable results have been achieved in the Company's operation and management activities in all aspects, and the relevant systems and procedures concerning the results of the operation and management activities have been consistently implemented; and the Company's performance in the operation and management activities is in line with the Company's development goals and strategies.

(6) High efficiency has been achieved in the Company's operation and management activities in all aspects, and the relevant systems and procedures concerning the efficiency of the operation and management activities have been consistently implemented; and the Company's efficiency in the operation and management activities is in line with the Company's development goals and strategies.

The Board believes that the Company is free from significant risk monitoring errors and major risk. The Company has strictly complied with the provisions on risk management and internal control in the Corporate Governance Code, and the Board evaluates that the Company's risk management and internal control systems are effective and adequate.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In preparation for the listing, the Company has adopted the amended Articles of Association (that would become effective on the listing date) pursuant to a special resolution passed by all Shareholders on March 27, 2019. An up to date version of the Company's Articles of Association is available on the websites of the Company and the Hong Kong Stock Exchange.

SHAREHOLDERS' RIGHTS

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

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

According to the Articles of Association, shareholder(s) individually or jointly holding a total of 10% or more of the shares carrying the right to vote at the meeting sought to be held may sign one or more written requests of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the subject of the meeting. The aforesaid number of shares shall be calculated in accordance with the shares held on the day on which the written request is made by the shareholders. The Board shall, in accordance with the provisions of laws, administrative regulations, listing rules of the stock exchange where the Company's shares are listed, and the Articles of Association, submit a written feedback on approval or disapproval of the convening of an extraordinary general meeting or class meeting within ten days after receiving the above-mentioned written request.

PROCEDURES FOR MAKING ENQUIRIES TO THE BOARD

The Shareholders' communication policy of the Company aims to maintain transparency and provide timely information of the major development of the Group to Shareholders and investors. General meetings of the Company are formal channels for communication between Shareholders and the Board. The members of the Board will make themselves available at the general meetings to have direct communication with the Shareholders.

Shareholders may also send their enquiries and concerns to the Board by addressing them to the Board office of the Company at the following address:

Address: 6 Tai-He Road, Economic Technological Development Area, Beijing, the PRC
Postal code: 100176
Tel: 86 010-57330087
Fax: 86 010-57330087

PROCEDURE FOR SUBMITTING PROPOSALS AT GENERAL MEETINGS

According to the Articles of Association, if the Company plans to convene a general meeting, the shareholders holding more than 3% of the shares of the Company separately or jointly may raise a temporary proposal and submit it to the convener in writing ten days before the general meeting is convened. The convener shall, within two days after the receipt of the proposal, issue a supplementary notice to inform the general meeting of the contents of the temporary proposal. The proposal contents shall fall into the terms of reference of the general meeting. There shall be definite topics and specific matters for resolution. The proposal shall comply with the relevant provisions of laws, administrative regulations, listing rules of the stock exchange where the Company's shares are listed, and the Articles of Association.

COMMUNICATION WITH INVESTORS AND INVESTOR RELATIONSHIP

The Board values the investor relation management, and has established Measures of Information Disclosure, Investor Relation Management System, and other regulatory systems to standardize and optimize the investor relation management.

During the Reporting Period, while earnestly performing statutory information disclosure obligations, the Company launched investor relation activities in various forms to provide investors with information which they were interested in, to promote the transparency of the Company's corporate operation, and to build mutual understanding and trust. Meanwhile, the Company absorbed advice provided by investors in the course of information delivery and collected feedback from investors to boost benign interactions between the Company and investors.

In investor relation activities, the secretary to the Board and the securities department of the Company were responsible for investor relation management. Work assumed by them included: answering telephone calls through investor hotlines in time; answering online questions raised by investors on the EasyIR platform of the Shenzhen Stock Exchange; holding online illustration meetings on the Company's performance and answering questions raised by investors; receiving delegations of investors and securities analysis agencies; participating in investor promotion activities; and providing particulars about the Company, information disclosure, and corporate governance through the website of the Company (http://www.pharmaron.com), the website of CNINFO (http://www.//www.cninfo.com.cn), and the website of the Hong Kong Stock Exchange (https://www.hkex.com.hk/).

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2019.

PRINCIPAL ACTIVITIES

The Group is primarily engaged in provision of end-to-end pharmaceutical R&D services, providing integrated laboratory, clinical development and CMC services across services and geographical boundaries.

The activities and particulars of the Company's principal subsidiaries are shown under note 1 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year ended December 31, 2019 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and note 4 and note 5 to the consolidated financial statements.

BUSINESS REVIEW

The description of principal risks and uncertainties that the Group may be facing, a fair review of the Group's business during the Reporting Period, and the probable future business development of the Group are provided in the Corporate Governance Report and the Management Discussion and Analysis section on pages 42 to 58 and on pages 12 to 32 respectively of this annual report.

Also, the financial risk management objectives and policies of the Group can be found in note 48 to the consolidated financial statements. An analysis of the Group's performance during the Reporting Period using financial key performance indicators is provided in the Financial Highlights section on pages 6 of this annual report. In addition, discussions on the relationships with its staff, customers and suppliers is also contained in the Environmental, Social and Governance Report section on pages 73 to 102 of this annual report. Discussions on the Group's environmental policies and compliance with relevant laws and regulations which have a significant impact on the Group are also contained in the Environmental, Social and Governance Report on pages 73 to 102 of this annual report.

ENVIRONMENTAL PROTECTION

The Group is subject to certain environmental laws and regulations in the PRC. The Group has established an environmental, safety and health department to ensure compliance with applicable legal requirements and internal standards regarding environmental protection. Our measures and procedures to ensure compliance with applicable legal requirements includes (i) adopting protective measures at our facilities, (ii) promulgating safety operation procedures relating to various aspects of our integrated services, such as the use and storage of chemicals and operation of equipment, (iii) conducting regular safety and compliance inspections of our facilities, and (iv) engaging professional waste-disposal companies to manage the disposal of hazardous and biohazardous waste.

To the best of the Group's knowledge, during the year ended December 31, 2019, the Group had complied with the applicable environment laws and regulations in the PRC in all material respects. Please refer to pages 73 to 102 of this annual report for the Environmental, Social and Governance Report of the Company prepared in compliance with the provisions set out in the Environmental, Social Governance Reporting Guide in Appendix 27 to the Listing Rules.

FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the last four financial years is set out in the section headed "Financial Summary" in this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 14 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2019, the percentage of the major customers and suppliers in the Group's total sales and purchase are as follow:

	Percentage in the Group's total	
	Sales	Purchases
Largest customer	**5.3%**	–
Total of the five largest customers	**21.1%**	–
Largest supplier	**–**	2.5%
Total of the five largest suppliers	**–**	10.8%

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

USE OF PROCEEDS FROM THE GLOBAL OFFERING

Upon completion of the Global Offering of its H Shares, the Company raised net proceeds of approximately RMB4,522.7 million. As at December 31, 2019, the proceeds raised by the Company from the Global Offering have not been utilized.

The net proceeds from the Global Offering 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, 2019.

Use of proceeds		Allocation of net proceeds (RMB million)	Utilized amount as of the date of this annual report
Expand capacities and capabilities in laboratory and manufacturing facilities in the PRC	30.0%	1,356.8	–
– investing in upgrading and expanding our Ningbo facility	19.5%	881.9	–
– investing in upgrading and expanding our Tianjin facility	4.5%	203.5	–
– investing in upgrading and expanding other manufacturing facilities	6.0%	271.4	–
Fund further expansion of businesses in the U.S. and U.K	10.0%	452.3	–
Establish pharmaceutical R&D services platform for discovery and development of biologics	20.0%	904.5	–
Expand clinical development services	15.0%	678.4	–
Expand our capacity and capabilities through potential acquisitions of CRO and CMO companies and businesses	15.0%	678.4	–
General corporate and working capital	10.0%	452.3	–
Total	–	4,522.7	–

USE OF PROCEEDS FROM THE A SHARE OFFERING

Upon completion of the A Share Offering, the Company raised net proceeds of approximately RMB432.9 million. As at December 31, 2019, the Company has fully utilized the proceeds of the A Share Offering in the construction of our Ningbo facility in accordance with the use of proceeds as set forth in the prospectus for the A Share Offering.

DIVIDEND

The Board recommends the payment of the Proposed Final Dividend of RMB1.5 per 10 shares (inclusive of applicable tax). Subject to the approval of the Proposed Final Dividend by the Shareholders at the AGM to be held on May 28, 2020, the Proposed Final Dividend will be distributed on or about July 15, 2020 to the Shareholders whose names appear on the register of members of the Company on June 8, 2020 (the "Record Date").

The final dividend distribution shall be calculated based on the total number of Shares in issue as of the Record Date and the final cash dividend distribution shall be based on RMB1.5 per 10 shares (inclusive of applicable tax). In order to qualify for the final dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before 4:30 p.m. on June 2, 2020. For the purpose of ascertaining the holders of H Shares who qualify for the final dividend, the register of members for H Shares will be closed from June 3, 2020 to June 8, 2020, both days inclusive, during which period no transfer of H Shares will be effected.

The final dividend will be denominated and declared in RMB. The holders of Domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the final dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the final dividend.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on January 1, 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organizations or groups, shall be deemed as Shares held by non-resident enterprise Shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change its Shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H Shares as of the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to Computershare Hong Kong Investor Services Limited. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with the PRC, or which has not entered into any tax agreement with the PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

TAX RELIEF AND EXEMPTION

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

PROFESSIONAL TAX ADVICE RECOMMENDED

For any taxation implications of purchasing, holding, disposing of, dealing in the Shares, the Shareholders should consult an expert.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 37 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity and note 39 and note 49 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVE

As at December 31, 2019, the Company had distributable reserve amounting to approximately RMB962.2 million, calculated in accordance with PRC rules and regulations.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the Reporting Period and as at the date of this annual report are as follows:

Executive Directors

Dr. LOU Boliang (樓柏良) *(Chairman)*
Mr. LOU Xiaoqiang (樓小強)
Ms. ZHENG Bei (鄭北)

Non-executive Directors

Mr. CHEN Pingjin (陳平進)
Mr. HU Baifeng (胡柏風)
Mr. LI Jiaqing (李家慶)
Mr. ZHOU Hongbin (周宏斌)

Independent Non-executive Directors

Mr. DAI Lixin (戴立信)
Ms. LI Lihua (李麗華)
Ms. CHEN Guoqin (陳國琴)
Ms. SHEN Rong (沈蓉)
Mr. TSANG Kwan Hung Benson (曾坤鴻)

Supervisors

Dr. YANG Kexin (楊珂新) *(Chairperson)*
Mr. LIU Jun (劉駿)
Ms. ZHANG Lan (張嵐)

The biographical information of the Directors and Supervisors are set out in the section headed 'Profile of Directors, Supervisors and Senior Management' on pages 33 to 41 of this annual report.

DISCLOSURE OF INFORMATION OF DIRECTORS AND SUPERVISORS UNDER RULES 13.51(2) AND 13.51B(1) OF THE LISTING RULES

During the Reporting Period, there is no change of information of each Director and Supervisor that is required to be disclosed under Rules 13.51(2) and 13.51B(1) of the Listing Rules.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

The Group has not entered into any transaction agreement or contract of significance in which the Directors and Supervisors have director or indirect material interests during the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors or their respective associates (as defined under the Listing Rules) had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee determines or makes recommendation to the Board (as case may be) on the remuneration and other benefits payable to the Directors and Supervisors by the Group. The Remuneration Committee regularly oversees the remuneration of all Directors and Supervisors to ensure that their remuneration and compensation are at an appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors and Supervisors based on their qualifications, experience and contributions, to attract and retain its Directors and Supervisors as well as to control costs.

Details of emoluments of Directors, Supervisors and the top 5 highest paid individuals are set out in note 9 and note 10 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEME

Details of the pension obligations of the Company are set out in note 8 to the consolidated financial statements in this annual report.

PERMITTED INDEMNITY PROVISION

The Company has purchased appropriate liability insurance for its Directors and Supervisors which provides proper protection for the Directors and Supervisors.

INTERESTS AND SHORT POSITION OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As of December 31, 2019, the interests and short positions of the Directors, the Supervisors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is keen to taken or deemed to have under such provisions of the SFO), or as recorded in the registered maintained by the Company under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Position in Shares

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate percentage of its class of Shares	Percentage in total number of Shares
Dr. LOU Boliang	Domestic Shares	Interests held jointly with another person; interests of controlled corporation	187,423,105	28.38%	23.59%
Mr. LOU Xiaoqiang	Domestic Shares	Beneficial owner; interests held jointly with another person; interests of controlled corporation; interests of spouse	187,423,105	28.38%	23.59%
Ms. ZHENG Bei	Domestic Shares	Interests held jointly with another person; interests of controlled corporation; interests of spouse	187,423,105	28.38%	23.59%

Note:

1. Dr. LOU Boliang, Mr. LOU Xiaoqiang and Ms. ZHENG Bei have entered into a voting rights agreement on October 19, 2018 (which formalizes their pre-existing voting arrangement), pursuant to which they have agreed to reach consensus on any proposal presented to the Board and the general meeting of the shareholders of the Company for voting (the "Voting Agreement"). Pursuant to the Voting Agreement, Dr. LOU Boliang, Mr. LOU Xiaoqiang and Ms. ZHENG Bei are concert parties and they are deemed to be interested in each other's interests in our Company under the SFO.

2. Mr. LOU Xiaoqiang and Ms. ZHENG Bei are spouses.

Save as disclosed above, as of December 31, 2019, to the knowledge of the Board, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES

As of December 31, 2019, according to the register kept by the Company pursuant to Section 336 of the SFO and so far is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Interests in the Shares of the Company

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate percentage in the respective class of share capital	Percentage in total number of Shares
Pharmaron Holdings Limited [(2)]	Domestic	Beneficial owner	97,600,003(L)	14.78%	12.29%
CITIC Securities Co. Ltd. (中信証券股份有限公司) ("**CITIC Securities**") [(3)]	Domestic	Interest of controlled corporation	185,637,121(L)	28.11%	23.37%
Beijing Junlian Tongdao Investment Management Partnership (Limited Partnership) (北京君聯同道投資管理合夥企業(有限合夥)) ("**Junlian Tongdao**") [(4)]	Domestic	Interest of controlled corporation	121,347,001(L)	18.38%	15.28%
JPMorgan Chase & Co [(5)]	H Shares	Interest of controlled corporation, investment manager, person having a security interest in shares, approved lending agent	14,233,689(L) 25,700(S) 5,721,400(P)	10.63% 0.02% 4.27%	1.79% 0.00% 0.72%
Wellington Management Group LLP [(6)]	H Shares	Investment manager	16,149,400(L)	12.05%	2.03%
The Capital Group Companies, Inc. [(7)]	H Shares	Interest of controlled corporation	16,060,700(L)	11.98%	2.02%
China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司) ("**China Structural Reform Fund**")[(8)]	H Shares	Beneficial owner	7,931,600(L)	5.92%	1.00%
Lake Bleu Prime Healthcare Master Fund Limited	H Shares	Beneficial owner	7,931,600(L)	5.92%	1.00%

Notes:

1. The letter "L", "S" and "P" stand for long position, short position and lending pool, respectively.

2. Pharmaron Holdings Limited is held as to 65.11% by Dr. LOU Boliang.

3. Shenzhen Xinzhong Kangcheng Investment Partnership (Limited Liability Partnership) (深圳市信中康成投資合夥企業(有限合夥)) ("Shenzhen Xinzhong Kangcheng") directly held 157,142,855 A Shares. To the best knowledge of our Company, the general partner of Shenzhen Xinzhong Kangcheng is CITIC Buyout Fund Management Company Limited (中信併購基金管理有限公司) ("CITIC Fund"). Shenzhen Xinzhong Kangcheng is held as to 50.16% by CITIC Buyout Investment Fund (Shenzhen) (Limited Partnership) (中信併購投資基金(深圳)合夥企業(有限合夥)) ("CITIC Fund Shenzhen") as a limited partner, the general partner of which is CITIC Fund. CITIC Fund is wholly-owned by Gold Stone Investment Co., Ltd (金石投資有限公司), which is in turn wholly-owned by CITIC Securities, a company listed on the Hong Kong Stock Exchange (stock code: 6030). In addition, CITIC Securities is also considered as having control over CITIC Fund Shenzhen according to the investment contract.

4. Tianjin Junlian Wenda Equity Investment Partnership (Limited Partnership) (天津君聯聞達股權投資合夥企業(有限合夥)) ("Junlian Wenda") and Beijing Junlian Maolin Equity Investment Partnership (Limited Partnership) (北京君聯茂林股權投資合夥企業(有限合夥) directly held 103,489,858 and 17,857,143 A Shares respectively. According to the disclosure of interest notice filed by the relevant parties with a relevant date of November 28, 2019, the general partner of Junlian Wenda and Junlian Maolin is Junlian Tongdao, and Mr. Wang Nengguang (王能光), Mr. Chen Hao (陳浩) and Mr. ZHU Linan (朱立南) are deemed to be interested in the A Shares held by Junlian Wenda and Junlian Maolin under the SFO, with details as follows:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of A Shares
Junlian Wenda	Junlian Tongdao (as general partner)	0.00	Y	103,489,858 (L)
Junlian Maolin	Junlian Tongdao (as general partner)	2.46	Y	17,857,143 (L)
Junlian Tongdao	Junlian Capital (Shenzhen) Management Co., Ltd. (君聯資本(深圳)管理有限公司) (as general partner)	0.01	N	121,347,001 (L)
Junlian Capital (Shenzhen) Management Co., Ltd. (君聯資本(深圳)管理有限公司)	Junlian Capital Management Co., Ltd. (君聯資本管理股份有限公司)	100.00	N	121,347,001 (L)
Junlian Capital Management Co., Ltd. (君聯資本管理股份有限公司)	Beijing Juncheng Hezhong Investment Management Partnership (Limited Partnership) (北京君誠合眾投資管理合夥企業(有限合夥))	80.00	N	121,347,001 (L)
Beijing Juncheng Hezhong Investment Management Partnership (Limited Partnership) (北京君誠合眾投資管理合夥企業(有限合夥))	Tianjin Huizhi No.1 Enterprise Management Consulting Partnership (Limited Partnership) (天津匯智壹號企業管理諮詢合夥企業(有限合夥))	58.12	N	121,347,001 (L)
Junqi Jiarui Enterprise Management Co., Ltd (北京君祺嘉睿企業管理有限公司)	Wang Nengguang (王能光)	40.00	N	121,347,001 (L)
Junqi Jiarui Enterprise Management Co., Ltd (北京君祺嘉睿企業管理有限公司)	Chen Hao (陳浩)	40.00	N	121,347,001 (L)
Beijing Juncheng Hezhong Investment Management Partnership (Limited Partnership) (北京君誠合眾投資管理合夥企業(有限合夥))	Zhu Linan (朱立南)	48.85	N	121,347,001 (L)

Additionally, Mr. Wang Nengguang (王能光) and Mr. Chen Hao (陳浩) are also interested in 17,857,143 A Shares held by WISH BLOOM LIMITED with details as follows:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of A Shares
WISH BLOOM LIMITED	LC Fund VI, L.P.	96.00	Y	17,857,143 (L)
LC Fund VI, L.P.	LC Fund VI GP, L.P. (as general partner)	1.00	N	17,857,143 (L)
LC Fund VI GP, L.P.	Legend Capital Management Limited	70.00	N	17,857,143 (L)
LC Fund VI GP, L.P.	LC Fund VI GP Limited (as general partner)	1.00	N	17,857,143 (L)
LC Fund VI GP Limited	Legend Capital Management Limited	100.00	N	17,857,143 (L)
Legend Capital Management Limited	Elite Bliss Limited	45.50	N	17,857,143 (L)
Elite Bliss Limited	Wang Nengguang (王能光)	40.00	N	17,857,143 (L)
Elite Bliss Limited	Chen Hao (陳浩)	40.00	N	17,857,143 (L)

5. JPMorgan Chase & Co. has a total interest of 14,233,689 (long position), 25,700 (short position) and 5,721,400 (lending pool) Shares in our Company by virtue of its relationship with a number of corporation. According to the disclosure of interest notice filed by JPMorgan Chase & Co. with a relevant event date of December 30, 2019, the following interest in H Shares were held by JPMorgan Chase & Co.:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of H Shares
J.P. Morgan Securities LLC	J.P. Morgan Broker-Dealer Holdings Inc.	100.00	Y	3,868,889 (L)
JPMorgan Asset Management (Taiwan) Limited	JPMorgan Asset Management (Asia) Inc.	100.00	Y	634,100 (L)
JPMorgan Chase Bank, N.A. – Sydney Branch	JPMorgan Chase Bank, National Association	100.00	Y	165,000 (L)
JPMorgan Chase Bank, National Association	JPMorgan Chase & Co.	100.00	Y	5,556,400 (L)
JPMorgan Asset Management (Asia Pacific) Limited	JPMorgan Asset Management (Asia) Inc.	99.99	Y	3,224,600 (L)
J.P. MORGAN SECURITIES PLC	J.P. MORGAN CAPITAL HOLDINGS LIMITED	100.00	Y	784,700 (L) 25,700 (S)
J.P. Morgan Broker-Dealer Holdings Inc.	JPMorgan Chase Holdings LLC	100.00	N	3,868,889 (L)
JPMorgan Chase Holdings LLC	JPMorgan Chase & Co.	100.00	N	7,727,589 (L)
JPMorgan Asset Management (Asia) Inc.	JPMorgan Asset Management Holdings Inc.	100.00	N	3,858,700 (L)
JPMorgan Asset Management Holdings Inc.	JPMorgan Chase Holdings LLC	100.00	N	3,858,700 (L)
JPMorgan Chase Bank, National Association	JPMorgan Chase & Co.	100.00	N	949,700 (L) 25,700 (S)
J.P. MORGAN CAPITAL HOLDINGS LIMITED	J.P. Morgan International Finance Limited	100.00	N	784,700 (L) 25,700 (S)
J.P. Morgan International Finance Limited	JPMorgan Chase Bank, National Association	100.00	N	784,700 (L) 25,700 (S)

The capacity under which the interests are held are as follow:

Capacity in which interest is held	Number of H Shares
Interest of controlled corporation	34,700 (L) 25,700 (S)
Invest manager	3,858,700 (L)
Person having security interest in the shares	4,618,889 (L)
Approved lending agent	5,721,400(L)

Additionally, 25,700 H Shares (short position) were held through a cash settled unlisted derivative.

6. Wellington Management Group LLP has a total interest of 16,149,400 (long position) Shares in our Company by virtue of its capacity as an investment manager of a number of corporation. According to the disclosure of interest notice filed by Wellington Management Group LLP with a relevant event date of December 30, 2019, the following interest in H Shares were held by Wellington Management Group LLP:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of H Shares
Wellington Group Holdings LLP	Wellington Management Group LLP	99.70	N	16,149,400 (L)
Wellington Investment Advisors Holdings LLP	Wellington Group Holdings LLP	99.99	N	16,149,400 (L)
Wellington Management Global Holdings, Ltd.	Wellington Investment Advisors Holdings LLP	94.10	N	6,973,113 (L)
Wellington Management Company LLP	Wellington Investment Advisors Holdings LLP	99.99	Y	9,176,287 (L)
Wellington Management Hong Kong Ltd	Wellington Management Global Holdings, Ltd.	100.00	Y	5,289,211 (L)
Wellington Management Singapore Pte. Ltd.	Wellington Management Global Holdings, Ltd.	100.00	Y	1,683,902 (L)

7. According to the disclosure of interest notice filed by The Capital Group Companies, Inc. with a relevant event date of December 27, 2019, it has a total interest of 16,060,700 (long position) Shares in our Company by virtue of its control over Capital Research and Management Company.

8. According to the disclosure of interest notice filed by China Structural Reform Fund, CCB (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) ("CCB Beijing"), CCB Trust Co., Ltd. (建信信託有限責任公司) ("CCB Trust") and China Post Savings Bank Co., Ltd. (中國郵政儲蓄銀行股份有限公司) ("China Post Savings Bank"), each with a relevant event date of December 27. 2019, China Structural Reform Fund has a beneficial interest of 7,931,600 (long position) Shares in our Company and the interest of CCB Beijing, CCB Trust and China Post Savings Banks is as follow:

as filed by CCB Trust

Name of controlled corporation	Name of controlling person	% Control	Direct interest (Y/N)	Number of H Shares
CCB Beijing	CCB Trust	100.00	N	7,931,600 (L)
China Structural Reform Fund	CCB Beijing	38.20	Y	7,931,600 (L)

as filed by China Post Savings Bank Co., Ltd.

Names of trust	Capacity	Number of H Shares
CCB Trust-Wutong Tree Fund Trust Plan (asset allocation class 26 investment unit) (建信信託-梧桐樹資金信託計劃(資產配置類26號投資單元))	Beneficiary of a trust (other than a discretionary interest)	7,931,600 (L)

Substantial shareholders of other members of the Group

Name	Member of the Group	Approximate percentage held by the substantial shareholder
Yu Wu	Nanjing Sirui Biotechnology Co., Ltd. (南京思睿生物科技有限公司)	23.04%
Nanjing Sanomai Kang Enterprise Management Partnership (Limited Partnership) (南京賽諾邁康企業管理合夥企業(有限合夥))	Nanjing Sirui Biotechnology Co., Ltd. (南京思睿生物科技有限公司)	14.73%
Shin Nippon Biomedical Laboratories, Ltd	Pharmaron CPC, Inc	20.0%

Save as disclosed above, as of December 31, 2019, to the knowledge of the Directors, no other person had, or were deemed or taken to have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the registry kept by the Company pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended December 31, 2019, details of the Group's continuing connected transactions subject to the reporting, annual review, announcement requirements are set out as follows:

Continuing connected transaction	Date	Connected person	Description and purpose of the transaction	Annual cap for the year ended December 31, 2019	Actual transaction value for the year ended December 31, 2019
Study Animals Procurement Framework Agreement	April 1, 2019	Beijing Anikeeper Biotech Co., Ltd. (北京安凱毅博生物技術有限公司), a company held as to 75% by Hangzhou Nafeng Investment Co., Ltd. (杭州納灃投資有限公司), which is in turn held as to 50% by Mr. LOU Guoqiang, brother of Dr. LOU Boliang and Mr. LOU Xiaoqiang, and 20% by Ms. ZHENG Bei ("Anikeeper")	Our Company has entered into the agreement to procure study animals that are necessary for our pharmacology services.	RMB5 million	RMB3.8 million

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

Study Animals Procurement Framework Agreement

On April 1, 2019, the Company and Anikeeper entered into the study animal procurement framework agreement for a term of 3 years from April 1, 2019, pursuant to which the Company would purchase study animal from Anikeeper for our pharmacology services. The Company and Anikeeper will enter into separate purchase order which will set out the specific terms and conditions according to the principles in the study animals procurement framework agreement.

Pricing

Unless agreed by the Company and Anikeeper after arm-length negotiations and with reference to the market prices, quantities, delivery methods and feeding conditions of the animals and historical transaction amounts, the purchase price shall be calculated and determined according to the price list as set out in the study animals procurement framework agreement. Such prices shall be no less favorable than prices at which our Group pays independent third parties for comparable transactions.

Annual caps

For the years ending December 31, 2019, 2020 and 2021, the maximum aggregate annual amount of rentals under the study animals procurement framework agreement shall not exceed RMB5 million, RMB7 million and RMB10 million, respectively.

Exempt from Independent Shareholders' Approval

As the highest applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules for the transactions under the study animals procurement framework agreement will be less than 5% on an annual basis but the consideration is more than HK$3.0 million, under Rule 14A.76 of the Listing Rules, the transactions under the study animals procurement framework agreement will be subject to the reporting, announcement and annual review requirements but will be exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Review by and Confirmation of Independent Non-executive Directors of the Company

The independent non-executive Directors have reviewed the above continuing connected transactions, and after due and careful enquiry with the management of the Group, confirmed that such transactions were:

(i) carried out in the ordinary and usual course of business of the Group;

(ii) made on normal commercial terms or better; and

(iii) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable, and in the interests of the Shareholders as a whole.

The independent non-executive Directors are satisfied that they have received and reviewed sufficient information to give the confirmations above.

Confirmation of the Auditor

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

RELATED PARTY TRANSACTIONS

Details on related party transactions for the Reporting Period are set out in note 45 to the consolidated financial statements. Save as disclosed in the paragraph headed "Connected Transactions" in this annual report, the related party transactions as set out in note 45 to the consolidated financial statements are not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights in the articles of association of the Company or under the laws of the PRC being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

PURCHASE, SALE, REDEMPTION OR CANCELLATION OF LISTED SECURITIES

For the year ended December 31, 2019, nether the Company nor any of its subsidiaries purchased, sold, redeemed or cancelled any of the Company's listed securities.

EQUITY-LINKED AGREEMENT

During the Reporting Period, other than the A Share Incentive Scheme as set out in the section under "A Share Incentive Scheme" as out below and note 38 to the consolidated financial statements, the Company has not entered into any equity-linked agreement.

DONATIONS

During the Reporting Period, the Company made donations of RMB1.7 million.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2019.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. The Board is of the opinion that the Company has complied with the applicable code provisions under the CG Code throughout the reporting period. Principal corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 42 to 58 of this annual report.

A SHARE INCENTIVE SCHEME

In order to establish and improve long-term corporate incentive systems of the Group, attract and retain talent, motivate the employees of our Group, effectively align the interests of our Shareholders, the Group and the employees of the Group and enabling the respective parties to become aware of the Group's long-term development, and to promote the realization of the development strategies of the Group, the A Share Incentive Scheme was approved by Shareholders' meeting of the Company and became effective on August 15, 2019 to issue up to a total of 5,651,359 A Shares of the Company, amongst which 4,521,087 A Shares would be granted by way of Restricted A Shares and the remaining 1,130,272 A Shares were reserved for option grants.

The total number of grantees who have been granted and who have taken up the relevant Restricted A Shares under the A Share Incentive Scheme is 227, including senior-level management of the Company, mid-level managers and backbone members of our technicians and basic-level managers and other technicians.

As of the date of this annual report, no share options have been granted under the A Share Incentive Scheme and a total of 4,077,387 Restricted A shares have been subscribed by eligible employees. These granted Restricted A Shares have a contractual term of no more than four years and unlock over a three year period, with 40%, 30% and 30% of the awards unlocking on the first, second and third anniversary date of the A Shares registration date upon meeting certain unlocking conditions.

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

SUFFICIENCY OF PUBLIC FLOAT

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

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

CLOSURE OF THE REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from April 28, 2020 to May 28, 2020, both days inclusive, during which period no transfer of Shares will be effected. In order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on April 27, 2020.

For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from June 3, 2020 to June 8, 2020, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for receiving the Proposed Final Divided (subject to the approval by the Shareholders at the AGM), all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30pm on June 2, 2020.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

There was no incident of non-compliance with relevant laws and regulations that had a significant impact on the Group during the Reporting Period.

AUDITOR

The financial statements have been audited by Ernst & Young. Since the date of preparation for the Listing, the Company has been engaging Ernst & Young for their services. Ernst & Young will retire, and being eligible, offer themselves for re-appointments at the forthcoming AGM.

By order of the Board
Pharmaron Beijing Co., Ltd.
康龍化成（北京）新藥技術股份有限公司
Dr. LOU Boliang
Chairman

Beijing, the PRC
March 27, 2020

Environmental, Social and Governance Report

CONTENTS

With the corporate mission of "serving our partners to succeed and contributing our wisdom to human health", Pharmaron Beijing Co., Ltd. (hereafter referred to the Company) and its subsidiaries (together, hereafter referred to as the Group) regard sustainable development as an important foundation of business operations. With its development based on innovation, it adheres to environmental protection, safeguards the legitimate rights and interests of employees and commits itself to charity and poverty alleviation. This results in continuous improvement of its environmental, social and governance performance.

This report is the first Environmental, Social and Governance (hereafter referred to as ESG) report issued by the Group. It reports our ESG performance from 1 January 2019 to 31 December 2019, with some aspects covered beyond this period. This report complies with the provisions of the Appendix 27 "ESG Reporting Guide" to the Guidelines for Listing Rules of the Stock Exchange of Hong Kong Limited (hereinafter referred to as the HKEX). Unless otherwise specified, the financial data cited in this report was derived from audited financial statements and the rest of the data from the Company's internal official documents and related statistics.

1. RESPONSIBLE MANAGEMENT

In order to integrate the ESG concept into the corporate management and operations on all fronts and adhere to the values of sustainable development, the Group improves the ESG work management system, understands the expectations and demands of stakeholders and strengthens its operations.

1.1. ESG management

Attaching great importance to its ESG management work, the Group constantly improves the ESG management system and enhances its internal awareness of ESG work. In 2016, the Company established the Social Responsibility Management System and a Social Responsibility Management Committee. The manager of the Company plays a leading role in undertaking social responsibility. Authorised by the manager, the Social Responsibility Management Committee handles all daily tasks related to the Company's social responsibility. The deputy manager serves as Chairman of the Committee and takes the ultimate responsibility for the Company's social responsibility system operation and social responsibility performance. The head of the Office for Environment, Health and Safety (EHS Office) serves as the executive assistant and is responsible for chairing and coordinating the daily work of the committee. Members of the committee also include the heads of Human Resources department, Finance department, Government Affairs department, Procurement department, Administration department, Internal Control department and union representatives as well as heads of its branches and subsidiaries.

In 2019, the Company started to elaborate the functions of the Social Responsibility Management Committee. They implemented the ESG resolutions of the Board of Directors (the Board) and studied the ways of involving and communicating with stakeholders. They also determined material ESG issues at all stages of the Company to identify ESG risks and opportunities and set ESG objectives The results were communicated to the Board and management in a timely manner.

In 2019, the Company also established an ESG working group. The Legal Affairs department took the lead in organizing the preparation of the ESG action plan, collecting and collating ESG qualitative and quantitative data, commissioning the preparation and preliminary review of the ESG report and assisting in the submission of the ESG report to the Board. Members of the working group included: EHS department, Human Resources department, Procurement department, Public Affairs department, Internal Control department, Administrative department, Facilities Management department, R&D department, Quality Control department, Business Development department, and Laboratory Animal Management department. Each department assigned personnel was dedicated to ESG information collection, reporting and review to ensure that data was comprehensive and accurate. The establishment of the ESG working group made it possible to coordinate and track the daily ESG work effectively, thereby ensuring that all tasks were carried out in an orderly manner.

In December 2019, the Company held an annual ESG work meeting to make work arrangements, organise and conduct interviews, stakeholder research and communication, information and data collection and so on. In early 2020, the Company's directors reviewed the reporting framework. The 27th session of the first Board of Directors carefully reviewed the motion on the Company's 2019 Social Responsibility cum ESG Report, and proposed amendments and suggestions.

1.2. Stakeholder engagement

Stakeholders' expectations and feedback are an important basis for the Group to determine a responsible management strategy and management effectiveness. In 2019, the Company actively communicated with the six major stakeholders, including the government and regulators, shareholders, customers and partners, suppliers, employees, communities and the public to understand the needs of stakeholders and respond accordingly.

Stakeholders	Expectations and demands	Communication channel
Government and regulators	Complying with national laws and regulations Promoting local economic and industrial development Promoting local employment	Report delivery Suggestions Special report Discussion and cooperation
Shareholders	Return of investment Compliance operations Production safety	Company announcements Special report Site visit
Customers and partners	Fulfilment of contracts Operations with integrity High-quality products and services	Business communication Customer feedback Communication and discussion
Suppliers	Fulfil contracts Operations with integrity	Business communication Communication and discussion
Employees	Protection of rights and interests Occupational health Compensation and benefits Career development	Labour union Information disclosure Platform for democratic communication
Communities and the public	Improving community environment Public service and charity Open and transparent information	Official website Company's announcements Interview and communication

1.3. Response to ESG reporting principle

Principle of materiality: In order to clarify the key areas of ESG practice and information disclosure, improve the relevance of the report; the Group identified ESG issues and conducted materiality analysis. This was done in accordance with the requirements of the ESG Reporting Guide of the HKEX to ensure that the information disclosed in the report comprehensively covers key issues of concern to Pharmaron and its stakeholders.

We invited various internal and external stakeholders to identify ESG issues and conducted materiality assessment. Through various channels such as employee interviews, field visits, and questionnaire survey. This helped us to fully understand the sustainable developmental concerns of employees and stakeholders.

Steps to identify material environmental, social and governance issues

Sources of issues

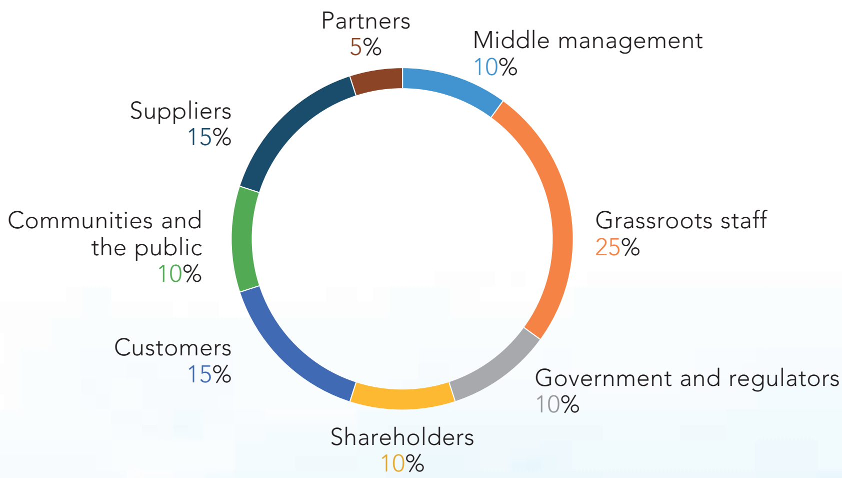
- Corporate management suggestions
- Suggestions from internal and external professionals
- Multimedia information analysis
- Benchmarking studies
- ESG standards and guidelines

Screening standards

- Contribution to sustainable development
- Concerns of stakeholders
- Material issues disclosure principles in social responsibility guidelines
- The needs of our corporate strategic development

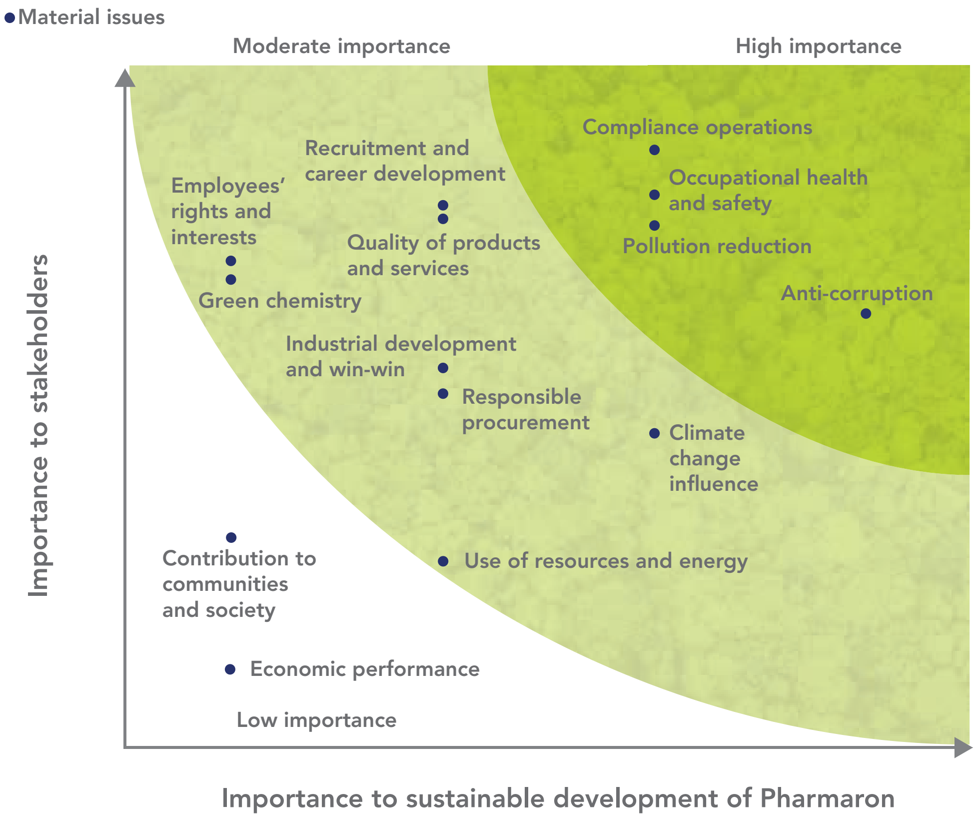
In 2019, the stakeholders involved in the survey questionnaire on material issues of sustainable development included the government and regulators, shareholders, customers, suppliers, partners, employees, communities and the public. The distribution of the questionnaires among them was as follows:

The pie chart of stakeholders' distribution for the survey questionnaire on materiality in 2019



A total of 287 valid questionnaires were collected and 14 material issues on ESG were derived therefrom. In 2019, the Group's material issues of high importance on sustainable development included compliance operations, occupational health and safety, pollution reduction and anti-corruption.

Materiality matrix of Pharmaron in 2019



Principle of quantitative: The Group established ESG indicator management tools covering offices abroad and at home; collected data regularly on key quantitative disclosure indicators involving the environment scope in whole and the scope of society in part from the ESG Reporting Guide; summarised these indicators during the year and then finally formed this report for external disclosure. The specific data is detailed in each section of this report.

Principle of balance: This report has been reviewed and confirmed by the Company's Board of Directors to ensure that the content is objective, open and accessible from the Company's official disclosure channels or public media.

Principle of consistency: This report is the first ESG report issued by the Group. We standardised the calibre of the disclosure, elaborated some of the indicators in the ESG Reporting Guide and established information collection tools for domestic and foreign companies, thereby laying the foundation for consistency in subsequent reports and year-on-year data comparison.

1.4. Operations with integrity

We always adhere to a clean and honest corporate culture and strictly abide by the laws and regulations such as the *Criminal Law of the People's Republic of China, the Anti-Money Laundering Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Prohibition of Commercial Bribery, and the Foreign Corrupt Practices Act of 1977. The Company has formulated the Management Measures for Anti-Fraud, Whistle-blowing and Complaining and the Code of Ethical Conduct* to regulate the occupational behaviours of the Company's executives and employees, stipulate their duties in anti-fraud work and prevent corruption and fraud.

The Group has established effective reporting and investigation procedures to prevent corruption and fraud. Through bolstering the reporting channels such as its compliance hotline and email box, the Company has continuously unblocked channels for monitoring and reporting. In 2019, the Company did not have any lawsuits caused by corruption and fraud.

In order to further strengthen its anti-corruption training, the Company enhances the pertinence and timeliness of its training. In 2019, the Company conducted a total of 50 anti-corruption training sessions for certain positions in its key functional departments and evaluated the training effectiveness. The training involved a total of 3,183 person-times for a total of 163,200 hours, and the assessment pass rate reached 100%. This effectively raised the anti-corruption awareness of employees at all levels and created a constructive anti-fraud atmosphere.

2. SUSTAINABLE OPERATIONS

The Group offers diversified Research and Development (R&D) services and implements quality and safety control in each link of operations. Adhering to the client-centricity value combined with its innovation and R&D capability, we are committed to providing the most efficient and finest products and services along with creating value for our business partners.

2.1. Product liability

Drug safety is our paramount responsibility. As a pharmaceutical company, we always put product quality and safety first. We conscientiously observe relevant domestic and international industry norms, including the *China Good Manufacture Practice of Medical Products (revised in 2010), the Industrial Guidance on Data Integrity and Compliance on cGMP*, the *GXP Data Integrity Guidance and Definitions, and* the WHO *Guidance on Good Data and Record Management*., We also adhere to the guidelines issued by the International Conference on Harmonisation of Technical Requirements for the Registration of Pharmaceuticals for Human Use (ICH), including ICH Q7 Good *Manufacturing Practice (GMP) Guidance for Active Pharmaceutical Ingredients*, ICH Q8 *Pharmaceutical Development*, ICH Q9 *Quality Risk Management*, and ICH Q10 *Pharmaceutical Quality System*. We keep our technical requirements in line with international standards. In 2019, Pharmaron UK passed the ISO 9001:2015 certification on quality management systems.

We have established a sound quality management system (QMS) and continuously improved quality-related policies, including the *GPHA-QP V01 Pharmaron Quality Policy*, the *GPHA-QM V01 Quality Manual* and the *PHA-QA-008 Recall*. We have a professional Quality Management department that controls the six essential procedures of production, analysis, material management, engineering, equipment and facilities management along with quality assurance systems. We also integrate technical requirements through standard operating procedures (SOP) into all links such as R&D, experiment and production so that they truly translate into the rules for the Company to improve product safety, quality and core competitiveness.

According to quality policies, we require all employees to provide high-quality products and ensure that materials and services meet the requirements of safety, quality and efficacy. We also impose corresponding quality requirements on suppliers, partners and contractors, and strictly monitor their implementation. At the same time, we continuously improve the effectiveness of our quality management system to ensure that quality objectives are measurable, analysable and auditable.

In order to improve the quality of delivery, the Company has set up a Quality Assurance department to ensure the management and support of project quality. According to the formulated project process, the Company completes the supervision of each GMP project, while continuously maintaining and improving the quality management system of the site to effectively guarantee product quality. In addition to internal audits, Pharmaron UK's project managers conduct self-inspection and report issues to the management. The management is responsible for taking measures to eliminate non-conformities and their causes, as well as timely verification and results reporting.

In 2019, the Company and Pharmaron Ningbo completed the quality assurance management and project support of 72 GMP APIs and 45 GMP preparations throughout the year and finished 31 on-site audits by domestic and foreign customers. The problems found were tracked and rectified and the audit results obtained positive feedback and won satisfaction from customers. We strictly follow the project process and SOP requirements to achieve comprehensive supervision and full support for GMP projects and effectively guarantee product quality. In 2019, the Group did not have any incidents related to delivery quality and safety.

2.2. Innovation and R&D

Innovation is the perpetual driver of enterprise development. The Group vigorously supports the bolstering of R&D capabilities and is committed to creating an atmosphere that encourages in-house innovation. The Company has in-house academic journals and encourages employees to read professional academic reports every week in order to keep up with the cutting-edge technologies and ensure our scientific research to be ahead of the curve.

Table: Summary of Pharmaron scientific researches and patents in 2019

Number of patents granted to us	piece	9
Number of patents granted to clients with our help	piece	45

For a pharmaceutical R&D enterprise like Pharmaron, the protection of intellectual property rights, outcomes of innovation and R&D play an important role in the development of our business. The Group has established the Intellectual Property Management Committee, adopted systems such as the *Pharmaron Information Security and Secrecy System*, the *Collection of Confidentiality Management System Manuals*, as well as the SOP for confidential information management, in order to provide the organisational and institutional guarantee for information security. At the same time, we have signed the *Agreement on Employees' Proprietary Information Confidentiality and Invention and the Letter of Commitment to Integrity and Compliance with employees*. Training programmes followed were delivered to employees to raise their awareness of confidentiality and protect intellectual property rights. In addition, IT system management, hardware registration management and file backup management are implemented internally to provide multiple guarantees for the protection of innovation.

In 2019, the Company made significant progress in trademark protection. 90% of the trademark registration applications in five countries and one region overseas were completed. A total of 100% of the trademarks were applied for registration in the Hong Kong special administrative region were granted certificates. 75 registered trademark certificates in five major types were obtained in China. Certification of the remaining applications is advancing smoothly. By protecting its intangible assets such as trademarks, the Company keeps its brand image and product quality intact.

The Group supports its scientists to participate in various scientific conferences and activities. In 2019, Pharmaron UK sponsored a total of five training activities, including academic cooperation with Sheffield Hallam University on MALDI. Pharmaron USA organised or participated in six academic conferences and events, as well as four staff trainings. In addition to continuously improving R&D capabilities and carrying out R&D activities, each R&D team maintains its core R&D capabilities, while expanding external communications and learning through poster displays, paper publishing and lecture delivery at academic conferences.

Case: The 9th Pharmaron symposium on synthetic and medicinal chemistry concluded successfully

On 21 September 2019, the Company held the 9th Pharmaron symposium on synthetic and medicinal chemistry in Beijing, which invited many experts in organic chemistry and medicinal chemistry in the industry to deliver detailed theoretical explanations and open discussions on their latest research results. With face-to-face dialogues with these experts, our researchers had the opportunity to enhance their own scientific research skills and capabilities promoting the development of the pharmaceutical research industry.

Group photo of speakers at the 2019 Symposium

2.3. Customer service

Client centricity is the core value of the Group's corporate culture. We continuously provide efficient and high-quality R&D services to create value for customers. We equip our customers with a dedicated one-to-one service team to fully understand their needs for drug research and development. We participate in the coordination and communication between the customer and the R&D team throughout the process to ensure that the customer has the best service experience and the most satisfactory cooperation results are realised.

In accordance with the relevant provisions of the *Anti-Unfair Competition Law of the People's Republic of China* and the *Criminal Law of the People's Republic of China, we sign the Customer Confidentiality Agreement* with customers to strictly protect their trade secrets. We also sign the *On-board Confidentiality Agreement* with employees, conduct confidential knowledge training on a regular basis and prohibit employees from sharing research with irrelevant personnel or disclosing any information related to customer research. At the same time, the Company strengthens the prevention of information leakage from the technical level through various means such as email management, password management and monitoring. Pharmaron UK has formulated its business terms and confidentiality clauses in project proposal to standardise information security management. For instance, any information about or any paper by the R&D scientists must be reviewed before being published to ensure that the Company's and customers' confidential information is not disclosed without authorisation.

The Group has developed the SOP for responding to customer complaints. Upon receiving a customer complaint about finished products or services, the manager makes a record in the system for follow-up, while working with the Quality Management department to investigate the complaint and propose corrective and preventive measures. In 2019, the Group did not receive any customer complaint in China.

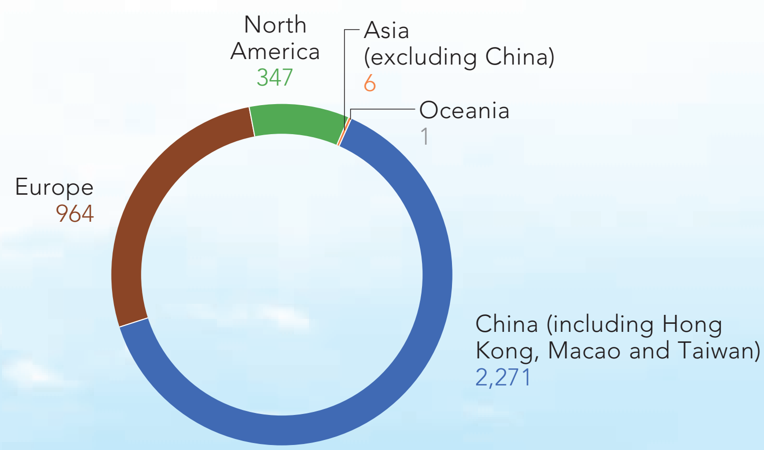
2.4. Supply chain management

As a pharmaceutical R&D service provider, we mainly purchase chemical reagents, solvents, biological reagents, laboratory animals and equipment from suppliers. An in-house *Procurement Management System has been established* to standardise the procurement process and clarify the management methods for suppliers. For raw material suppliers, we require them to complete the supplier questionnaire to comprehensively review the supplier's performance in terms of corporate management, quality and safety, encouraging them to improve their social responsibility management. For laboratory animal suppliers, we require them to submit a quality monitoring report issued by testing agencies designated by the country. Feed and litter suppliers are required to submit a monitoring report issued by third-party testing agencies and the report shall be reviewed by animal breeding professionals.

We also require the cooperating suppliers to sign the *Supplier Code of Conduct and the Agreement with Pharmaron Beijing Co., Ltd. on Integrity and Compliance* which includes a number of social responsibility provisions concerning anti-corruption, human rights protection, anti-discrimination, prohibition of child labour and forced labour. We are committed to sharing social responsibilities with our suppliers, creating a level playing field and improving the ease of business. At the same time, we pay attention to green procurement, giving priority to instruments and equipment with lower energy consumption – thus promoting the formation of a green enterprise.

In 2019, we conducted an annual investigation of material suppliers. In the assessment of social and environmental performances, no environmental pollution, hidden quality hazards or adverse social reputation incidents were identified among investigated suppliers. Depending on the level of risk, we also conduct regular reviews of other suppliers. The distribution of our suppliers in 2019 was as follows:

The pie chart of stakeholders' distribution for the survey questionnaire on materiality in 2019



3. ENVIRONMENTAL PROTECTION

Environmental protection is a requirement in the era of sustainable development and social responsibility of an enterprise. Adhering to the concept of environmental protection, the Company aligns its operations with environmental protection by continuously reducing its environmental impact and promoting low-carbon and green operations. This also helps us realise the harmony between the enterprise and the society.

3.1. Green operations

Green operations are a management responsibility of a modern enterprise. The Group has established an effective environmental management system with continuous improvement and assigned dedicated personnel to implementing the system with a view to setting a model for corporate environmental management.

3.1.1 Environmental management

Pursuant to the *Environmental Protection Law of the People's Republic of China, the Environmental Permitting (England and Wales) Regulations 2018, and the regulations* of EPA and state of Maryland, we have established an environmental management system composed of a number of policies, such as the *Environmental Protection Management Procedures*, the *Environmental Monitoring Management Procedures, the Environmental Pollution Accident Management Procedures, and the Emergency Response and Business Continuity Plan*. Based on ISO14001, our Environment, Health and Safety (EHS) system includes a three-level document management system arranged by the management team, the on-site management team and the fire safety team, assisted by all functional departments in daily management. The overall system is guided by the *EHS policy*. The *EHS manual* divides the management responsibilities and specifies multiple SOPs such as EHS inspection, waste management and emergency management, in order to provide organisational and institutional guarantees for the Company's safe and green operation.

The Company has fully identified the possible environmental risks in its production process, including waste leakage during transfer, floor corrosion or sewage overflow and soil erosion caused by engineering construction. In order to promote clean production and green chemistry, we have formulated the *Proposed Operation Guide for Clean Production Rationalisation and the Management Procedures for Soil and Groundwater Protection* to uniformly regulate our operations and management as to plants' rebuilding and expansion, chemical transportation and on-site sewage systems. We have also clarified the arrangement of inter-departmental cooperation and personnel duties to strengthen the awareness of safety and compliance. Clean and safety production avoid pollution to nearby soil and groundwater. In 2019, the Group's investment in environmental protection reached RMB11.6523m.

3.1.2 Management of air pollutants

Air pollutants mainly include boiler exhaust gas such as SO_2, NO_X and laboratory exhaust gas including methanol, toluene, sulphuric acid mist, ethyl acetate, etc. According to the requirements of the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, we use the treatment facilities that meet the requirements to treat the air pollutants generated during the production and operation process, while adopting scientific methods such as spraying and activated carbon adsorption. In addition, according to the Company's Self-Exhaust Gas Monitoring Operation Guide, we conduct patrol inspections and regular monitoring of various types of emissions to ensure that the exhaust gas discharge meets the standards.

The amount of air pollutants generated in 2019 was as follows:

Air pollutants	Total exhaust emissions	standard cubic meter	183,998,737.51
(boiler gas)	NO_X emissions	ton	2,913.31
	CO_2 emissions	ton	0.20
	SO_2 emissions	ton	76.39

Air pollutants	Total exhaust emissions	standard cubic meter	15,231,363,586.00
(laboratory exhaust gas)	Methanol	ton	1.48
	Toluene	ton	0.10
	Acetaldehyde	ton	0.00
	Sulphuric acid mist	ton	1.40
	Hydrogen chloride	ton	0.76
	Ammonia	ton	0.04
	Ethyl acetate	ton	0.43
	Ketones	ton	0.14
	Non-methane hydrocarbons	ton	8.99
	Phenolic compounds	ton	0.01
	Alkanes	ton	0.01
	Other	ton	2.00

3.1.3 Wastewater management

Wastewater generated during the production and operation process includes production wastewater, cleaning wastewater, laboratory effluents and domestic wastewater. According to the provisions of the *Sewage Treatment Station Operation Guide* and *Operation Guide for Waste Organic Solvent Collection and Transfer*, the production wastewater is treated by the wastewater treatment station according to the requirements of the local government where each site is located, and then discharged together with domestic sewage into the municipal sewage pipe network. The process wastewater, cleaning wastewater and organic waste liquid from production are temporarily stored in storage place and eventually transported to the liquid waste treatment company for disposal. In 2019, Pharmaron UK's Cardiff plant updated its wastewater treatment equipment; Pharmaron Tianjin plant invested RMB5m in the renovation of its sewage station to ensure that the site and the manufacturing activities meet environmental standards.

In 2019, we continued to implement process optimisation, replacing highly toxic substances with non-toxic or low-toxic substances to minimise the generation of harmful substances. At the same time, we implemented the Incentive Program for Reduction of Solvent Use to encourage the reduction of solvent use and reward corresponding employees, which effectively reduced pollutant emissions.

The amount of wastewater generated in 2019 was as follows:

Total wastewater discharge	ton	586,557.47
COD emissions	ton	67.40
BOD emissions	ton	13.89
Total phosphorus	ton	1.22
Ammonia nitrogen	ton	6.44
Animal and vegetable oils	ton	0.30
Petro	ton	0.15
Total chromium	ton	1.00
Anionic surfactant	ton	0.21
Suspended matter emissions	ton	12.65
Others	ton	1.00

3.1.4 *Solid waste management*

Our daily operations and activities involve chemical experiments, animal experiments, drug research and development and production. The waste generated includes domestic waste, general industrial waste, waste sharps, hazardous waste, medical waste and radioactive waste. We have established comprehensive systems and procedures, including the *Chemical Laboratory Waste Management Operation Guide, the Waste Management Procedures*, the *Medical Waste Management Operation Guide*, and the *Operation Guide for Solid Waste Sorting and Temporary Storage of Hazardous Waste* to clarify waste disposal specifications.

According to the national standards and methods for identification of hazardous wastes, wastes identified as hazardous in each department must be properly discarded in the corresponding garbage bins, and the warehouses must properly collect and store hazardous wastes, general industrial wastes and waste sharps before transporting them to a third-party company for disposal. All garbage in the animal house is managed and disposed of as medical waste, and the Animal Management Department will contact a qualified treatment plant for centralised disposal. The disposal of radioactive material has been outsourced to a qualified service company in Baltimore, US. General waste is properly collected and stored by cleaning staff and eventually handed over to municipal administration. In addition, the EHS department supervises and inspects the waste generation, discharge, labelling, storage and disposal.

The amount of solid waste generated in 2019 was as follows:

Waste chemical reagents	ton	75.69
Waste organic solvents	ton	4,239.76
Chemical raw materials	ton	7.57
Cleaning waste liquid (container cleaning effluent, kettle washing liquid, etc.)	ton	181.08
Distillation residue	ton	14.90
Waste mineral oil	ton	31.69
Waste materials from adsorption, filtration, and catalysation (activated carbon, silica gel, palladium carbon, etc.)	ton	123.06
Masks and gloves (contaminated with chemicals)	ton	129.58
Containers (including empty bottles, empty barrels, petri dishes)	ton	326.82
Other laboratory waste (waste equipment, instruments and parts, etc.)	ton	11.36
Waste office supplies (waste lamps, toner cartridges, etc.)	ton	2.45
Sludge (from water treatment)	ton	52.64
Animal carcasses, animal faeces	ton	18.46
Other waste	ton	249.79
Total hazardous waste generation	ton	5,464.85
Hazardous waste generation density	tons/RMB10,000 of revenue	0.015
Kitchen garbage generation	ton	3.80
Office waste generation	ton	1,905.46
Total non-hazardous waste generation	ton	1,909.26
Non-hazardous waste generation density	tons/RMB10,000 of revenue	0.005

3.2. Energy conservation

The Company's energy consumed mainly includes electricity, natural gas, steam and vehicle fuel. In accordance with the *Energy Conservation Law of the People's Republic of China*, we have formulated such documents as *Energy Statistics* Management Procedures, Division of *Energy Management Responsibilities*, and *Clean Production Operation Guide*., and implement the daily energy management responsibility system and the energy consumption inspection system. We carefully identify and analyse energy-saving and consumption-reduction opportunities in production and operations. Measures taken in 2019 included frequency-reduction operation at night, elimination of high-energy consuming motor equipment, energy-saving lamp replacement in factories, formulation of steam condensation water recycling programmes, wastewater recycling, etc. Pharmaron UK plants in Cardiff and Rushden have implemented various energy-saving measures, such as automatic lighting, power outages and overnight ventilation and heat recovery to promote continuous reduction of energy consumption on-site.

The Group advocates green office, striving to maximise the use of resources and minimise energy consumption in daily operations and implements a management system to encourage all employees to participate in activities that continuously improve environmental and health performance. In daily work, we arrange special personnel to conduct patrol inspections of the buildings in accordance with the *SOP for Building Inspection and Maintenance*, in order to control the use of electricity and water and the closing of doors and windows on holidays and thereby reduce energy waste. If necessary business trips are covered by electric vehicle mileage, the Company gives priority to using electric vehicles, plans driving routes in advance, and rationally arranges vehicle models according to the number of users to reduce unnecessary fuel consumption. In order to strengthen employee awareness, energy-saving training is offered for new employees and paper-saving training for all staff. Under the cultural propaganda and organisation of activities on green operation, employees have cultivated a sense of environmental protection in daily work, such as adopting double-sided printing, packing and boxing with secondary packaging to avoid waste of resources.

In 2019, the Group invested RMB17.5m in VAV automatic control renovation of the air conditioning and ventilation systems of laboratory buildings, installed LED and timer switches to the lighting systems of office and laboratory buildings and 27 energy-saving motors to power air-conditioning circulating pumps and circulating water pumps of laboratory circulating water tanks.

In 2019, our energy consumption was as follows:

On-grid electricity use	kWh	113,006,661.80
Natural gas consumption	m^3	21,758,672.80
Steam use	ton	45,587.34
Gasoline consumption	litre	192,936.63
Diesel consumption	litre	7,681.00
Comprehensive energy consumption	tons of standard coal	48,905.25
Comprehensive energy consumption density	tons of standard coal or RMB10,000 of revenue	0.13
Total municipal water supply	ton	838,502.00
Water use density	tons of standard coal or RMB10,000 of revenue	2.23

Table: GHG Emissions in 2019

GHG emissions	Scope 1	ton	48,007.05
	Scope 2	ton	267,941.28
	Density (scope 1 and 2)	tons or RMB10,000 of revenue	0.84

The Group also manufactures pharmaceutical preparations. Such processes as filling, sealing and packaging preparations involve the use of packaging materials, such as sterile bags, polyethylene bags, polyethylene bottles, polyethylene barrels, etc. for sealing and inner packaging, cardboard drums and cartons for outer packaging and transportation. The volume of packaging used in 2019 totalled to 63.55 tons.

3.3. Animal welfare

Our animal experiments strictly observe the *Regulations on the Management of Laboratory Animals*, the *Guidelines for the Ethical Review of Laboratory Animal Welfare*, and the *Guide for the Care and Use of Laboratory Animals* among other regulatory requirements. The Company has developed the *Standards for Animal Management* requiring qualification for all veterinarians and staff members involved in animal management and monitoring activities before they take up positions, as well as provided training for all employees involved in animal experiments to ensure the integrity of animal monitoring. In 2019, the Company, Pharmaron Ningbo and Pharmaron TSP obtained the Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC) Accreditation from AAALAC International and the certification from the US National Institute of Health Office of Laboratory Animal Welfare.

All animal experiments in the Company must be reviewed by the Animal Ethics Committee, which reviews the necessity of the use of laboratory animals from an academic perspective using procedures consistent with those in the US and Europe. All facilities engaged in animal experiments have drafted and strictly implemented the SOP for the welfare and ethics of laboratory animals and the daily management of laboratory animals, ensuring that the laboratory animals enjoy the "five freedoms": freedom from hunger and thirst, freedom from discomfort, freedom from pain, injury and disease, freedom to express normal behaviour and freedom from fear and distress.

Pharmaron UK has set up an Animal Discovery group to actively look at animal welfare and refinement improvements. In 2019, the team has actively researched in welfare improvement, which included the method of handling/restraint for pig blood sampling, and improved animal living facilities and conditions.

4. COMMITMENT TO EMPLOYEE DEVELOPMENT

With "Employees – Number One" as one of our core cultural values, we provide employees with high-quality training resources and broad platforms for promotion with attention to their career development and personal aspirations and make unremitting efforts to improve their quality of life and career.

4.1. Recruitment

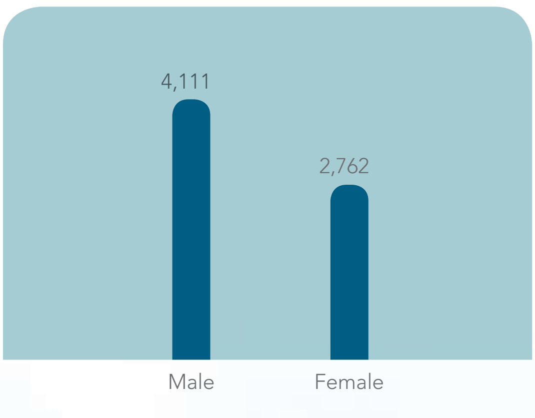
The Company adheres to the principle of fair and impartial employment. In accordance with laws and regulations such as the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China*, the *Social Insurance Law of the People's Republic of China*, the *Provisional Provisions on Wage Payment*, and the *Regulations on Annual Paid Leave of Employees*, the Company has established the *Labour and Human Rights Management System* to regulate corporate management and employment; oppose discrimination and unfair treatment due to gender, race, disability, ethnicity and religion; provide equal opportunities for promotion; and protect employees' rights and interests.

We respect and support the *United Nations Convention on the Rights of the Child*, the *Law on the Protection of Minors in the Republic of China, and the Prohibition on the Use of Child Labour*, among other conventions and regulations. We have reviewed the age requirements in recruitment and carefully registered relevant information for employment. Once juveniles younger than 16 years old and children are found to have been mistakenly hired, we will settle their wages immediately, and escort them back to their places of residence free of charge and encourage them to return to school for education.

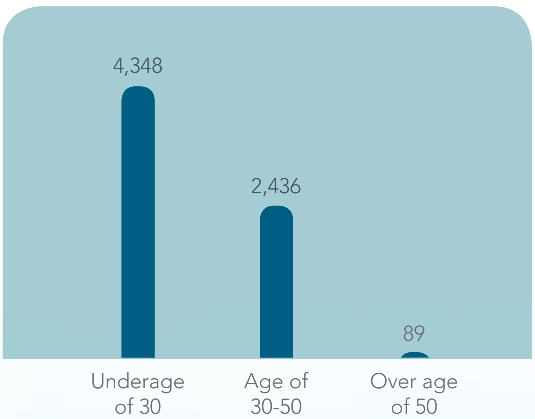
The Company opposes any form of forced labour and respects the personality and dignity of employees. Employees are provided with channels for appeals and allowed to organise or join labour unions and collective bargaining. We listen to the views of employee representatives and commit ourselves to building harmonious labour-management relations and promoting health development of the Company.

In 2019, Pharmaron in China had a total of 6,873 employees; labour contract signing rate reached 100% and social security coverage rate also reached 100%. The specific constitution of employees was as follows:

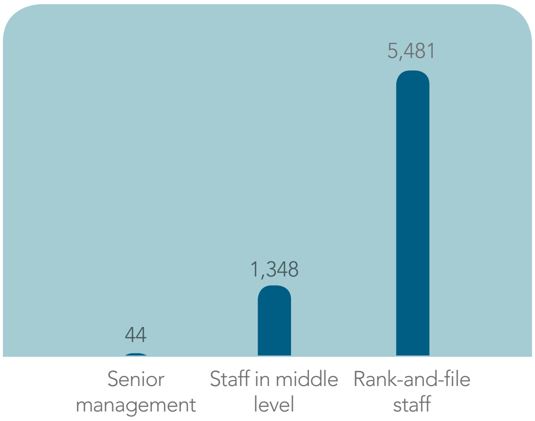
Number of employees by gender



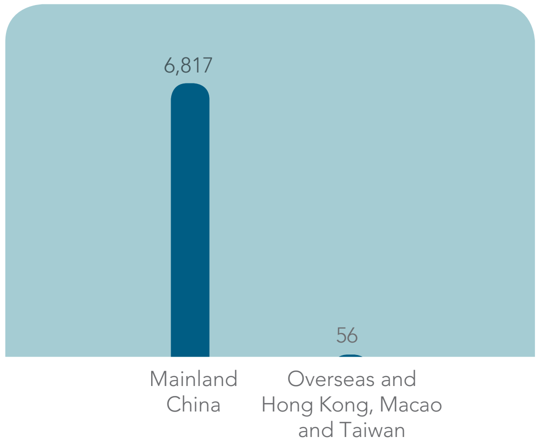
Number of employees by age



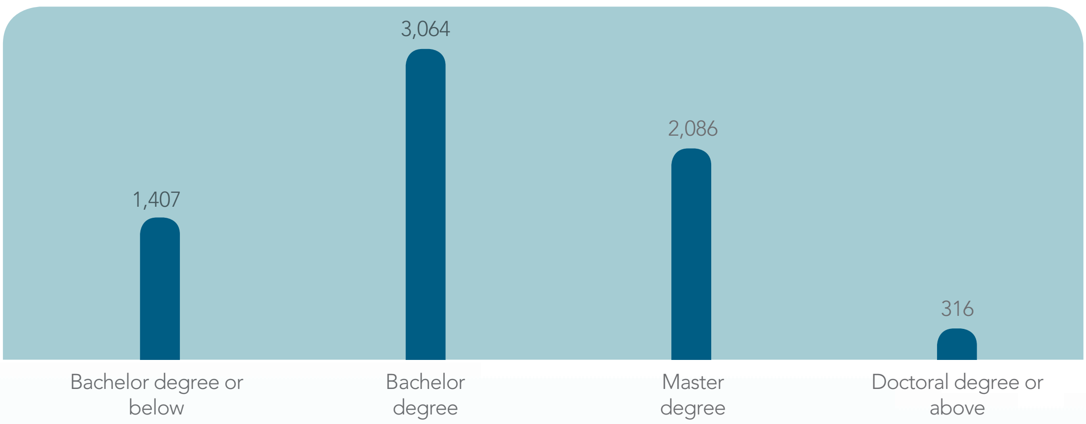
Number of employees by level



Number of employees by geographic location

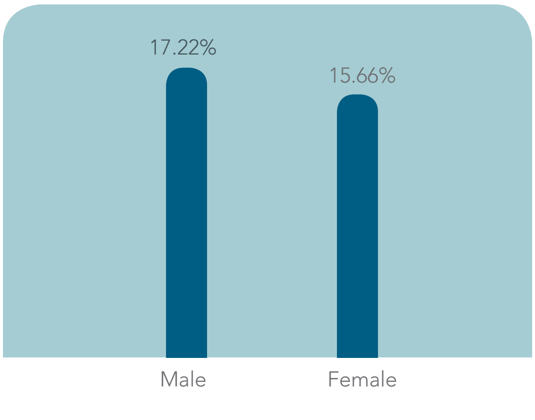


Number of employees by education background

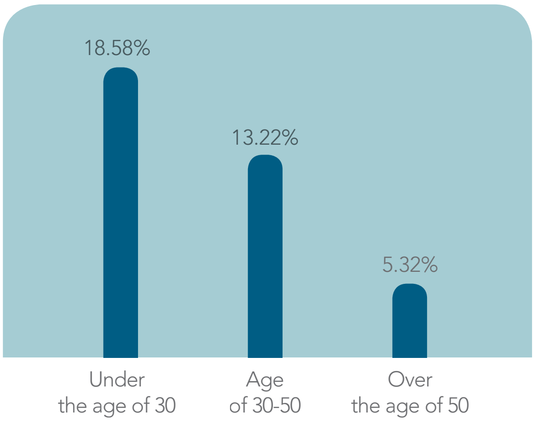


In 2019, the employee turnover data of Pharmaron in China was as follows:

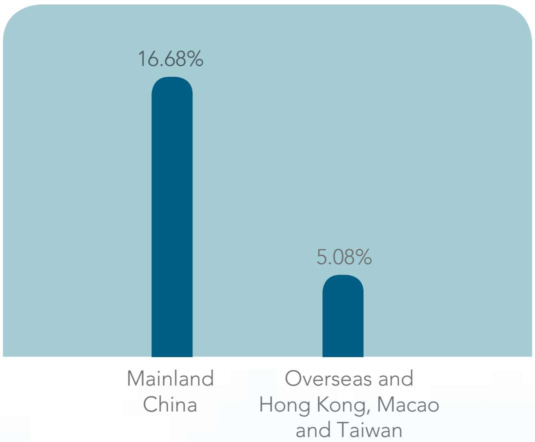
Turnover rate by gender



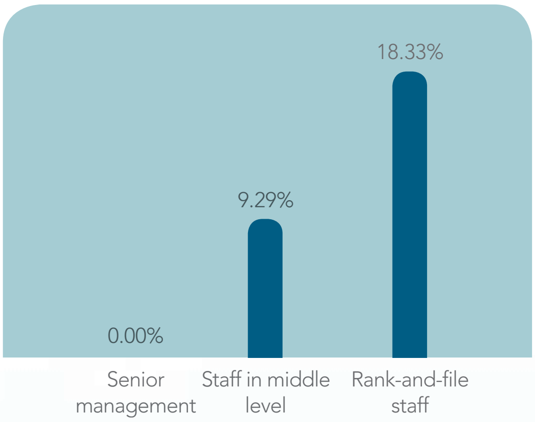
Turnover rate by age



Turnover rate by geographic location



Turnover rate by level



4.2. Health and safety

The Group has established sound systems and policies for health and safety protection. In strict accordance with the *Safety Production Law of the People's Republic of China, Measures for the Supervision and Management of Occupational Health Supervision of Employers,* and *Regulations on Labour Protection in Workplaces Using Toxic Substances*, a safety management system has been established to form a "Policy-Standard-Procedure-Inspection-Record" hierarchical structure and strictly promote the implementation of safety procedures.

According to the Company's safety management structure, the Company's general manager is the main person in charge of safety and the Safety Production Committee has formulated a safety management system, clarifying such procedures as training, drilling and hidden danger screening. Moreover, the EHS Director oversees safety production and organizing specific activities. The EHS on-site management team and fire safety team are responsible for the safety management of each module; and the safety production management personnel implement the safety management function. At the same time, the safety watch manager and part-time safety officers cooperate to strengthen the effective operation of the overall safety system. In 2019, the Company organised employees to sign the *Letter of Target-oriented Safety Responsibility*, which clarified employees' safety responsibilities, rights and obligations.

In terms of on-site management, the *Special Equipment Safety Management System, Management Regulations for Safety Inspection before Driving* and *Management Procedures for Ground Disturbance Operations* have been formulated to strengthen laboratory safety, equipment safety, and operation safety. At the same time, we conduct security risk identification, hidden danger investigation and management in accordance with the Company's *procedures for inspection and management of accident hazards* and other procedures. In addition, the Company has set up a safety team, hired veterans to set up a fire protection team and installed miniature fire stations inside the Company to improve its capabilities of emergency handling, self-defence and self-rescue. In 2019, all plants conducted laboratory inspections, highly toxic laboratory monitoring, night inspections and inspections of hidden dangers, which identified and eliminated nearly a thousand hidden safety hazards. During the reporting period, there were no deaths due to work and 513 working days lost due to work-related injuries.

In terms of occupational disease protection, the *Occupational Health Management Procedures* and the *Management Procedures for Occupational Disease Hazard Monitoring and Evaluation* have been formulated in strict accordance with the *Occupational Diseases Prevention Law of the People's Republic of China*. We conduct management and inspection of occupational disease protection facilities and management of employees' occupational health files to ensure employee safety in production. Targeting on the safe use and protection of radioactive substances, the American branch carried out safety training for all employees to ensure that they have relevant knowledge and operation skills. In 2019, the Company established health records for all new employees and its Beijing and Xi'an plants tested their respective occupational hazard factors and announced the test results to employees.

Regarding the safety culture construction, we regularly carry out safety training for all employees, including on-board training and on-the-job training. Using a monthly safety briefing, we disseminated safety knowledge, improved employees' safety awareness and collected safety management proposals from employees. From July to August 2019, the Company carried out the "Safe Production Month" activities, such as knowledge training, knowledge contests, and riddle quizzes, to promote proactive safety awareness among employees. In 2019, a total of 49 safety emergency drills were conducted in various places to improve employees' level of safety operations and ability to respond to various types of safety incidents.

Case: "Everyone Is Duty Bound to Safety Management "–Theme of the safety production month by Pharmaron Tianjin

In 2019, the Tianjin plant launched a series of "Safety Production Month" activities that combined theoretical knowledge with practical operations to further standardise, implement and streamline its safety management work, thereby forming a safety atmosphere where everyone recognises and assumes their responsibility for prevention and control.

A total of eight teams participated in the safety knowledge competition interspersed by a question-and-answer session for the audience, which not only improved the safety knowledge reserve of employees, but also relieved the work pressure of employees.

The safety skills competition was divided into three parts: correct wearing of Personal Protective Equipment (PPE), emergency rescue of personnel and a charade, which improved the safety operation skills of employees and helped employees master the use of conventional labour protection products.

In order to enhance the skills of the Company's "first responders", Red Cross experts were invited to provide first aid knowledge training and first aid practical training to all first responders of the Company.

In the activity of "Investigating Violations Regulations and Finding Hidden Dangers", the EHS department posted posters indicating "hidden dangers" at the entrances of various workshops, canteens, etc., and selected and rewarded those who found more hidden dangers.

Case: Pharmaron Beijing conducts an evacuation drill involving all employees

On 2 August 2019, the Company organised the BDA Park to conduct an emergency evacuation drill. A total of 3,889 employees participated in this exercise. This drill further enhanced and consolidated the safety consciousness of all employees of the Company, confirmed the feasibility and operability of the Company's existing emergency plan, familiarised the employees with the emergency evacuation process and the on-site emergency rescue process for the injured. This also included improvement of the capabilities in emergency command, on-site coordination and crisis management.

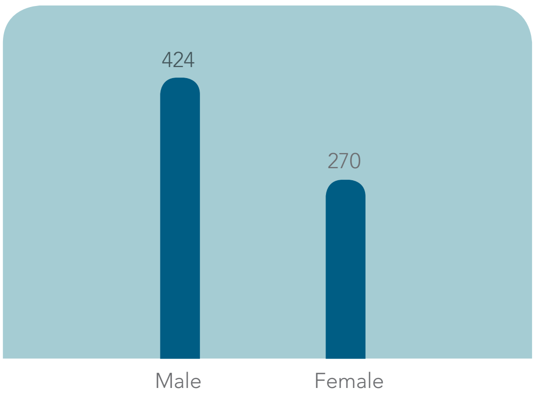
4.3. Employee training

Talent is the foundation of an enterprise and a sound talent system is a prerequisite for the enterprise's stable development. The Group attaches great importance to the training of professional talents by establishing internal systems such as the Training Management System, forming a corporate culture of "Pharmaron Learning", and developing a long-term talent development strategy. We provide in-house and outsourced training for employees, covering different aspects such as management, business, skills, language, etc. to help employees enrich professional knowledge and improve job competence. In 2019, the Company's employee training coverage reached 100%.

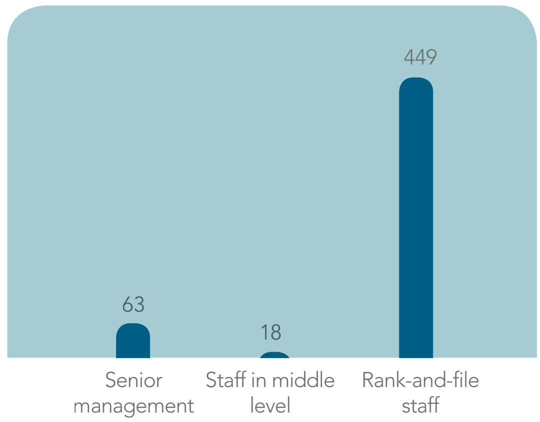
In-House training	Outsourced training
• **On-board training:** On-board training for management support departments, on-board training for business departments and on-board safety training • **Business training:** Departmental internal training, safety training, job transfer training, corporate university (Pharmaron College), etc.	• **Management training:** Management skills and management concept training • **Instructor training:** Trainer skills training • **Language training:** Training to improve language skills of employees • **Qualification training:** Training for special post qualifications

Employee training overview of Pharmaron in China in 2019

Average Training hours by gender



Average training hours by level



We actively support employees' continuous learning with a staff training and development funding plan, which subsidises some or all of the training costs to help employees achieve career development. At the same time, employees are encouraged to participate in external exchanges so that talents can absorb the most advanced knowledge and theory in an excellent environment. In 2019, 16 newly promoted managers received funding for English proficiency enhancement and many employees received funding for further education.

Employees assigned	Number	Unit	Training provider
Excellent staff	1	Individual	University of Oxford
Middle and senior management	7	Individual	CEIBS (China Europe International Business School)
Excellent chemical synthesis supervisors or employees	4	Individual	Pharmaron UK Ltd

Case: "Pharmaron College" helps employees to materialise their career dreams

In order to nurture more elite talents and employees in core positions and effectively enhance employees' vocational skills, the Company has opened a distinctive corporate university, Pharmaron College, to provide employees with on-the-job professional knowledge and skills education. In 2019, Pharmaron College operated a PhD class and a MSc class on Chemistry, with a total of 39 students. As of 2019, there have been 68 PhD graduates and 77 master graduates from Pharmaron College. Pharmaron College meets the needs of employees at all levels and positions for on-the-job training in a more efficient manner, providing a solid guarantee for team building and talent cultivation corresponding to posts.

Case: Skills training for new managers to develop their leadership

In order to better meet its development needs, we helped each newly promoted manager to complete the role change and improve their basic management skills. In 2019, the Company organised the new team leaders and new managers to participate in management ability training and outreach activities. Pharmaron UK also launched a comprehensive leadership development programme to help business managers improve their leadership, team building and performance management, and build comprehensive management capabilities.

Skills training for newly promoted managers in Pharmaron Beijing

We continuously improve the performance evaluation system for employees and unblock their career development channels. In 2019, the Group redesigned and improved its performance management process and launched pilot projects in key departments to support the establishment of an organisation's performance culture. The aim was to improve employee productivity and salary levels along with building a passionate and highly competitive team.

4.4. Employee care

We highly value the working environment and the physical and mental health of employees. We promote the construction of corporate culture and culture-ethical standards by constantly optimizing the working environment, organizing a series of cultural and sports activities to enrich employees' life after work and encouraging employees to do more exercise to strengthen their physical fitness.

We also provide employees with such a secure life guarantee as shuttle buses, transitional housing, overtime condolences, etc., allowing them to feel secured. Within the Company, a gym, maternity, baby rooms, etc. have been set up to help employees better balance work and life and improve their quality of life and happiness. We also have English clubs, football clubs, badminton clubs, etc. We regularly organise spring tours, autumn tours, team-building activities and issue holiday gifts, so that employees feel the Company's care for their well-being.

Transitional housing	Holiday events and benefits	Staff gym	Basketball club

In 2019, we organised such activities as spring tour for team building, autumn tour for fruit and vegetable picking and gaming events such as, badminton and basketball, to enrich the cultural life of employees, enhance the camaraderie among employees and cultivate teamwork spirit. These activities demonstrated the vigour and unity of employees.

Case: Fun and exciting games

In order to enrich the working life of employees, enhance the tacit understanding among employees and increase communication between departments, the Company organised two fun sports tournaments in 2019. The games were mainly relay races in various forms, highlighting novelty and fun and attracted more than ten teams to participate.

5. GIVING BACK TO THE SOCIETY

Carrying out philanthropic projects is an important manifestation of our commitment to corporate social responsibility and giving back to the society. It is also an important way for the Company to integrate into the local economic, social and cultural life and to realise long-term and stable business development. In 2019, the Company spent RMB1.015m on charitable activities for 100 hours with 260 people participating.

5.1. Volunteer commitments

The Company actively assumes social responsibilities and participates in charitable undertakings such as protecting the environment and conserving ecological soundness. Employees are also encouraged to participate in volunteer services, cultivate sense of mission and altruism and contribute to social welfare together with the Company.

Case: Eco-run for biodiversity carnival in 2019

In July 2019, the Company organised an event called Jincao Biodiversity Carnival. Activities included an ecological photo exhibition, eco-run for charity and documentary screenings to convey the concept of environmental protection to all walks of life. The Company's volunteer team provided volunteer service for the event.

Eco-run for "Jincao Biodiversity Carnival" in 2019

5.2. Charitable donations

We actively participate in various charitable donations and encourage employees to contribute to charitable causes, including funding for universities and research institutes and making donations for disaster relief and other in-kind donations in China and around the world.

In 2019, we donated RMB130,000 to cover Ningbo University scholarships and the cost of Pharmaron Special Classes in Ningbo University, donated RMB100,000 to support "Pharmaron Academic Forum" at Shanghai Jiaotong University, which supported talent cultivation and helped outstanding students access resources in their respective field of specialty. We also donated RMB1.36m to Shanghai Institute of Organic Chemistry as financial aid to seven postdoctoral fellows studying abroad or in the Institute.

In 2019, the Company launched a Party Members Donations activity in which 245 people made cash donations adding up to RMB14,835. The donations were mainly used to help the elderly, patients, students, the disabled, the needy, first aid patients, etc.

Case: The Company made cash donations to Wuhan Red Cross Foundation to support Wuhan in fighting COVID-19

During an unusual Chinese New Year holiday, the outbreak of pneumonia caused by the novel coronavirus pulled the strings of everyone's heart. As the saying goes, "When trouble occurs at one spot, help comes from all quarters", the Company quickly responded to the epidemic by setting up the Anti-epidemic Working Group immediately to study and discuss all matters related to epidemic prevention, safety guarantee, employee benefit, and good deeds.

At the same time, the Company decided to make cash donations as much as its own actual conditions permitted. In less than 24 hours, the Company donated RMB3m to Wuhan Red Cross Foundation to support Wuhan in its fight against the virus.

To the shareholders of Pharmaron Beijing Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Pharmaron Beijing Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 107 to 193, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables and contract assets	
At December 31, 2019, the net carrying amounts of trade receivables and contract assets were RMB857,069,000 and RMB89,105,000 respectively, net of accumulated impairment losses of RMB19,275,000 and RMB2,752,000 respectively. The management of the Group calculated the expected credit loss for trade receivables and contract assets by applying simplified approach under IFRS 9. The provision matrix considered migration rate, historical loss ratio and forward-looking adjustments. The assumptions applied in determining the expected credit loss required significant management judgement and estimates. Therefore, we identified the impairment of trade receivables and contract assets as a key audit matter. The related disclosures are included in notes 25 and 26 to the consolidated financial statements.	Our procedures in relation to the impairment of trade receivables and contract assets included: (1) Evaluating and testing the internal controls over impairment test of trade receivables and contract assets. (2) Assessing the appropriateness of the credit loss provision methodology. (3) Evaluating the appropriateness of the inputs that management used in the provision matrix, such as migration rate, historical loss ratio and forward-looking adjustments, and then recalculating the expected loss. (4) Testing the accuracy of ageing on a sample basis over the billing and collection cycle. (5) Performing confirmation procedure and inspecting cash receipts from customers subsequent to the financial year end on a sample basis. (6) Evaluating the adequacy of the disclosure.
Impairment of goodwill acquired in business combinations	
At December 31, 2019, the carrying amount of goodwill was RMB203,286,000. The management of the Group performed impairment test at least on an annual basis and adjusted the carrying amount based on the test result. The assumptions applied in the impairment test required significant management estimates, including revenue growth rate, gross profit margin and discount rate. There are significant uncertainties in these estimates, which are affected by management's judgement on the future market and economic environment, and the recoverable amount of goodwill will be affected by the adoption of different estimates and assumptions. Therefore, we identified the impairment of goodwill as a key audit matter. The related disclosure is included in note 17 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill acquired in business combinations included: (1) Evaluating the key internal controls over impairment test of goodwill. (2) Evaluating the basis of goodwill allocation to cash-generating units ("CGU") and evaluating the rationality. (3) Evaluating the reasonableness of the valuation model with the assistance of our internal valuation specialists. (4) Evaluating the appropriateness of key assumptions and estimates including revenue growth rate and gross margin rate with historical data and supporting evidence. (5) Evaluating the appropriateness of discount rate by comparing to the similar companies in the same industry. (6) Evaluating the adequacy of the disclosure.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yin Guowei, Alfred.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

March 27, 2020

Consolidated Statement of Profit or Loss

(Year ended December 31, 2019)

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**3,757,160**	2,908,123
Cost of sales		**(2,425,459)**	(1,960,073)
Gross profit		**1,331,701**	948,050
Other income and gains	6	**70,153**	53,759
Other expenses	6	**(11,761)**	(6,767)
Selling and distribution expenses		**(72,989)**	(54,647)
Administrative expenses		**(526,408)**	(420,456)
Research and development costs		**(62,872)**	(31,611)
Impairment losses on financial and contract assets, net of reversal	8	**(5,495)**	(8,886)
Finance costs	7	**(82,476)**	(82,366)
Share of losses of associates		**(7,303)**	(1,132)
Profit before tax	8	**632,550**	395,944
Income tax expense	11	**(101,878)**	(60,101)
Profit for the year		**530,672**	335,843
Attributable to:			
Owners of the parent		**547,190**	336,042
Non-controlling interests		**(16,518)**	(199)
		530,672	335,843
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
For profit for the year	13	**RMB0.8284**	RMB0.5689
Diluted			
For profit for the year	13	**RMB0.8282**	RMB0.5689

Consolidated Statement of Comprehensive Income

(Year ended December 31, 2019)

	2019 RMB'000	2018 RMB'000
Profit for the year	**530,672**	335,843
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**11,847**	(7,376)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**11,847**	(7,376)
Other comprehensive income/(loss) for the year, net of tax	**11,847**	(7,376)
Total comprehensive income for the year	**542,519**	328,467
Attributable to:		
Owners of the parent	**558,937**	328,094
Non-controlling interests	**(16,418)**	373
	542,519	328,467

Consolidated Statement of Financial Position

(December 31, 2019)

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,973,354**	2,677,138
Right-of-use assets	15	**498,989**	498,921
Investment properties	16	**46,013**	44,428
Goodwill	17	**203,286**	139,917
Other intangible assets	18	**35,352**	13,900
Investments in associates	19	**131,246**	28,868
Equity investments at fair value through profit or loss	20	**59,054**	24,267
Deferred tax assets	21	**6,372**	8,446
Other non-current assets	22	**36,921**	90,087
Total non-current assets		**3,990,587**	3,525,972
CURRENT ASSETS			
Inventories	23	**97,050**	70,148
Contract costs	24	**60,347**	50,313
Trade receivables	25	**857,069**	603,993
Contract assets	26	**89,105**	51,078
Prepayments, other receivables and other assets	27	**197,576**	179,451
Financial assets at fair value through profit or loss	28	**169,762**	–
Derivative financial instruments	29	**13,689**	413
Pledged deposits	30	**17,634**	13,476
Cash and cash equivalents	30	**4,442,218**	307,235
Total current assets		**5,944,450**	1,276,107
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**300,654**	534,968
Trade payables	32	**117,978**	108,220
Other payables and accruals	33	**486,702**	403,955
Contract liabilities	34	**271,547**	187,156
Lease liabilities	35	**64,150**	60,336
Tax payable		**28,649**	13,413
Total current liabilities		**1,269,680**	1,308,048
NET CURRENT ASSETS/LIABILITIES		**4,674,770**	(31,941)
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,665,357**	3,494,031

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**543,791**	898,999
Deferred tax liabilities	21	**40,782**	22,306
Deferred income	36	**111,606**	100,989
Lease liabilities	35	**131,160**	145,166
Total non-current liabilities		**827,339**	1,167,460
NET ASSETS		**7,838,018**	2,326,571
EQUITY			
Share capital	37	**794,387**	590,664
Treasury shares		**(72,781)**	–
Reserves	39	**7,045,457**	1,722,916
Equity attributable to owners of the parent		**7,767,063**	2,313,580
Non-controlling interests		**70,955**	12,991
Total equity		**7,838,018**	2,326,571

The consolidated financial statements on pages 107 to 193 were approved and authorised for issue by the board of directors on March 27, 2020 and are signed on its behalf by:

Boliang Lou
Director

Xiaoqiang Lou
Director

Consolidated Statement of Changes in Equity

(Year ended December 31, 2019)

	Attributable to owners of the parent										
	Share capital (note 37) RMB'000	Treasury shares (note 38) RMB'000	Share premium* (note 39) RMB'000	Share-based payment reserve* (note 38) RMB'000	Capital reserve* (note 39) RMB'000	Statutory reserve* (note 39) RMB'000	Exchange fluctuation reserve* (note 39) RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at January 1, 2018	590,664	–	1,047,485	22,007	59,602	38,034	(1,475)	229,169	1,985,486	12,618	1,998,104
Profit for the year	–	–	–	–	–	–	–	336,042	336,042	(199)	335,843
Other comprehensive income/(loss) for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(7,948)	–	(7,948)	572	(7,376)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	(7,948)	336,042	328,094	373	328,467
Transferred from retained profits	–	–	–	–	–	32,117	–	(32,117)	–	–	–
As at December 31, 2018	590,664	–	1,047,485	22,007	59,602	70,151	(9,423)	533,094	2,313,580	12,991	2,326,571
Profit for the year	–	–	–	–	–	–	–	547,190	547,190	(16,518)	530,672
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	11,747	–	11,747	100	11,847
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	11,747	547,190	558,937	(16,418)	542,519
Issuance of A shares upon listing on Shenzhen Stock Exchange	65,630	–	367,224	–	–	–	–	–	432,854	–	432,854
Issuance of H shares upon listing on Hong Kong Stock Exchange	134,016	–	4,388,677	–	–	–	–	–	4,522,693	–	4,522,693
Issuance of restricted A shares	4,077	(72,781)	68,704	–	–	–	–	–	–	–	–
Recognition of share-based payments	–	–	–	11,191	–	–	–	–	11,191	333	11,524
Acquisition of a subsidiary (note 40)	–	–	–	–	–	–	–	–	–	74,049	74,049
Transferred from retained profits	–	–	–	–	–	45,873	–	(45,873)	–	–	–
2018 dividends declared (note 12)	–	–	–	–	–	–	–	(72,192)	(72,192)	–	(72,192)
As at December 31, 2019	794,387	(72,781)	5,872,090	33,198	59,602	116,024	2,324	962,219	7,767,063	70,955	7,838,018

* These reserve accounts comprise the consolidated reserves of RMB7,045,457,000 (2018: RMB1,722,916,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Year ended December 31, 2019)

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Profit before tax		632,550	395,944
Adjustments for:			
— Depreciation of property, plant and equipment	8	307,199	255,192
— Depreciation of right-of-use assets	8	61,910	58,027
— Depreciation of investment properties	8	812	812
— Amortisation of other intangible assets	8	4,661	1,889
— Impairment losses on inventories, net of reversal	8	1,021	1,100
— Impairment losses on financial and contract assets, net of reversal	8	5,495	8,886
— Losses on derivative financial instruments	6	8,663	2,134
— Gains on financial assets at fair value through profit or loss	6	(2,033)	–
— Gains on fair value change of equity investment at fair value through profit or loss	6	(10,179)	(246)
— Losses on disposal of items of property, plant and equipment	6	667	539
— Losses on disposal of right-of-use assets	6	–	1,511
— Gains on disposal of an associate	6	(124)	–
— Finance costs	7	82,476	82,366
— Share of losses of associates		7,303	1,132
— Gains on fair value re-measurement of existing equity in business combination not under common control	6	(10,363)	–
— Share-based compensation expenses	8	11,524	–
		1,101,582	809,286
Increase in inventories		(27,923)	(12,228)
Increase in contract costs		(10,034)	(16,062)
Increase in trade receivables		(255,584)	(118,080)
Increase in prepayments, other receivables and other assets		(2,929)	(49,389)
Increase in contract assets		(30,828)	(7,323)
Increase in pledged deposits		–	(1,578)
Decrease in other non-current assets		11,214	1,369
Increase in trade payables		8,070	16,580
Increase in accruals and other payables		135,218	107,382
Increase in deferred income		10,573	37,104
Increase in contract liabilities		69,690	80,217
Cash flows generated from operations		1,009,049	847,278
Income tax paid		(70,464)	(56,534)
Net cash flows generated from operating activities		938,585	790,744

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from investing activities			
Purchases of property, plant and equipment		**(733,091)**	(523,609)
Proceeds from disposal of property, plant and equipment		**1,436**	2,628
Proceeds from disposal of financial assets at fair value through profit or loss		**479,343**	–
Additions of other intangible assets		**(8,568)**	(7,525)
Proceeds from disposal of an associate		**2,000**	–
Purchase of right-of-use assets – land use rights		**(12,947)**	(109,850)
Proceeds from disposal of right-of-use assets		**2,000**	19,754
Purchase of equity investments at fair value through profit or loss		**(24,225)**	(19,450)
Settlement of derivative financial instrument		**(21,939)**	(2,547)
Purchase of financial assets at fair value through profit or loss		**(535,715)**	–
Acquisition of subsidiaries	40	**(59,497)**	–
Capital injection in associates		**(134,000)**	(74,000)
Net cash flows used in investing activities		**(1,045,203)**	(714,599)
Cash flows from financing activities			
Interest on bank loans and other borrowings paid		**(70,999)**	(74,595)
Proceeds from bank loans and other borrowings		**726,512**	540,870
Repayments of bank loans and other borrowings		**(1,318,635)**	(479,514)
Payments of lease liabilities		**(73,320)**	(55,807)
Proceeds from issuance of A shares		**458,486**	–
Proceeds from issuance of restricted A shares		**72,781**	–
Proceeds from issuance of H shares		**4,561,346**	–
Payments of issue expenses		**(38,099)**	–
Payment of dividends		**(72,192)**	–
Net cash generated from/(used in) financing activities		**4,245,880**	(69,046)
Net increase in cash and cash equivalents		**4,139,262**	7,099
Cash and cash equivalents at beginning of year		**307,235**	293,601
Effect of foreign exchange rate changes, net		**(4,279)**	6,535
Cash and cash equivalents at end of year	30	**4,442,218**	307,235

1. CORPORATE INFORMATION

Pharmaron Beijing Co., Ltd. was incorporated and registered in the People's Republic of China ("PRC") on July 1, 2004. With the approval of the China Securities Regulatory Commission, the Company completed its initial public offering and was listed on the Shenzhen Stock Exchange (stock code: 300759. SZ) on January 28, 2019. On November 28, 2019, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKSE") (stock code: 3759. HK). The address of the registered office is 8th Floor, Block 1, 6 Taihe Road, Beijing Economic Technological Development Zone, Beijing, China.

The Company is a leading fully-integrated pharmaceutical R&D service platform with global operations to accelerate drug innovation for our customers. The principal activity of the Company and its subsidiaries (together, the "Group") is to provide contract research, development and manufacturing services for innovative pharmaceutical products throughout the research and development cycle and the services are organized in three major categories: laboratory services, chemistry, manufacturing and controls ("CMC") services and clinical development services.

Information about subsidiaries

As at December 31, 2019, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Pharmaron (Beijing) TSP Services Co., Ltd. ("康龍化成(北京)生物技術有限公司")	PRC/Mainland China January 11, 2006	RMB138,514,186	100%	N/A	Laboratory services
Phamaron (Tianjin) Process Development and Manufacturing Co., Ltd. ("康龍化成(天津)藥物製備技術有限公司")	PRC/Mainland China July 16, 2008	RMB420,000,000	100%	N/A	CMC services
Pharmaron Xi'an Co., Ltd. ("康龍化成(西安)新藥技術有限公司")	PRC/Mainland China May 11, 2010	USD10,000,000	100%	N/A	Laboratory services
Pharmaron Ningbo Co., Ltd. ("康龍化成(寧波)新藥技術有限公司")	PRC/Mainland China January 9, 2015	RMB100,000,000	100%	N/A	Laboratory services and CMC services
Pharmaron CRI (Ningbo) Co., Ltd. ("康龍化成手性醫藥技術(寧波)有限公司")	PRC/Mainland China August 18, 2016	RMB1,000,000	N/A	100%	Laboratory services
Pharmaron Shaoxing Co., Ltd. ("康龍化成(紹興)藥業有限公司")	PRC/Mainland China January 3, 2017	RMB100,000,000	100%	N/A	Under construction
Pharmaron (Ningbo) Technology Development Co., Ltd. (formerly known as Ningbo KTB Technology Development Co., Ltd.) ("康龍化成(寧波)科技發展有限公司")	PRC/Mainland China January 12, 2015	RMB325,000,000	61.54%	38.46%	Laboratory services and CMC services
Pharmaron Shanghai Co., Ltd. ("康龍化成(上海)新藥技術有限公司")	PRC/Mainland China February 11, 2018	RMB20,000,000	100%	N/A	Laboratory services
Pharmaron (Ningbo) Biologics Co., Ltd. ("寧波康龍生物技術有限公司")	PRC/Mainland China August 31, 2018	RMB50,000,000	N/A	100%	Under Construction
Nanjing Sirui Biotechnology Co., Ltd. ("Nanjing Sirui") ("南京思睿生物科技有限公司")	PRC/Mainland China February 7, 2018	USD13,500,000	55.56%	N/A	Investment holding
Nanjing Ximaidi Medical Technology Co., Ltd.("南京希麥迪醫藥科技有限公司")	PRC/Mainland China January 20, 2017	RMB80,000,000	N/A	55.56%	Clinical development services

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

As at December 31, 2019, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below: (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Xirui Biotechnology Co., Ltd.("北京希睿醫藥科技有限公司")	PRC/Mainland China September 30, 2018	RMB5,000,000	N/A	55.56%	Clinical development services
CR Medicon Research, Inc.	the United States of America, ("USA") February 9, 2019	10,000 shares	N/A	55.56%	Clinical development services
Pharmaron US, Inc.	USA August 12, 2015	100 shares	100%	N/A	Investment holding
Pharmaron, Inc.	USA December 22, 2006	100 shares	N/A	100%	Business development
Pharmaron (Hong Kong) International Limited	PRC/Hong Kong December 31, 2015	10,000 shares	100%	N/A	Investment holding
Pharmaron (Hong Kong) Investments Limited	PRC/Hong Kong February 11, 2016	10,000 shares	N/A	100%	Investment holding
Pharmaron Biologics (Hong Kong) Limited	PRC/Hong Kong June 11, 2018	50,000 shares	N/A	100%	Investment holding
Pharmaron UK Limited (formerly known as Quotient Bioresearch Group Limited)	United Kingdom October 30, 2013	54,136,364 shares	N/A	100%	Laboratory, CMC and Clinical development services
Quotient Bioresearch (Radiochemicals) Limited	United Kingdom April 9, 2009	1 share	N/A	100%	Clinical development services
Quotient Bioresearch (Rushden) Limited	United Kingdom August 7, 2000	10 shares	N/A	100%	Clinical development services
Pharmaron ABS, Inc (formerly known as Xceleron, Inc.)	USA October 31, 2001	1,500 shares	N/A	100%	Clinical development services
Pharmaron CPC, Inc. (formerly known as SNBL Clinical Pharmacology Center, Inc.)	USA October 7, 2004	100,000 shares	N/A	80%	Clinical development services

The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

All IFRSs effective for the accounting period commencing on/before January 1, 2019, including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, together with the relevant transitional provision, have been early adopted by the Group in the preparation of the consolidated financial statements throughout the reporting periods.

The consolidated financial statements have been prepared under the historical cost convention, except for equity investments at fair value through profit or loss, derivative financial instruments and financial assets at fair value through profit or loss which have been measured at fair value. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. the contractual arrangement with the other vote holders of the investee;

b. rights arising from other contractual arrangements; and

c. the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not adopted the following standards that have been issued but are not yet effective in the consolidated financial statements:

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
IFRS 17	*Insurance Contracts*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[4]

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

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

3 No mandatory effective date yet determined but available for adoption

4 Effective for annual periods beginning on or after January 1, 2022

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from January 1, 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from January 1, 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment no longer refers to unconditional rights, since loans are rarely unconditional. The right to defer only exists if the entity complies with any relevant conditions at the reporting date. A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date. The amendments also provide a new definition of settlement. 'Settlement' is defined as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group expects to adopt the amendments prospectively from January 1, 2022. The amendments are not expected to have any significant impact on the Group's financial statements.

Except as described above, the Group so far concluded that the application of these new pronouncements will not result in substantial changes to the Group's accounting policies and financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments, equity investments at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets and liabilities at fair value through profit or loss at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	20-39 years	0-5%
Laboratory equipment	3-10 years	0-3%
Transportation equipment	5-10 years	0-5%
Furniture, fixtures and equipment	3-8 years	0-5%
Leasehold improvements	3-30 years	0%
Land	Indefinite useful life	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use assets which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

The building component of investment properties is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any).

The principal estimated useful lives of investment properties are as follows:

Category	Estimated useful life	Estimated residual value
Building	25 years	0%
Land	Indefinite useful life	0%

Other intangible assets (other than goodwill)

Other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is the fair value at the date of the acquisition. The useful lives of other intangible assets are assessed to be finite. Other intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the other intangible asset may be impaired. The amortisation period and the amortisation method for another intangible asset with a finite useful life are reviewed at least at each reporting period.

The principal estimated useful lives of other intangible assets are as follows:

Category	Estimated useful life	Estimated residual value
Software (i)	3-10 years	0%
Patents (ii)	10-20 years	0%
Client relationship (iii)	10 years	0%

(i) Software has an amortisation period of three to ten years based on the estimated useful lives.

(ii) Patents have an amortisation period of ten to twenty years based on the period covered by their licenses.

(iii) Client relationship has an amortisation period of ten years based on estimated beneficial period considering industry experience, customer retention rate and others.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	2 to 24 years
Laboratory equipment	3 to 8 years
Transportation equipment	3 years
Furniture, fixtures and equipment	3 to 5 years
Land use rights	42 to 50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessor (continued)

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instrument)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, interest-bearing bank and other borrowings, lease liabilities and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and collars, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.

- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other income.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges (continued)

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss.

Revenue recognition

Revenue from contracts with customers

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

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

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

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

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

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

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

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

The Group has different contractual arrangements with different customers under two different charge models: full-time-equivalents ("FTE") or fee-for-services ("FFS") model.

Certain laboratory and chemistry, manufactory and control ("CMC") services are under the FTE model. For services under the FTE model, a dedicated team of employees are provided to a customer's project for a specific time and charge the customer at fixed rate per employee. The customer simultaneously receives and consumes benefits provided by the Group's performance. Therefore, the revenue is recognised over time at the amount to which the Group has the right to invoice for the performance completed to date (i.e. FTE billable amounts, which are calculated based on the number of employees assigned to the project and the time employees worked), usually in the form of a monthly or quarterly statement. Under the FTE model, the Group measures its progress by using units produced/services transferred to the customer to date (output method).

Certain laboratory, CMC and clinical development services are under the FFS model, and the revenue is recognised at a point in time when the Group transfers the control for services/deliverable units at a point in time and has right to payment from the customers for the services performed upon finalisation, delivery and acceptance of the deliverable units.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

Certain of the revenue from laboratory and clinical development services are under the FFS model, and the revenue is recognised over time, as the Group's performance has created an asset with no alternative use and the Group has an enforceable right for payments for performance completed to date. The selection of the method to measure progress towards completion requires judgement and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, the Group generally measures its progress using either cost-to-cost (input method) or units produced/services transferred to the customer to date (output method).

Under the input method, the Group uses the known cost measure of progress when it best depicts the transfer of value to the customer which occurs as the Group incurs costs on its contract, under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is recorded proportionally as costs are incurred. Under the output method, the units produced/services transferred to the customer to date are measured to the extent of progress towards completion, based on discrete services or time-based increments.

Revenue from other sources

Rental income arising from leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

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

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

(c) the costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company operates a share incentive scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is computed based on their most recent post-money valuations. The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Retirement benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Employee benefits to all eligible employees of the overseas subsidiaries are made in accordance with the rules set forth in the collective labour agreement, and recorded as an expense in the period they are due as a charge to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the timing of satisfaction of performance obligations

The Group has different contractual arrangements with different customers. In determining the timing of satisfaction of performance obligations, management reviews the contract terms of each individual contract.

For certain types of revenue under the FFS model, the directors of the Company have determined that performance obligations are satisfied over time. Significant judgement is required in determining whether the terms of the Group's contracts with customers in relation to certain types of revenue under the FFS model create an enforceable right to payment for the Group.

Determining the method for measuring progress towards complete satisfaction of performance obligations

Depending on which better depicts the transfer of value to the customer, the directors of the Company make judgement to measure the progress of the projects using either the input method or the output method.

Determining significant influence over entities in which the Group holds less than 20% equity interests

The Group's certain investments in associates are accounted for under the equity method of accounting if the Group has significant influence over these entities by way of representation on the board of directors and participation in the policy-making process, despite the fact that the Group's direct or indirect equity interests in these associates were lower than 20%.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets relating to recognised tax losses at December 31, 2019 was RMB4,762,000 (2018: RMB4,520,000). The amount of unrecognised tax losses at December 31, 2019, was RMB704,227,000 (2018: RMB577,353,000). Further details are contained in note 21 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2019 was RMB203,286,000 (2018: RMB139,917,000). Further details are given in note 17.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is computed based on the Black-Scholes formula. Details of share-based payments are contained in notes 38 and 39.

The share-based compensation expense is measured based on the fair value of the share incentives as calculated under the Black-Scholes pricing model. The Group is responsible for determining the fair value of the restricted shares granted to employees. The key assumptions used to determine the fair value of the share unit incentives at the grant date and the re-measurement dates include share price on the measurement date, expected volatility and risk-free interest rate. Changes in these assumptions could significantly affect the fair value of share incentives and hence the amount of compensation expenses the Group recognises in our consolidated financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimates of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables and contract assets (continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 25 and 26.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group estimates fair value by using a valuation technique. Valuation techniques include using recent prices in arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the extent practicable, valuation technique makes the maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other intangible assets with indefinite life are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

— The laboratory services segment includes laboratory chemistry, drug metabolism and pharmacokinetics ("DMPK")/absorption, distribution, metabolism and excretion ("ADME"), *in vitro* biology and *in vivo* pharmacology services, safety assessment and discovery biologics services

— The CMC services segment includes process development and manufacturing, material science/pre-formulation, formulation development and manufacturing and analytical development

— The clinical development services segment includes clinical research services, site management services, regulatory bioanalysis and radiolabelled science services

— The "Others" segment

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

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

	Laboratory services RMB'000	CMC services RMB'000	Clinical development services RMB'000	Others RMB'000	Total RMB'000
Year ended December 31, 2019					
Segment revenue	2,379,509	901,576	456,265	19,810	3,757,160
Segment results	956,085	249,690	113,919	12,007	1,331,701
Unallocated amounts:					
Other income and gains					70,153
Other expenses					(11,761)
Selling and distribution expenses					(72,989)
Administrative expenses					(526,408)
Research and development costs					(62,872)
Impairment losses on financial and contract assets, net of reversal					(5,495)
Finance costs					(82,476)
Share of losses of associates					(7,303)
Group's profit before tax					632,550
Year ended December 31, 2018					
Segment revenue	1,895,755	645,824	347,504	19,040	2,908,123
Segment results	709,554	139,833	88,609	10,054	948,050
Unallocated amounts:					
Other income and gains					53,759
Other expenses					(6,767)
Selling and distribution expenses					(54,647)
Administrative expenses					(420,456)
Research and development costs					(31,611)
Impairment losses on financial and contract assets, net of reversal					(8,886)
Finance costs					(82,366)
Share of losses of associates					(1,132)
Group's profit before tax					395,944

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. No analysis of segment assets and liabilities is presented as management does not regularly review such information for the purposes of resource allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Geographical information

(a) Revenue

	2019 **RMB'000**	2018 RMB'000
North America	**2,208,691**	1,809,676
Europe	**869,541**	631,714
Asia (except Mainland China)	**149,937**	141,526
Mainland China	**478,402**	297,831
Others	**50,589**	27,376
	3,757,160	2,908,123

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019 **RMB'000**	2018 RMB'000
China	**3,200,346**	2,915,461
North America	**319,903**	276,974
Europe	**404,912**	300,824
	3,925,161	3,493,259

The non-current asset information above is based on the locations of the assets and excludes equity investments at fair value through profit or loss and deferred tax assets.

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during each reporting period, no major customer information is presented in accordance with IFRS 8 *Operating Segments*.

5. REVENUE

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**3,737,350**	2,889,083
Revenue from other sources	**19,810**	19,040
	3,757,160	2,908,123

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments	**2019 RMB'000**	2018 RMB'000
Type of services		
Laboratory services	**2,379,509**	1,895,755
CMC services	**901,576**	645,824
Clinical development services	**456,265**	347,504
Total revenue from contracts with customers	**3,737,350**	2,889,083
Timing of revenue recognition		
Services transferred at a point of time	**2,028,539**	1,406,558
Services transferred over time	**1,708,811**	1,482,525
Total revenue from contracts with customers	**3,737,350**	2,889,083

(b) Performance obligations

The Group has different contractual arrangements with different customers under two different charge methods: Full-Time-Equivalent ("FTE") or Fee-For-Service ("FFS") model.

All services under the FTE model, revenue is recognised over time at the amount to which the Group has the right to invoice for services performed. Therefore, under practical expedients allowed by IFRS 15, the Group does not disclose the value of unsatisfied performance obligations under the FTE model.

Similarly, certain services under the FFS model, revenue is recognised over time and contracts are generally within an original expected length of one year or less. Therefore, the practical expedients are also applied.

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2019 RMB'000	2018 RMB'000
Other income		
Interest income	9,614	368
Government grants and subsidies related to		
– Assets (i)	9,427	4,419
– Income (ii)	25,576	18,233
	44,617	23,020
Other gains		
Foreign exchange gains, net	1,882	30,099
Gains on fair value change of equity investment at fair value through profit or loss	10,179	246
Gains on disposal of an associate	124	–
Gains on financial assets at fair value through profit or loss	2,033	–
Gains on fair value re-measurement of existing equity in business combination not under common control (note 40)	10,363	–
Others	955	394
	25,536	30,739
	70,153	53,759
Other expenses		
Losses on disposal of property, plant and equipment	(667)	(539)
Losses on disposal of right-of-use assets	–	(1,511)
Losses on derivative financial instruments	(8,663)	(2,134)
Others	(2,431)	(2,583)
	(11,761)	(6,767)

(i) The Group has received certain government grants related to assets to invest in laboratory equipment and plant. The grants related to assets were recognised in profit and loss over the useful lives of relevant assets. Details of these grants related to assets are set out in note 36.

(ii) The government grants and subsidies related to income have been received to compensate for the Group's research and development expenditures. Some of the grants related to income have future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognised in the statement of profit or loss on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest expenses on bank and other borrowings	75,856	79,951
Interest expenses on lease liabilities	9,318	11,142
Total interest expense on financial liabilities not at fair value through profit or loss	85,174	91,093
Less: Interest capitalised	(2,698)	(8,727)
	82,476	82,366

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019 RMB'000	2018 RMB'000
Depreciation of property, plant and equipment	307,199	255,192
Depreciation of right-of-use assets	61,910	58,027
Depreciation of investment property	812	812
Amortisation of other intangible assets	4,661	1,889
Staff costs (including directors' and chief executive's remuneration):		
Salaries and other benefits	1,192,315	955,881
Pension scheme contributions, social welfare and other welfare	368,206	304,459
Share-based compensation expenses	11,524	–
Gains on fair value re-measurement of existing equity in business combination not under common control	(10,363)	–
Gains on fair value change of equity investment at fair value through profit or loss	(10,179)	(246)
Impairment losses on inventories, net of reversal	1,021	1,100
Impairment loss on financial and contract assets, net of reversal	5,495	8,886
Losses on derivative financial instruments	8,663	2,134
Auditor's remuneration	3,480	1,415

* The staff costs for the year are included in "Cost of sales", "Administrative expenses", "Selling and distribution expenses" and "Research and development costs" in the consolidated statement of profit or loss.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the emoluments paid or payable to the directors and the Chief Executive of the Company for the service provided to the Group during each reporting period are as follows:

2019	Fees RMB'000	Salaries RMB'000	Performance related bonuses RMB'000	Social welfare benefits RMB'000	Total RMB'000
Chief executive and executive director:					
Dr. Boliang LOU	–	2,000	960	90	3,050
Executive directors:					
Mr. Xiaoqiang LOU	–	1,700	960	90	2,750
Ms. Bei ZHENG	–	1,500	960	90	2,550
Non-executive directors:					
Mr. Pingjin CHEN	–	–	–	–	–
Mr. Baifeng HU	–	–	–	–	–
Mr. Jiaqing LI	–	–	–	–	–
Mr. Hongbin ZHOU	–	–	–	–	–
Independent non-executive directors					
Mr. Lixin DAI	150	–	–	–	150
Ms. Lihua LI	150	–	–	–	150
Ms. Rong SHEN	150	–	–	–	150
Ms. Guoqin CHEN	150	–	–	–	150
Mr. TSANG Kwan Hung Benson (i)	13	–	–	–	13
	613	5,200	2,880	270	8,963

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

2018	Fees RMB'000	Salaries RMB'000	Performance related bonuses RMB'000	Social welfare benefits RMB'000	Total RMB'000
Chief executive and executive director:					
Dr. Boliang LOU	–	1,950	960	93	3,003
Executive directors:					
Mr. Xiaoqiang LOU	–	1,570	960	93	2,623
Ms. Bei ZHENG	–	1,310	960	93	2,363
Non-executive directors:					
Mr. Pingjin CHEN	–	–	–	–	–
Mr. Baifeng HU	–	–	–	–	–
Mr. Jiaqing LI	–	–	–	–	–
Mr. Hongbin ZHOU	–	–	–	–	–
Independent non-executive directors					
Mr. Lixin DAI	96	–	–	–	96
Ms. Lihua LI	96	–	–	–	96
Ms. Rong SHEN	96	–	–	–	96
Ms. Guoqin CHEN	96	–	–	–	96
	384	4,830	2,880	279	8,373

(i) Mr. TSANG Kwan Hung Benson was appointed as a director of the Company on August 15, 2019, which was effective from November 28, 2019.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during each reporting period.

10. FIVE HIGHEST PAID EMPLOYEES

The five individuals with the highest emoluments in the Group during the year included two (2018: two) directors disclosed above, details of whose remuneration are set out as above in note 9. Details of the remuneration of the remaining highest paid employees who are neither a director nor chief executive of the Company for the reporting periods are as follows:

	2019 RMB'000	2018 RMB'000
Salaries	5,262	5,030
Performance related bonuses	2,954	2,713
Social welfare benefits	302	293
	8,518	8,036

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2019	2018
Nil to RMB1,000,000	–	–
RMB1,000,001 to RMB2,000,000	–	–
RMB2,000,001 to RMB3,000,000	2	3
RMB3,000,001 to RMB4,000,000	1	–
RMB4,000,001 to RMB5,000,000	–	–
	3	3

11. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax	85,479	47,820
Deferred tax	16,399	12,281
	101,878	60,101

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% unless subject to tax exemption set out below.

The Company was accredited as a "High and New Technology Enterprise" in 2014 which was subsequently renewed in 2017 and as an "Advanced Technology Enterprise" in 2015 which was subsequently renewed in 2019, and therefore the Company was entitled to a preferential EIT rate of 15% for each reporting period. "High and New Technology Enterprise" and "Advanced Technology Enterprise" qualifications are subject to review by the relevant tax authority in the PRC for every three years.

11. INCOME TAX EXPENSE (CONTINUED)

Pharmaron Xi'an Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2014 which was subsequently renewed in 2017, and therefore Pharmaron Xi'an Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron (Beijing) TSP Service Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2015 and renewed in 2019, and therefore Pharmaron (Beijing) TSP Service Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron Ningbo Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2017 which was renewed in 2019, and therefore Pharmaron Ningbo Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC annually.

Pharmaron (Ningbo) Technology Development Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2019, and therefore Pharmaron (Ningbo) Technology Development Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2019. This qualification is subject to review by the relevant tax authority in the PRC annually.

Pharmaron Shanghai Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2019, and therefore Pharmaron Shanghai Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2019. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

The group entities incorporated in the USA are subject to the federal corporate tax at a rate of 21% and the state income tax at a rate ranging from 5% to 10 % as at December 31, 2018 and 2019.

The group entities incorporated in the United Kingdom are subject to tax at a rate of 19% for the years ended December 31, 2018 and 2019.

The group entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits for the years ended December 31, 2018 and 2019.

11. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the reporting period can be reconciled to the profit before tax per the consolidated statements of profit or loss as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	**632,550**	395,944
Tax at tax rates of 15%	**94,883**	59,392
Effect of different tax rate of subsidiaries	**3,927**	(244)
Overprovision in respect of prior years	**(64)**	(384)
Losses attributable to associates	**1,102**	170
Income not subject to tax	**(3,234)**	–
Non-deductible expenses	**278**	646
Additional deductible allowance for research and development ("R&D") expenses	**(2,240)**	–
Effect of tax rate changes	**(2,252)**	–
Utilisation of tax losses and other deductible temporary differences previously not recognised as deferred tax assets	**(3,438)**	(3,067)
Unrecognised deductible temporary differences and tax losses	**12,916**	3,588
	101,878	60,101

12. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposed final – RMB0.15 (2018: RMB0.11) per ordinary share	**119,158**	72,192

On May 15, 2019, the Company's Shareholders approved the 2018 Profit Distribution Plan at an annual general meeting, pursuant to which a dividend of RMB1.10 (inclusive of tax) for every 10 shares of the Company in an aggregate amount of RMB72,192,000 was subsequently paid in July 2019 to shareholders of the Company on the record date.

The proposed final dividend for the year ended December 31, 2019 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 660,535,750 (2018: 590,663,575) in issue during the year, as adjusted to reflect the rights issue during the year.

For the year ended December 31, 2019, the calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of shares assumed to be in issue after taking into account the effect of restricted A shares issued by the Company.

The calculations of basic and diluted earnings per share are based on:

	2019 RMB'000	2018 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	**547,190**	336,042

	2019	2018
Number of shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**660,535,750**	590,663,575
Weighted average number of ordinary shares in issue during the year, used in the diluted earnings per share calculation	**660,675,444**	590,663,575

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Land RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2019								
At December 31, 2018 and at January 1, 2019:								
Cost	1,554,492	1,305,153	13,227	107,844	442,860	62,371	34,886	3,520,833
Accumulated depreciation and impairment	(80,749)	(514,942)	(3,613)	(46,323)	(198,068)	–	–	(843,695)
Net carrying amount	1,473,743	790,211	9,614	61,521	244,792	62,371	34,886	2,677,138
At January 1, 2019, net of accumulated depreciation	1,473,743	790,211	9,614	61,521	244,792	62,371	34,886	2,677,138
Additions	–	191,180	654	15,103	12,368	–	345,601	564,906
Acquisition of subsidiaries (Note 40)	–	19,459	221	2,588	2,880	–	–	25,148
Disposals	–	(1,563)	(290)	(455)	–	–	–	(2,308)
Depreciation provided during the year	(61,009)	(167,613)	(1,540)	(20,119)	(56,918)	–	–	(307,199)
Transfer to fixed assets	44,807	115,205	1,081	3,531	–	–	(164,624)	–
Exchange realignment	3,103	4,708	2	1,326	1,713	3,407	1,410	15,669
At December 31, 2019, net of accumulated depreciation	1,460,644	951,587	9,742	63,495	204,835	65,778	217,273	2,973,354
At December 31, 2019:								
Cost	1,602,789	1,622,331	14,590	129,063	458,392	65,778	217,273	4,110,216
Accumulated depreciation and impairment	(142,145)	(670,744)	(4,848)	(65,568)	(253,557)	–	–	(1,136,862)
Net carrying amount	1,460,644	951,587	9,742	63,495	204,835	65,778	217,273	2,973,354

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Land RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2018								
At December 31, 2017 and at January 1 2018:								
Cost	1,135,745	1,036,789	8,696	72,683	380,048	63,111	289,738	2,986,810
Accumulated depreciation and impairment	(30,293)	(391,390)	(2,680)	(33,293)	(171,874)	–	–	(629,530)
Net carrying amount	1,105,452	645,399	6,016	39,390	208,174	63,111	289,738	2,357,280
At January 1, 2018, net of accumulated depreciation	1,105,452	645,399	6,016	39,390	208,174	63,111	289,738	2,357,280
Additions	–	188,068	4,933	37,173	90,912	–	263,088	584,174
Disposals	–	(610)	(132)	(101)	–	–	(9,031)	(9,874)
Depreciation provided during the year	(50,308)	(135,582)	(1,203)	(14,691)	(53,408)	–	–	(255,192)
Transfer to fixed assets	415,790	93,119	–	–	–	–	(508,909)	–
Exchange realignment	2,809	(183)	–	(250)	(886)	(740)	–	750
At December 31, 2018, net of accumulated depreciation	1,473,743	790,211	9,614	61,521	244,792	62,371	34,886	2,677,138
At December 31, 2018:								
Cost	1,554,492	1,305,153	13,227	107,844	442,860	62,371	34,886	3,520,833
Accumulated depreciation and impairment	(80,749)	(514,942)	(3,613)	(46,323)	(198,068)	–	–	(843,695)
Net carrying amount	1,473,743	790,211	9,614	61,521	244,792	62,371	34,886	2,677,138

The net carrying amount of the Group's fixed assets held under sales and leaseback arrangements included in the total amount of laboratory equipment at December 31, 2019 was RMB36,740,000 (2018: RMB61,473,000).

At December 31, 2019, certain of the Group's buildings, land and equipment with a net carrying amount of approximately RMB1,333,198,000 (2018: RMB1,464,969,000) were pledged to secure general banking facilities and other borrowings granted to the Group (note 31).

Certain of the Group's buildings and land use rights (note 15) were valued at RMB1,112,660,000 as at September 30, 2019 in the prospectus issued on November 14, 2019 in connection with the listing of the Company's shares on November 28, 2019. Had certain of the Group's buildings and land use rights been included in the financial statements at such valuation amount throughout the year ended December 31, 2019, an additional depreciation charge of RMB5,163,000 would have been recognised in the consolidated statement of profit or loss for the year ended December 31, 2019.

15. RIGHT-OF-USE ASSETS

	Office premises RMB'000	Laboratory equipment RMB'000	Transportation equipment	Furniture, fixtures and equipment RMB'000	Land use rights RMB'000	Total RMB'000
December 31, 2019						
At December 31, 2018 and at January 1, 2019:						
Cost	232,051	26,126	–	–	323,528	581,705
Accumulated depreciation and impairment	(53,422)	(19,432)	–	–	(9,930)	(82,784)
Net carrying amount	178,629	6,694	–	–	313,598	498,921
At January 1, 2019, net of accumulated depreciation	178,629	6,694	–	–	313,598	498,921
Additions	37,667	–	119	2,893	12,947	53,626
Acquisition of subsidiaries (note 40)	5,800	–	–	–	–	5,800
Depreciation provided during the period	(52,952)	(1,480)	(41)	(335)	(7,102)	(61,910)
Exchange realignment	2,169	309	2	72	–	2,552
At December 31, 2019, net of accumulated depreciation	171,313	5,523	80	2,630	319,443	498,989
At December 31, 2019:						
Cost	274,834	26,627	123	2,973	336,475	641,032
Accumulated depreciation and impairment	(103,521)	(21,104)	(43)	(343)	(17,032)	(142,043)
Net carrying amount	171,313	5,523	80	2,630	319,443	498,989

15. RIGHT-OF-USE ASSETS (CONTINUED)

	Office premises RMB'000	Laboratory equipment RMB'000	Furniture, fixtures and equipment RMB'000	Land use rights RMB'000	Total RMB'000
December 31, 2018					
At December 31, 2017 and at January 1, 2018:					
Cost	282,441	26,207	–	235,638	544,286
Accumulated depreciation and impairment	(52,677)	(17,939)	–	(4,936)	(75,552)
Net carrying amount	229,764	8,268	–	230,702	468,734
At January 1, 2018, net of accumulated depreciation	229,764	8,268	–	230,702	468,734
Additions	–	–	–	109,850	109,850
Disposal	–	–	–	(21,266)	(21,266)
Depreciation provided during the year	(50,817)	(1,522)	–	(5,688)	(58,027)
Exchange realignment	(318)	(52)	–	–	(370)
At December 31, 2018, net of accumulated depreciation	178,629	6,694	–	313,598	498,921
At December 31, 2018:					
Cost	232,051	26,126	–	323,528	581,705
Accumulated depreciation and impairment	(53,422)	(19,432)	–	(9,930)	(82,784)
Net carrying amount	178,629	6,694	–	313,598	498,921

As at December 31, 2019, certain of the Group's land use rights with a net carrying amount of approximately RMB81,651,000 (2018: RMB83,456,000) was pledged to secure general banking facilities granted to the Group (note 31).

16. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Cost	**48,469**	45,958
Accumulated depreciation and impairment	**(2,456)**	(1,530)
Net carrying amount	**46,013**	44,428
Opening carrying amount, net of accumulated depreciation	**44,428**	45,761
Depreciation provided during the year	**(812)**	(812)
Exchange realignment	**2,397**	(521)
	46,013	44,428

At December 31, 2019, none of the Group's investment properties were pledged to secure general banking facilities granted to the Group (2018: RMB44,428,000) (note 31).

As at December 31, 2019, the fair value of the investment properties was estimated to be approximately RMB51,769,000 (2018: RMB49,088,000). The valuation was determined using the direct comparison method. The direct comparison method is applied based on the market prices of comparable properties with similar sizes, characteristics and locations.

17. GOODWILL

	2019 RMB'000	2018 RMB'000
Cost	**203,286**	139,917
Accumulated impairment	**–**	–
Net carrying amount	**203,286**	139,917
Opening carrying amount, net of accumulated impairment	**139,917**	133,524
Acquisition of subsidiaries (note 40)	**61,172**	–
Exchange realignment	**2,197**	6,393
	203,286	139,917

17. GOODWILL (CONTINUED)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- CPC business cash-generating unit;
- Pharmaron ABS business cash-generating unit
- Pharmaron (Ningbo) Technology Development business cash-generating unit; and
- Nanjing Sirui business cash-generating unit.

CPC business cash-generating unit

The recoverable amount of the CPC business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15.3% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Pharmaron ABS business cash-generating unit

The recoverable amount of the Pharmaron ABS business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15.6% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Pharmaron (Ningbo) Technology Development business cash-generating unit

The recoverable amount of the Pharmaron (Ningbo) Technology Development business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 17.5% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Nanjing Sirui business cash-generating unit

The recoverable amount of the Nanjing Sirui business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 18.6% and cash flows beyond the five-year period were extrapolated using a growth of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

17. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Nanjing Sirui business cash-generating unit (continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2019 RMB'000	2018 RMB'000
CPC business	**107,761**	106,015
Pharmaron ABS business	**27,811**	27,360
Pharmaron (Ningbo) Technology Development business	**6,542**	6,542
Nanjing Sirui business	**61,172**	–
	203,286	139,917

Assumptions were used in the value in use calculation of the CPC business, Pharmaron ABS business, Pharmaron (Ningbo) Technology Development business and Nanjing Sirui business cash-generating units for December 31, 2019 and 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on the market development of the CPC business, Pharmaron ABS business, Pharmaron (Ningbo) Technology Development business and Nanjing Sirui business cash-generating units and discount rates are consistent with external information sources.

The management of the Group assessed that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CPC business, Pharmaron ABS business, Pharmaron (Ningbo) Technology Development business and Nanjing Sirui business cash-generating units to exceed their respective recoverable amounts as at December 31, 2019.

18. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents RMB'000	Client relationship RMB'000	Total RMB'000
December 31, 2019				
Cost at January 1, 2019, net of accumulated amortisation	**13,471**	**429**	**–**	**13,900**
Additions	**8,476**	**92**	**–**	**8,568**
Acquisition of subsidiaries (note 40)	**1,260**	**–**	**16,200**	**17,460**
Amortisation provided during the year	**(3,679)**	**(37)**	**(945)**	**(4,661)**
Exchange realignment	**86**	**(1)**	**–**	**85**
At December 31, 2019	**19,614**	**483**	**15,255**	**35,352**

	Software RMB'000	Patents RMB'000	Client relationship RMB'000	Total RMB'000
December 31, 2018				
Cost at January 1, 2018, net of accumulated amortisation	7,861	346	–	8,207
Additions	7,407	118	–	7,525
Amortisation provided during the year	(1,853)	(36)	–	(1,889)
Exchange realignment	56	1	–	57
At December 31,2018	13,471	429	–	13,900

19. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	**28,757**	10,571
Goodwill on acquisition	**102,489**	18,297
	131,246	28,868

In July 2018, the Group subscribed for the increased registered capital of Nanjing Sirui at a consideration of RMB30,000,000 in exchange for approximately 23.08% of its equity interests. The Group was able to exercise significant influence over Nanjing Sirui because one of the three directors of Nanjing Sirui was appointed by the Group as at December 31, 2018.

19. INVESTMENTS IN ASSOCIATES (CONTINUED)

As at December 31, 2018, the carrying amount of investment in Nanjing Sirui was RMB28,868,000.

In March 2019, the Group subscribed for the increased registered capital of Nanjing Sirui at a consideration of RMB45,000,000 in exchange for approximately 19.78% of its equity interests.

In May 2019, the Group subscribed for the increased registered capital of Nanjing Sirui in consideration of RMB75,000,000 in exchange for approximately 12.70% of its equity interest. Therefore, Nanjing Sirui has become a subsidiary and is no longer an associate of the Group. Nanjing Sirui is a limited liability company incorporated under the laws of the PRC.

As of December 31, 2019, details of each of the Group's associates are as follows:

Name of entity	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activity
Beijing LinkStart Biotechnology Co., Ltd. ("LinkStart")	Ordinary shares	PRC/Mainland China	48.00%	Scientific research and technology services
Shanghai Kejun Pharmaceutical Technology Co., Ltd. ("Shanghai Kejun")	Ordinary shares	PRC/Mainland China	9.09%	Biopharmaceutical
Kangjun Investment Management (Beijing) Co., Ltd. ("Kangjun")	Ordinary shares	PRC/Mainland China	30%	Investment management

In June 2019, the Group acquired a 48.00% equity interest in LinkStart at a cash consideration of RMB120,000,000. LinkStart is a limited liability company incorporated under the laws of the PRC and accounted for using the equity method.

In April 2019, the Group acquired a 9.09% equity interest in Shanghai Kejun at a cash consideration of RMB1,125,000. Shanghai Kejun is a limited liability company incorporated under the laws of the PRC and accounted for using the equity method.

In August 2019, the Group acquired a 30.00% equity interest in Kangjun at a cash consideration of RMB3,000,000. Kangjun is a limited liability company incorporated under the laws of the PRC and accounted for using the equity method.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the associates' loss for the year	**(7,303)**	(1,132)
Aggregate carrying amount of the Group's investments in the associates	**131,246**	28,868

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Unlisted equity investments, at fair value	59,054	24,267

The above unlisted equity investments represent investments in Zentalis Pharmaceuticals, LLC ("Zentalis") (formerly known as Zeno Pharmaceuticals, Inc.) and Imago Biosciences, Inc. ("Imago"). The above equity investments are at fair value through profit or loss.

21. DEFERRED TAX

The movements in deferred tax assets are as follows:

	2019				
	Losses available for offsetting against future taxable profits RMB'000	Impairment provision for assets RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At January 1, 2019	4,520	2,490	3,907	4,880	15,797
Deferred tax credited/(charged) to profit or loss during the year	242	517	13,306	532	14,597
Deferred tax assets at December 31, 2019	4,762	3,007	17,213	5,412	30,394

	2018				
	Losses available for offsetting against future taxable profits RMB'000	Impairment provision for assets RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At January 1, 2018	3,368	1,381	2,370	2,565	9,684
Deferred tax credited to profit or loss during the year	1,152	1,109	1,537	2,315	6,113
Deferred tax assets at December 31, 2018	4,520	2,490	3,907	4,880	15,797

21. DEFERRED TAX (CONTINUED)

The movements in deferred tax liabilities are as follows:

	2019			
	Fair value gain arising from acquisition of subsidiaries RMB'000	Accelerated tax depreciation RMB'000	Fair value gain arising from derivative financial instruments RMB'000	Total RMB'000
At January 1, 2019	10,289	19,368	–	29,657
Deferred tax charged/(credited) to profit or loss during the year	(3,793)	32,735	2,054	30,996
Acquisition of subsidiaries (note 40)	4,298	–	–	4,298
Exchange realignment	(147)	–	–	(147)
Deferred tax liabilities at December 31, 2019	10,647	52,103	2,054	64,804

	2018		
	Fair value gain arising from acquisition of subsidiaries RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At January 1, 2018	11,121	–	11,121
Deferred tax charged/(credited) to profit or loss during the year	(974)	19,368	18,394
Exchange realignment	142	–	142
Deferred tax liabilities at December 31, 2018	10,289	19,368	29,657

For presentation purposes, as at December 31, 2019, certain deferred tax assets and liabilities with an amount of RMB24,022,000 (2018: RMB7,351,000) have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**6,372**	8,446
Net deferred tax liabilities recognised in the consolidated statement of financial position	**40,782**	22,306

21. DEFERRED TAX (CONTINUED)

In accordance with PRC laws and regulations, tax losses could be carried forward for five years to offset against future taxable profits. According to the Notice 2018 No.76 of the Ministry of Finance, from January 1, 2018, the enterprises that have the qualifications of High and New Technology Enterprise will be able to make up for the losses that have not been completed in the previous five years before the qualification year. Therefore, certain PRC companies' longest tax loss carried-over period is extended from 5 years to 10 years. For the Group's subsidiaries in the United States of America ("U.S.") and United Kingdom ("U.K."), losses can be carried-over indefinitely. Deferred tax assets relating to unutilised tax losses are recognised to the extent that it is probable that sufficient taxable profit will be available to allow such deferred tax assets to be utilised.

The Group had unrecognised temporary differences and unused tax losses available for offsetting against future profits in respect of certain subsidiaries in U.S. and U.K. of RMB711,543,000 and RMB581,438,000 as at December 31, 2019 and 2018, respectively, and the deferred tax assets have not been recognised. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

22. OTHER NON-CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
Prepayment for purchase of property, plant and equipment	**14,034**	12,612
Prepayment for acquisition of equity interest in an associate (i)	**–**	44,000
Deposits	**22,297**	31,931
Others	**590**	1,544
	36,921	90,087

(i) On October 31, 2018, the Company and other shareholders of Nanjing Sirui entered into a capital increase agreement. As at December 31, 2018, a prepayment of RMB44,000,000 has been placed for further capital injection.

As at December 31, 2019 and 2018, the financial assets included in other non-current assets of the Group are considered to be of low credit risk and thus the Group has assessed that the ECLs for deposits are immaterial under the 12-month expected credit loss method.

23. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials and consumables	**97,050**	70,148

As at December 31, 2019, the inventories are net of a write-down of approximately RMB5,978,000 (2018: RMB4,957,000).

24. CONTRACT COSTS

	2019 RMB'000	2018 RMB'000
Costs to fulfil contracts	60,347	50,313

25. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables – third parties	876,344	617,751
Allowance for impairment	(19,275)	(13,758)
	857,069	603,993

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to various diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The balances of trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	855,276	599,331
1 year to 2 years	14,547	15,330
More than 2 years	6,521	3,090
	876,344	617,751

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	13,758	4,772
Impairment losses, net	5,447	8,807
Exchange realignment	70	179
	19,275	13,758

25. TRADE RECEIVABLES (CONTINUED)

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables.

An impairment analysis is performed at the end of each reporting period using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each reporting period about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	2019		
	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Within 1 year	**0.65%**	**855,276**	**5,585**
1 to 2 years	**49.28%**	**14,547**	**7,169**
Over 2 years	**100.00%**	**6,521**	**6,521**
		876,344	**19,275**

	2018		
	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Within 1 year	0.55%	599,331	3,320
1 to 2 years	47.93%	15,330	7,348
Over 2 years	100.00%	3,090	3,090
		617,751	13,758

26. CONTRACT ASSETS

	2019 RMB'000	2018 RMB'000
Contract assets	**91,857**	52,470
Allowance for impairment	**(2,752)**	(1,392)
	89,105	51,078

26. CONTRACT ASSETS (CONTINUED)

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

The expected timing of recovery or settlement is generally within one year.

The movements in the loss allowance for impairment of contract assets are as follows:

	2019 **RMB'000**	2018 RMB'000
At beginning of year	**1,392**	1,313
Impairment losses, net	**1,346**	79
Exchange realignment	**14**	–
	2,752	1,392

The Group has applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all contract assets. To measure the ECLs, contract assets have been grouped based on shared credit risk characteristics and the days past due. The ECLs below also incorporate forward-looking information. The impairment as of the end of each reporting period was determined as follows:

	2019	2018
Expected credit loss	**3.00%**	2.65%
Gross carrying amount (RMB'000)	**91,857**	52,470
Impairment (RMB'000)	**(2,752)**	(1,392)

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 **RMB'000**	2018 RMB'000
Prepayments	**4,645**	3,600
Deposits and other receivables	**48,433**	11,104
Prepaid expenses	**28,373**	28,603
Tax recoverable	**115,904**	118,208
Others	**221**	17,936
	197,576	179,451

As at the end of each reporting period, other receivables of the Group are considered to be of low credit risk and thus the Group has assessed that the ECLs for other receivables are immaterial under the 12-month expected loss method.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group entered into a series of wealth management products with banks and other financial institutions. The investments are principal-guaranteed by the relevant financial institutions. The expected rates of return ranged from 1.74% to 3.70% per annum for the year, which were determined by reference to the returns of the underlying investment portfolio.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RMB'000	2018 RMB'000
Current assets		
Foreign currency forward contracts and collars	**13,689**	413

From 2018, the Group entered into several foreign exchange forward contracts and collar contracts with banks in order to manage the Group's foreign currency exposure in relation to USD against RMB. The foreign currency forward contracts and collars are not designated for hedge purposes and are measured at fair value through profit or loss.

For the year ended December 31, 2019, losses under forward foreign exchange contracts and collars of RMB8,663,000 (2018: RMB2,134,000) were recognised in other expenses.

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**4,442,218**	307,235
Pledged deposits	**17,634**	13,476
	4,459,852	320,711

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents and pledged deposits		
Denominated in		
— RMB	**639,803**	78,659
— USD	**204,061**	208,480
— GBP	**39,469**	28,987
— HKD	**3,573,703**	–
— Others	**2,816**	4,585
	4,459,852	320,711

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Pledged deposits earn interest at interest rates stipulated by the respective financial institutions. Pledged deposits represent the amounts pledged to issue letters of credit and deposits for environmental protection.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured (a)	3.000%~5.390%	2020	170,884	3.200%~5.873%	2019	385,215
Bank loans – unsecured	4.750%~4.785%	2020	108,608	4.785%~6.500%	2019	112,408
Other borrowing – secured (b)	4.500%~5.300%	2020	21,162	6.000%	2019	37,345
			300,654			534,968
Non-current						
Bank loans – secured (a)	4.275%~5.390%	2021~2025	542,027	4.900%~5.390%	2020~2026	770,094
Bank loans – unsecured	–	–	–	4.988%~5.368%	2020	106,040
Other borrowing – secured (b)	5.300%	2021	1,764	4.500%~5.300%	2021	22,865
			543,791			898,999
			844,445			1,433,967

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Analysis into:

	2019 RMB'000	2018 RMB'000
Bank loans and other borrowings repayable:		
Within one year	**300,654**	534,968
In the second year	**80,579**	234,054
In the third to fifth years, inclusive	**340,065**	446,658
Beyond five years	**123,147**	218,287
	844,445	1,433,967

(a) As at December 31, 2019, the bank loans with an amount of RMB250,067,000 (2018: RMB622,160,000) are secured by the mortgage of the Group's long-term assets (property, plant and equipment, investment properties, right-of-use assets, other intangible assets) owned by the Group.

As at December 31, 2019, the bank loans with an amount of RMB357,500,000 (2018: RMB407,500,000) are secured by the mortgage of the Group's long-term assets owned by the Group and are guaranteed by the Company's certain directors and related parties.

As at December 31, 2019, the bank loans with an amount of RMB105,344,000 (2018: RMB124,108,000) are guaranteed by the Company's certain directors and related parties.

As at December 31, 2019, the mortgaged buildings, land and equipment had a net carrying amount of approximately RMB1,333,198,000 (2018: RMB1,464,969,000); the mortgaged right-of-use assets had a net carrying amount of approximately RMB81,651,000 (2018: RMB83,456,000); and no investment properties are mortgaged (2018: RMB44,428,000).

(b) As at December 31, 2019, the other borrowings with an amount of RMB22,926,000 (2018: RMB60,210,000) are secured by the mortgage of the Group's long-term assets (property, plant and equipment) owned by the Group amounting to approximately RMB36,740,000 (2018: RMB61,473,000), and are guaranteed by the Company's certain directors and related parties.

32. TRADE PAYABLES

Trade payables are non-interest-bearing and normally settled on terms of one to three months.

An ageing analysis of the trade payables as at the end of each reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**114,897**	106,041
Over 1 year	**3,081**	2,179
	117,978	108,220

Included in the trade payables was an amount due to a related party of RMB4,000 as at December 31, 2019 (2018: Nil), which is repayable within 30 days, which represents credit terms similar to those offered by the related party to their major customers.

33. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Staff payroll and welfare payables	**244,592**	183,498
Other tax payable	**15,081**	17,728
Payables for acquisition of plant and equipment	**96,102**	172,429
Accrued expenses	**46,869**	25,105
Repurchase for the restricted shares (i) (note 38)	**72,781**	–
Others	**11,277**	5,195
	486,702	403,955

(i) It represented the obligation of the Group to repurchase all or part of the shares that have not been unlocked under conditions specified in the 2019 Pharmaron A Share Incentive Scheme.

34. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Short-term advances of delivery of services	**271,547**	187,156

35. LEASE LIABILITIES

	2019 RMB'000	2018 RMB'000
Current		
Lease liabilities	**64,150**	60,336
Non-current		
Lease liabilities	**131,160**	145,166
	195,310	205,502

35. LEASE LIABILITIES (CONTINUED)

The movements of the lease liabilities during each reporting period are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**205,502**	245,365
Addition	**40,679**	–
Acquisition of subsidiaries (note 40)	**5,483**	–
Interest expense	**9,318**	11,142
Payments (including value added tax)	**(73,320)**	(55,807)
Changes on value added tax	**3,491**	2,311
Exchange realignment	**4,157**	2,491
Ending balance	**195,310**	205,502

36. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Government grants	**111,606**	100,989

Movements of government grants of the Group during the year are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**100,989**	63,896
Government grants received	**20,000**	41,523
Credited to profit or loss	**(9,427)**	(4,419)
Exchange realignment	**44**	(11)
At the end of the year	**111,606**	100,989

The Group received government grants for capital expenditure incurred for the acquisition of plant and equipment. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

37. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Issued and fully paid:		
794,387,462 (2018: 590,663,575) ordinary shares	**794,387**	590,664

37. SHARE CAPITAL (CONTINUED)

A summary of movements in the Company's share capital is as follows:

	Number of Shares in issue	Share capital RMB'000
At December 31, 2018 and January 1, 2019	590,663,575	590,664
Issuance of A shares upon listing on the Shenzhen Stock Exchange	65,630,000	65,630
Issuance of H shares upon listing on the Hong Kong Stock Exchange	134,016,500	134,016
Issuance of restricted A shares under the A Share Incentive Scheme	4,077,387	4,077
At December 31, 2019	794,387,462	794,387

38. SHARE OPTION SCHEME

2019 Pharmaron A Share Incentive Scheme

On August 15, 2019, the shareholders' meeting of the Company passed a resolution to issue up to 5,651,359 A Shares of the Company under the 2019 Pharmaron A Share Incentive Scheme consisting of Restricted A shares and share options. On October 24, 2019, 4,077,387 restricted A shares of the Company were approved for eligible employees to subscribe at the price of RMB17.85 per A Share and the grant date was October 30, 2019. As of November 5, 2019, 4,077,387 A Shares were subscribed by eligible employees and a consideration of RMB72,781,000 was received by the Company. These granted restricted A Shares have a contractual term of no more than four years and will be unlocked over a three-year period, with 40%, 30% and 30% of the awards unlocking on the first, second and third anniversary dates of the A Share registration date upon meeting certain annual performance conditions. Pursuant to the black-out period provisions of the 2019 Pharmaron A Share Incentive Scheme, employees shall not transfer the A Shares which fulfil the unlocking conditions to any third party in any form within six months from each unlocking anniversary date.

The following share units were outstanding under the Scheme during the year:

	2019	
	Subscription price RMB per share	Number of restricted A shares '000
At 1 January	–	–
Granted during the year	17.85	4,077
At 31 December	17.85	4,077

For the year ended December 31, 2019, no share has been forfeited since the grant.

38. SHARE OPTION SCHEME (CONTINUED)

2019 Pharmaron A Share Incentive Scheme (continued)

The fair value of the restricted A shares granted under the 2019 Pharmaron A Share Incentive Scheme as at the grant date was determined using the Black-Scholes model by factoring the black-out period into the option pricing model. The fair value and corresponding inputs into the model were as follows:

	2019 Pharmaron A Share Incentive Scheme
Grant date A share price (RMB)	53.43
Subscription price (RMB)	17.85
Expected volatility in the black-out period	64.89%
Expected life (years)	0.83-2.83
Risk-free interest rate	1.30%

For the year ended December 31, 2019, the Group has recorded share-based compensation expenses of RMB11,524,000 in relation to the 2019 Pharmaron A Share Incentive Scheme.

39. RESERVES

(i) Statutory reserve

In accordance with the Company Law of the People's Republic of China, the companies in the PRC are required to allocate 10% of the statutory after tax profits to the statutory reserve until the cumulative total of the reserve reaches 50% of the companies registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the companies. The statutory reserve is not available for dividend distribution to shareholders of the PRC subsidiaries.

(ii) Capital reserve

The capital reserve of the Group represents the reserve arisen pursuant to the reorganisation of subsidiaries.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

40. BUSINESS COMBINATIONS

In July 2018, the Group subscribed for the increased registered capital of Nanjing Sirui at a consideration of RMB30,000,000 in exchange for approximately 23.08% of its equity interests. The Group was able to exercise significant influence over Nanjing Sirui because one of the three directors of Nanjing Sirui was appointed by the Group as at December 31, 2018.

In March 2019, the Group subscribed for the increased registered capital of Nanjing Sirui at a consideration of RMB45,000,000 in exchange for approximately 19.78% of its equity interests. The Group was still able to exercise significant influence over Nanjing Sirui.

40. BUSINESS COMBINATIONS (CONTINUED)

In May 2019, the Group subscribed for the increased registered capital of Nanjing Sirui at a consideration of RMB75,000,000 in exchange for approximately 12.70% of its equity interests. Therefore, Nanjing Sirui has become a subsidiary and is no longer an associate of the Group.

The fair values of the identifiable assets and liabilities of Nanjing Sirui as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	25,148
Right-of-use assets	15	5,800
Other intangible assets	18	17,460
Investment in an associate		1,944
Financial assets at fair value through profit or loss		112,000
Other non-current assets		626
Trade receivables		3,009
Contract assets		8,559
Prepayments, other receivables and other assets		6,910
Cash and cash equivalents		15,503
Trade payables		(1,688)
Contract liabilities		(14,701)
Accruals and other payables		(4,162)
Lease liabilities	35	(5,483)
Deferred tax liabilities	21	(4,298)
Total identifiable net assets at fair value		166,627
Non-controlling interests		(74,049)
Fair value of an associate:		
Gains on fair value re-measurement of existing equity in business combination not under common control		(10,363)
Transferred from investment in an associate		(68,387)
Goodwill on acquisition	17	61,172
Satisfied by cash		75,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(75,000)
Cash and cash equivalents acquired	15,503
Net outflow of cash and cash equivalents included in cash flows generated in investing activities	(59,497)

40. BUSINESS COMBINATIONS (CONTINUED)

Since the acquisition, Nanjing Sirui contributed RMB40,414,000 to the Group's revenue and caused a loss of RMB17,876,000 to the consolidated profit of the Group for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB3,767,776,000 and RMB512,504,000, respectively.

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group entered into lease arrangements with a total capital value at the inception of the leases of RMB40,679,000 (2018: Nil) as at December 31, 2019.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000
At January 1, 2019	1,433,967	205,502
Changes from financing cash flows	(587,266)	(73,320)
Addition	–	40,679
Acquisition of subsidiaries (note 40)	–	5,483
Interest expense	–	9,318
Changes on value added tax	–	3,491
Foreign exchange movements	(2,256)	4,157
At December 31, 2019	844,445	195,310

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000
At January 1, 2018	1,356,662	245,365
Changes from financing cash flows	66,712	(55,807)
Interest expense	–	11,142
Changes on value added tax	–	2,311
Foreign exchange movements	10,593	2,491
At December 31, 2018	1,433,967	205,502

42. CONTINGENT LIABILITIES

As at the end of each reporting period, neither the Group nor the Company had any significant contingent liabilities.

43. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank loans and other borrowings, which are secured by the assets of the Group, are included in note 31 to the consolidated financial statements.

44. COMMITMENTS

(a) Operating lease commitments

As lessor

The Group leases out its completed investment properties under operating lease arrangements on terms of five years and with an option for renewal after the expiry dates, at which time all terms will be renegotiated.

The Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2019 RMB'000	2018 RMB'000
Within one year	12,086	8,893
In the second year	1,029	8,676
In the third year	–	8,676
After three years	–	723
	13,115	26,968

Pursuant to the terms of termination of the lease agreement entered into between Merck Sharp & Dohme Limited and Pharmaron UK Limited, Merck Sharp & Dohme Limited has decided to exercise its break right to terminate the lease on January 31, 2021, which resulted in the decrease of operating lease commitments.

(b) Capital commitments

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for purchase of items of property, plant and equipment	565,981	31,577

45. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

(a) Transactions with related parties:

	2019 RMB'000	2018 RMB'000
Entities controlled by the close family members of the directors		
Purchase of raw materials[i]	**3,757**	2,681

(i) The purchases from related parties were made according to the published prices and conditions similar to those offered to the major customers of the suppliers.

(b) Other transactions with related parties

The Company's certain directors and related parties have guaranteed certain bank loans and other borrowings made to the Group of up to RMB485,770,000 as at December 31, 2019 (2018: RMB593,359,000), as further detailed in note 31 to the financial statements.

(c) Compensation of key management personnel of the Group:

	2019 RMB'000	2018 RMB'000
Salaries and other benefits	**11,307**	10,348
Performance-related bonus	**5,350**	5,350
	16,657	15,698

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

(d) Outstanding balances with related parties

Details of the Group's trade balances with its related parties as at the end of each reporting period are disclosed in notes 22 and 32 to the financial statements.

46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

As at December 31, 2019		Financial assets at fair value through profit or loss		
Financial assets	Financial assets at amortised cost RMB'000	Equity investments at fair value through profit or loss RMB'000	Mandatorily designated as such RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	–	59,054	–	59,054
Financial assets at fair value through profit or loss	–	–	169,762	169,762
Trade receivables	857,069	–	–	857,069
Derivative financial instruments	–	–	13,689	13,689
Financial assets included in other non-current assets	22,887	–	–	22,887
Financial assets included in prepayments, other receivables and other assets	48,433	–	–	48,433
Pledged deposits	17,634	–	–	17,634
Cash and cash equivalents	4,442,218	–	–	4,442,218
	5,388,241	59,054	183,451	5,630,746

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade payables	117,978
Financial liabilities included in other payables and accruals	227,029
Interest-bearing bank and other borrowings	844,445
Lease liabilities	195,310
	1,384,762

46. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

As at December 31, 2018

Financial assets	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss: Equity investments at fair value through profit or loss RMB'000	Financial assets at fair value through profit or loss: Mandatorily designated as such RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	–	24,267	–	24,267
Trade receivables	603,993	–	–	603,993
Derivative financial instruments	–	–	413	413
Financial assets includes in other non-current assets	33,475	–	–	33,475
Financial assets included in prepayments, other receivables and other assets	28,256	–	–	28,256
Pledged deposits	13,476	–	–	13,476
Cash and cash equivalents	307,235	–	–	307,235
	986,435	24,267	413	1,011,115

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade payables	108,220
Financial liabilities included in other payables and accruals	202,729
Interest-bearing bank and other borrowings	1,433,967
Lease liabilities	205,502
	1,950,418

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets, current interest-bearing bank and other borrowings, trade payables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the non-current portion of interest-bearing bank and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of each reporting period were assessed to be insignificant.

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value management of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

For the fair value of the unlisted equity investments at fair value through profit or loss, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

The Group invests in wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments including forward currency contracts and collars are measured using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market unobservable inputs.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a relationship of unobservable inputs to fair value as at December 31, 2019 and 2018:

	Valuation technique	Significant unobservable inputs (level 3)	Range	Relationship of unobservable inputs to fair value
Equity investments at fair value through profit or loss	Valuation multiples	Average EV/R&D multiple of peers	3 – 9.3	The higher the multiples, the higher the fair value
Derivative financial instruments – collars	Option pricing model	Expected volatility	–	The higher the expected volatility, the higher the fair value

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
As at December 31, 2018			
Equity investments at fair value through profit or loss	–	24,267	24,267
Derivative financial instruments -foreign currency forward contracts	413	–	413
	413	24,267	24,680
As at December 31, 2019			
Equity investments at fair value through profit or loss	–	59,054	59,054
Derivative financial instruments -foreign currency forward contracts	12,609	–	12,609
Derivative financial instruments -collars	–	1,080	1,080
Financial assets at fair value through profit or loss	169,762	–	169,762
	182,371	60,134	242,505

The movements in fair value measurements within Level 3 during the year are as follows:

Equity investments at fair value through profit or loss – unlisted	2019 RMB'000	2018 RMB'000
At 1 January	24,267	3,267
Purchase	24,225	19,450
Fair value gain	10,179	246
Exchange realignment	383	1,304
	59,054	24,267

Derivative financial instruments – collars	2019 RMB'000	2018 RMB'000
At 1 January	–	–
Fair value gain	1,080	–
	1,080	–

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets measured at fair value (continued)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise lease liabilities, interest-bearing bank and other borrowings, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

The Group's accounting policies in relation to derivatives are set out in note 2.3 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank loans and other borrowings with a floating interest rate.

The following table demonstrates the sensitivity to reasonably possible changes in interest rate, with all other variables held constant, of the Group's profit before tax (mainly the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000	(Decrease)/increase in equity RMB'000
Year ended December 31, 2018	100/(100)	(10,363)/10,363	(8,503)/8,503
Year ended December 31, 2019	100/(100)	(5,664)/5,664	(4,775)/4,775

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units and financing activities in currencies other than the units' functional currencies.

In addition, the Group has currency exposures from its interest-bearing bank borrowings.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant foreign currencies against the functional currency, of the Group's profit before tax and the Group's equity excluding the impact of retained earnings due to the changes of exchange fluctuation reserve. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in equity RMB'000
Year ended December 31, 2019		
if RMB weakens against USD	70,506	59,150
if RMB strengthens against USD	(70,506)	(59,150)
if RMB weakens against HKD	178,278	151,537
if RMB strengthens against HKD	(178,278)	(151,537)

	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in equity RMB'000
Year ended December 31, 2018		
if RMB weakens against USD	41,647	35,325
if RMB strengthens against USD	(41,647)	(35,325)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each reporting period. The amounts presented are gross carrying amounts for financial assets.

As at December 31, 2019	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	91,857	91,857
Trade receivables*	–	–	–	876,344	876,344
Financial assets included in prepayments, other receivables and other assets – Not yet past due	48,433	–	–	–	48,433
Financial assets included in other non-current assets – Not yet past due	22,887	–	–	–	22,887
Pledged deposits – Not yet past due	17,634	–	–	–	17,634
Cash and cash equivalents – Not yet past due	4,442,218	–	–	–	4,442,218
	4,531,172	–	–	968,201	5,499,373

As at December 31, 2018	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	52,470	52,470
Trade receivables*	–	–	–	617,751	617,751
Financial assets included in prepayments, other receivables and other assets – Not yet past due	28,256	–	–	–	28,256
Financial assets included in other non-current assets – Not yet past due	33,475	–	–	–	33,475
Pledged deposits – Not yet past due	13,476	–	–	–	13,476
Cash and cash equivalents – Not yet past due	307,235	–	–	–	307,235
	382,442	–	–	670,221	1,052,663

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 25 and 26 to the financial statements, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 25 to the financial statements.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations of cash flows.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

2019	Less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	334,171	495,373	130,270	959,814
Trade payables	117,978	–	–	117,978
Financial liabilities included in other payables and accruals	227,029	–	–	227,029
Lease liabilities	71,157	99,519	49,271	219,947
	750,335	594,892	179,541	1,524,768

2018	Less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	607,270	934,937	283,614	1,825,821
Trade payables	108,220	–	–	108,220
Financial liabilities included in other payables and accruals	202,729	–	–	202,729
Lease liabilities	68,756	131,755	29,274	229,785
	986,975	1,066,692	312,888	2,366,555

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2019 and 2018.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is total liabilities divided by total assets. The gearing ratios as at the end of the reporting periods were as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Total assets	**9,935,037**	4,802,079
Total liabilities	**2,097,019**	2,475,508
Gearing ratio	**21.11%**	51.55%

The decrease in the gearing ratio resulted from the increased total assets in 2019 as the Group listed its A shares on the Shenzhen Stock Exchange and H shares on the Main Board of the Hong Kong Stock Exchange.

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**1,262,447**	1,298,003
Right-of-use assets	**129,249**	138,413
Other intangible assets	**6,839**	6,516
Investments in associates	**131,246**	28,868
Investments in subsidiaries	**1,314,690**	875,150
Other non-current assets	**15,293**	73,581
Total non-current assets	**2,859,764**	2,420,531
CURRENT ASSETS		
Inventories	**25,536**	19,289
Contract costs	**6,295**	5,143
Trade receivables	**943,358**	868,190
Prepayments, other receivables and other assets	**858,095**	144,787
Derivative financial instruments	**13,689**	413
Financial assets at fair value through profit or loss	**69,762**	–
Pledged deposits	**226**	163
Cash and cash equivalents	**4,172,823**	47,129
Total current assets	**6,089,784**	1,085,114

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	As at December 31, 2019 RMB'000	2018 RMB'000
CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**238,281**	354,209
Trade payables	**64,030**	59,261
Other payables and accruals	**393,322**	238,905
Contract liabilities	**77,785**	55,363
Lease liabilities	**7,628**	6,628
Tax payable	**14,690**	11,895
Total current liabilities	**795,736**	726,261
NET CURRENT ASSETS	**5,294,048**	358,853
TOTAL ASSETS LESS CURRENT LIABILITIES	**8,153,812**	2,779,384
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**26,293**	11,881
Interest-bearing bank and other borrowings	**397,264**	380,365
Deferred income	**8,984**	11,174
Lease liabilities	**5,991**	14,299
Total non-current liabilities	**438,532**	417,719
NET ASSETS	**7,715,280**	2,361,665
EQUITY		
Share capital	**794,387**	590,664
Treasury shares	**(72,781)**	–
Reserves (Note)	**6,993,674**	1,771,001
Total equity	**7,715,280**	2,361,665

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Share award reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at January 1, 2018	590,664	–	1,047,485	22,007	38,034	342,304	2,040,494
Profit for the year	–	–	–	–	–	321,171	321,171
Total comprehensive income for the year	–	–	–	–	–	321,171	321,171
Transferred from retained profits	–	–	–	–	32,117	(32,117)	–
As at December 31, 2018	590,664	–	1,047,485	22,007	70,151	631,358	2,361,665
Profit for the year	–	–	–	–	–	458,736	458,736
Total comprehensive income for the year	–	–	–	–	–	458,736	458,736
Transferred from retained profits	–	–	–	–	45,873	(45,873)	–
Issuance of A shares upon listing on the Shenzhen Stock Exchange	65,630	–	367,224	–	–	–	432,854
Issuance of H shares upon listing on the Hong Kong Stock Exchange	134,016	–	4,388,677	–	–	–	4,522,693
Issuance of restricted A shares under the A Share Incentive Scheme	4,077	(72,781)	68,704	–	–	–	–
Recognition of share-based payments	–	–	–	11,524	–	–	11,524
Dividends declared by the Company	–	–	–	–	–	(72,192)	(72,192)
As at December 31, 2019	794,387	(72,781)	5,872,090	33,531	116,024	972,029	7,715,280

50. EVENTS AFTER THE REPORTING PERIODS

The establishment of Ningbo Kangjun Ningyuan Equity Investment Partnership Enterprise (L.P.)

On January 20, 2020, the Company (the Limited Partner) and Kangjun Investment Management (Beijing) Co., Ltd. (the General Partner, also an associate of our Group) entered into a Limited Partnership Agreement in relation to the establishment of and investment in Ningbo Kangjun Ningyuan Equity Investment Partnership Enterprise (L.P.). The Fund will be registered in the PRC as a limited partnership with the primary objective of investment in, among others, equity interests and/or convertible loans of companies or entities in the biomedical industry.

50. EVENTS AFTER THE REPORTING PERIODS (CONTINUED)

The establishment of Ningbo Kangjun Ningyuan Equity Investment Partnership Enterprise (L.P.) (continued)

Under the Limited Partnership Agreement, the initial capital commitment payable by the Company is RMB110 million. The initial closing of the Fund will occur when the Total Capital Commitment reaches RMB200 million. And 80% of the respective capital commitments shall be paid by each of the General Partner and Limited Partner upon the initial closing of the Fund.

Evaluation on the impact of the 2019 Novel Coronavirus

Since the outbreak of the 2019 Novel Coronavirus ("COVID-19") began in January 2020, the Group has actively taken measures to implement the regulations and requirements issued by the local governments on coronavirus epidemic prevention and control.

The Group expected the coronavirus outbreak would have a certain temporary impact on business operation as the Group postponed the resumption of operation following the Chinese New Year holidays until February 10, 2020, which led to a one-week delay. Accordingly, the Group expected that there were slight delays in meeting the delivery schedule in February 2020 for some of the orders.

The Group will keep continuous attention on the development of the coronavirus situation and evaluate the impact on the financial position and operation of the Group. As of the date of this report, no significant adverse impact has been identified.

Acquisitions of additional 20% interest in LinkStart

In February, 2020, the Company entered into an agreement with an independent individual to acquire additional 20% equity interest of an associate, LinkStart, for a cash consideration of RMB60,000,000. The acquisition is expected to be completed later in the second quarter of 2020. After the completion of this transaction, the Company will hold 68% equity interest of LinkStart and LinkStart will become a subsidiary of the Company.

Subscription of Shares of AccuGen Group

In March 2020, the Company, through its wholly owned subsidiary, Pharmaron (Hong Kong) International Limited ("Pharmaron HK"), entered into a Seed Preferred Share Purchase Agreement with AccuGen Group. AccuGen Group is an exempted limited company incorporated in the Cayman Islands and is principally engaged in providing research, development and manufacturing services of cell and gene therapy products.

Pursuant to the agreement, Pharmaron HK has agreed to purchase and subscribe for 29,967,000 seed preferred shares in AccuGen Group (the "Subscription"). It is expected that the Subscription will be completed in the second quarter of 2020.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March, 27 2020.

Definitions

"A Share(s)"	domestic share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed for trading on the Shenzhen Stock Exchange and traded in RMB
"A Share Incentive Scheme"	the share incentive scheme adopted by the Company on August 15, 2019
"AGM"	the annual general meeting of the Company for the year 2019 to be convened and held on May 28, 2020
"AMS"	accelerator mass spectrometry
"API"	Active Pharmaceutical Ingredient"
"Articles"	the articles of association of the Company, as amended, modified or supplemented from time to time
"Audit Committee"	the audit committee of the Board
"Board of Directors" or "Board"	the board of Directors of the Company
"CMC"	chemistry, manufacturing and controls
"CMO"	Contract Manufacturing Organization
"CNS"	central nervous
"Company"	Pharmaron Beijing Co., Ltd. (康龍化成（北京）新藥技術股份有限公司), a joint stock limited company incorporated under the laws of the PRC, the A Shares of which are listed on the Shenzhen Stock Exchange (stock code: 300759) and the Hong Kong Stock Exchange (stock code: 3759)
"Corporate Governance Code'	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"CRO"	Contract Research Organization
"DMPK/ADME"	drug metabolism and pharmacokinetics/Absorption, Distribution, Metabolism and Excretion
"Director"	the director of the Company
"FDA"	the Food and Drug Administration of the U.S.
"FIH"	first-in-human
"GLP"	Good Laboratory Practice
"GMP"	Good Manufacturing Practice

"Group", "Pharmaron", "we", "our" or "us"	the Company and its subsidiaries
"H Shares"	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
"HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IND applications"	Investigational new drug applications
"Independent Third Party(ies)"	Any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Hong Kong Listing Rules
"Listing"	the listing of the H Shares of the Company on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of the Listing Issuers
"NMPA"	National Medical Product Administration (國家藥品監督管理局) (formerly known as China Food and Drug Administration), the authority responsible for approving drug and biologic products in China
"Nomination Committee"	the nomination committee of the Board
"OECD"	the Organization for Economic Cooperation and Development
"PRC"	the People's Republic of China
"Proposed Final Dividend"	the proposed final dividend distribution plan of RMB1.5 per 10 shares (inclusive of applicable tax) subject to the approval by the Shareholders at the AGM as described under the section headed "Dividend" on page 61 of this annual report
"Prospectus"	the prospectus of the Company dated November 14, 2019 in relation to global offering of H Shares of the Company
"R&D"	research and development
"Reporting Period"	the year ended December 31, 2019
"Remuneration Committee"	the remuneration committee of the Board

"Restricted A Shares"	the restricted A Shares granted by our Company under the A Share Incentive Scheme
"RMB"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
"Shenzhen Stock Exchange"	Shenzhen Stock Exchange (深圳證券交易所)
"SMO"	Site Management Organization
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary(ies)"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"Substantial Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Supervisor"	the supervisors of the Company
"U.K."	the United Kingdom
"U.S."	the United States
"%"	per cent

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