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

2020 INTERIM 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, U.S. and U.K. staffed by over 9,000 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)
(ceased on July 23, 2020)
Ms. CHEN Guoqin (陳國琴)
Ms. SHEN Rong (沈蓉)
(ceased on July 23, 2020)
Mr. TSANG Kwan Hung Benson (曾坤鴻)
Mr. YU Jian (余堅)
(appointed on July 23, 2020)

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)*
(ceased on July 28, 2020)
Mr. YU Jian (余堅) *(Chairperson)*
(appointed on July 28, 2020)
Ms. LI Lihua (李麗華)
(ceased on July 28, 2020)
Ms. CHEN Guoqin (陳國琴)
Mr. TSANG Kwan Hung Benson (曾坤鴻)
(appointed on July 28, 2020)

REMUNERATION AND APPRAISAL COMMITTEE

Ms. SHEN Rong (沈蓉) *(Chairperson)*
(ceased on July 28, 2020)
Dr. LOU Boliang (樓柏良)
Mr. LOU Xiaoqiang (樓小強)
Ms. LI Lihua (李麗華)
(ceased on July 28, 2020)
Ms. CHEN Guoqin (陳國琴) *(Chairperson)*
(appointed on July 28, 2020)
Mr. TSANG Kwan Hung Benson (曾坤鴻)
(appointed on July 28, 2020)
Mr. YU Jian (余堅)
(appointed on July 28, 2020)

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)
(ceased on July 28, 2020)
Ms. LI Lihua (李麗華)
(ceased on July 28, 2020)
Mr. TSANG Kwan Hung Benson (曾坤鴻)
(appointed on July 28, 2020)
Mr. YU Jian (余堅)
(appointed on July 28, 2020)

STRATEGY COMMITTEE

Dr. LOU Boliang (樓柏良) *(Chairperson)*
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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STOCK CODE

3759

COMPANY WEBSITE

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Financial Highlights

	Six months ended June 30,		
	2020	2019	Change
	RMB'000	RMB'000	%
Revenue	**2,193,167**	1,636,513	34.0
Gross profit	**794,400**	522,425	52.1
Profit attributable to owners of the parent	**478,960**	161,323	196.9
Non-IFRSs adjusted net profit attributable to owners of the parent	**431,608**	163,031	164.7
Net cash flows generated from operating activities	**617,948**	252,315	144.9

During the Reporting Period, the Group recorded aggregate revenue of approximately RMB2,193.2 million, representing an increase of approximately RMB556.7 million, or 34.0%, as compared to the six months ended June 30, 2019.

During the Reporting Period, the profit attributable to owners of the parent was approximately RMB479.0 million, representing an increase of approximately 196.9% as compared to the six months ended June 30, 2019.

During the Reporting Period, the net cash flows generated from operating activities was approximately RMB617.9 million, representing an increase of approximately 144.9% as compared to the six months ended June 30, 2019.

The Company did not declare any interim dividend for the six months ended June 30, 2020.

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 June 30, 2020, the Company has over 8,000 R&D, production technology and clinical services staff in China, the U.K. and the U.S. and a total of 9,113 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.

THE BOARD'S DISCUSSION AND ANALYSIS ON OPERATIONS OF THE GROUP FOR THE REPORTING PERIOD

Despite the various changes in the market due to impact of the COVID-19 pandemic in the first half of 2020, the overall business of the Company maintained a stable and sound development trend. Revenue continued to grow, the scale effect was further enhanced, and all major operating and financial indicators saw significantly improvement. Since the outbreak of the pandemic in the beginning of 2020, the Company has responded aggressively and implemented strictly the regulations and requirements issued by the states where it operates its business and the governments at all levels on COVID-19 pandemic prevention and control. We established a special pandemic response team and formulated the basic principles to cope with the pandemic: we tried our best to ensure the health and safety of our employees; we supported and cooperated with local governments in pandemic prevention and control; we communicated with our customers, suppliers and other parties in a timely manner. While we maintain high vigilance in pandemic prevention and control, the operations in China, the U.K., and the U.S. are putting in additional efforts in carrying out various scientific research and production work to support our customer's new drug R&D programs during this difficult time.

During the Reporting Period, the Company introduced over 190 new customers in the first half of 2020 while over 90% of the revenue was contributed by the Company's large, diverse and loyal repeat customer base, of which, including the world's top 20 pharmaceutical companies. At the same time, by virtue of our experience in new drug R&D accumulated for a long time, we continued to help the development of innovative drug R&D in China. In the first half of 2020, we conducted 28 investigational new drugs (IND) enabling projects for domestic pharmaceutical and biotech companies, of which 20 projects are simultaneously applied for in multiple countries (including China, the U.S. and Europe), contributing more and more forces to global new drug R&D and the innovative drug development in China. In the first half of 2020, our CMC team had 463 intermediates or active pharmaceutical ingredients (APIs) completed and on-going projects, including 292 preclinical projects, 134 Phase I and II clinical projects, 35 Phase III clinical projects and 2 projects in commercial stage.

During the Reporting Period, the Company continuously emphasized integration and collaboration of different services areas; in the drug discovery stage, the laboratory chemistry services and bioscience services (including DMPK/ADME, *in vitro* biology and *in vivo* pharmacology, safety assessment and discovery biologics) continuously provides seamless integrated services to customers; in the preclinical stage, our one-stop shop IND enabling package services have been recognized by more customers with increased cross-selling among CMC and safety assessment services; in the clinical stage, we increased the cross-selling efforts from our pre-clinical stage customers and promoted the collaboration between our overseas and China-based clinical services. In addition to the integration within different drug R&D stages, we further strengthened the coordination among different drug R&D stage to achieve seamless integration and improve the efficiency throughout the lifecycle of the drug R&D.

During the Reporting Period, in order to meet the growing business demands of laboratory services and CMC services, we continued to expand our R&D and production capabilities as planned. The construction of the Phase II of Ningbo Hangzhou Bay R&D service center and the Phase I of Shaoxing Shangyu manufacturing facility proceeded as planned when the requirements for pandemic prevention and control were satisfied and the approval from the government was obtained. The Phase III of Tianjin CMC facility is expected to be put into use by the end of 2020. With the capacities and business growth of each business segment, the Company continued to expand its scientific research team and improved the professional quality of its personnel. As of June 30, 2020, the Company had a total of 8,052 employees in R&D, production technology and clinical services, up by 1,651 compared to that as of December 31, 2019, among which, 4,926 employees engaged in laboratory services business, up by 625 compared to that as of December 31, 2019; 1,646 employees engaged in CMC services, up by 102 compared to that as of December 31, 2019; 1,480 employees engaged in clinical development services, up by 924 as compared to that as of December 31, 2019 (including the number of employees in LinkStart, the holding subsidiary acquired by the Company in June 2020).

Revenue

During the Reporting Period, despite the fact that the overseas clinical services were affected by the pandemic, all business sectors of the Company maintained a strong growth momentum. The Company recorded a total revenue of RMB2,193.2 million, representing an increase of 34.0% over the same period of last year. The scale effect was further enhanced with the profits growing in line with the growth of revenue. The Company achieved the profit attributable to owners of the parent of RMB479.0 million, representing an increase of 196.9% over the same period of last year, and non-IFRSs adjusted net profit attributable to owners of the parent of 431.6 million, representing an increase of 164.7% over the same period of last year. The Company unswervingly promoted its development strategy established. On the basis of further strengthening laboratory services and CMC service, the Company has strategically deployed its resources in clinical service business and macromolecule R&D service business, achieved high quality development in its R&D service capability and operating ability, and further strengthened its full-process and integrated new drug R&R service platform.

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 global pharmaceutical R&D investment continues to grow and the penetration rate for pharmaceutical R&D outsourcing continues to increase, the business volume from high-quality customers and projects with potentials is on the rise. During the Reporting Period, as the overseas clinical research service organization were limited by the global outbreak of the pandemic, the Company tried its best to assist its customers in continuing to advance their new drug R&D during this difficult time, and have undertaken more orders from foreign customers, delivered a rapid increase in the revenue from laboratory services. The Company recorded a revenue of RMB1,433.7 million in laboratory services, representing an increase of 35.3% over the same period of last year, and a gross profit margin of 41.1%, representing an increase of 3.8% over the same period of last year.

Thanks to the enhancement of our technical capabilities in each R&D module and the gradual strengthening of the linkage relationship between various business segments, bioscience services entered the fast lane of development, while laboratory chemistry achieved steady growth. During the Reporting Period, while kept a rapid growth in existing business, we further expanded and deepen the coverage of our service, enriched service content, to provide personalized R&D services to domestic and foreign partners.

2. *CMC services*

Our CMC service mainly includes process development and manufacturing, material science/pre-formulation, formulation development and manufacturing, and analytical development services to support the research activities in pre-clinical and all clinical phrases. After years of accumulation, the Company's CMC service has been recognized by more and more domestic and oversea customers in terms of R&D and production capabilities. During the Reporting Period, the production capacity of domestic CMC was affected to a certain extent in the first quarter due to the pandemic. For all that, we quickly caught up with the progress of each project and successfully fulfilled the tasks of scientific research and production in the first half of the year under the efforts of all employees. During the Reporting Period, the Company recorded an revenue of RMB506.5 million from its CMC services, representing an increase of 34.4% over the same period last year, and a gross profit margin of 28.8%, an increase of 8.2% over the same period last year.

The increase in revenue from CMC service was mainly due to the entrance of drug development stage by many drug discovery projects accumulated in the early stage, the scope expansion of CMC service, the improvement of technical capabilities, and the continuous expansion of production capacity, together with the assistance from the development of the domestic innovative drug market. During the Reporting Period, by continuously improved the CMC service platform, the Company's CMC service capabilities were further improved, the Chinese and U.K. teams worked more closely, which led to continuous improvement in the order quality, with 463 intermediates or active pharmaceutical ingredients (APIs) completed and ongoing projects, including 292 in pre-clinical phase, 134 in clinical Phase I and Phase II, 35 in clinical Phase III, and 2 in commercialization phase. As at the end of the Reporting Period, the volume of the Company's APIs reactor reached approximately 200 m^3, and it is expected to increase to 800 m^3 after Phase I of our factory located in Shangyu, Shaoxing City is put into use.

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.

3. Clinical development services

Our clinical development services include radiolabel science and early clinical research services for our overseas clinical operation, and clinical research services and site management services of SMOs. Clinical research services include registration and application, medical affairs, clinical operation, data management, biostatistics, pharmacovigilance and biological sample analysis. During the reporting period, with the help of our unique integrated service platform of "radioisotope compound synthesis-clinical-analysis", our overseas clinical development services achieved steady growth, although the overseas clinical business, especially the first phase clinical center in the U.S., was greatly affected by the pandemic in the second quarter. In terms of domestic clinical development services, thanks to the effective and rapid control of the pandemic by the Chinese government, domestic clinical development services gradually saw comprehensive recovery in the second quarter. During the Reporting Period, the Company recorded revenue of RMB242.5 million in clinical development services, representing an increase of 27.5% over the same period of last year, and a gross profit margin of 21.8%, representing a slight decrease of 1.3% over the same period of last year.

During the Reporting Period, the Company has strengthened the services offering of China-based clinical development services and completed the acquisition of LinkStart, a third-party independent SMO services provider with headquarters in Beijing, on June 30, 2020. SMO services of LinkStart include site feasibility, site patient recruitment, patient management, data input and file management, site drug management, biological sample management, and comprehensive services until site closure.

Gross Profit and Gross Profit Margin

During the Reporting Period, our gross profit was approximately RMB794.4 million, as compared to RMB522.4 million for the six months ended June 30, 2019. Gross profit margin increased from 31.9% to 36.2% as compared to the six months ended June 30, 2019.

Gross profit of our laboratory services increased from RMB395.4 million for the six months ended June 30, 2019 to RMB589.5 million for the Reporting Period. Gross profit margin of our laboratory services increased from 37.3% for the six months ended June 30, 2019 to 41.1% for the Reporting Period, primary due to the increase in laboratory services revenue as a results of undertaken research works from overseas customers as the pandemic affected their internal R&D capabilities.

Gross profit of our CMC services increased from RMB77.5 million for the six months ended June 30, 2019 to RMB145.8 million for the Reporting Period primarily due to the increased demand for our CMC services. Gross profit margin of our CMC services increased from 20.6% for the six months ended June 30, 2019 to 28.8% for the Reporting Period, primarily due to the successful production ramp-up in second quarter in addition to the R&D fulfillment and production plan in the first half of the year, despite the production capacity in China being affected by the pandemic in first quarter.

Gross profit of our clinical development services increased from RMB43.9 million for the six months ended June 30, 2019 to RMB52.9 million for the Reporting Period. Gross profit margin of our clinical development services slightly decreased from 23.1% for the six months ended June 30, 2019 to 21.8% for the Reporting Period, representing a slight decrease of 1.3% over the same period last year.

Other Income and Gains

During the Reporting Period, other income and gains was approximately RMB202.8 million, representing an increase of approximately 853.8% or RMB181.6 million as compared to the six months ended June 30, 2019. The increase was mainly due to: (1) the listing of our equity investment, Zentalis Pharmaceuticals, Inc. ("Zentalis"), on the Nasdaq Global Market on April 3, 2020 (U.S. local time) (stock code: ZNTL). According to the closing price of Zentalis as at June 30, 2020 and taking into account of the liquidity discount during lock-up period, the Group recognized gains on fair value change from Zentalis of RMB100.8 million; (2) increase in interest income of RMB41.6 million; (3) increase in government grants of RMB10.8 million; (4) increase in gains on financial assets at fair value through profit or loss of RMB15.3 million, which was mainly from the investments in some medium-risk and low-risk wealth management products purchased from a number of reputable international banks for cash management purpose; (5) one-off fair value gain of RMB23.1 million resulted from re-measurement of our equity interest in LinkStart when it became our subsidiary in June 2020.

Selling and Distribution Expenses

The selling expenses in the Reporting Period were approximately RMB40.4 million, increased by approximately 40.5% or approximately RMB11.7 million as compared to the six months ended June 30, 2019. 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 RMB303.5 million, as compared to approximately RMB241.5 million for the six months ended June 30, 2019. The increase was mainly due to our continued business expansion. Our administrative expenses as a percentage to revenue decreased from 14.8% in the six months ended June 30, 2019 to 13.8% in the Reporting Period, 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 RMB43.1 million, representing an increase of approximately 61.5% or RMB16.4 million as compared to the six months ended June 30, 2019. 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 RMB13.4 million, representing a decrease of approximately 68.4% or RMB29.0 million as compared to the six months ended June 30, 2019. The decrease was primarily due to the repayments of interest-bearing bank and other borrowings in the Reporting Period.

Income Tax Expense

The income tax expense in the Reporting Period was approximately RMB65.7 million, representing an increase of 118.8% or approximately RMB35.7 million as compared to the six months ended June 30, 2019. 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 RMB479.0 million, increased by 196.9% as compared to RMB161.3 million for the six months ended June 30, 2019.

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

To supplement our interim condensed consolidated financial statements, which are presented in accordance with IFRSs, we use adjusted net profit for the period attributable to owners of the parent as an additional financial measure. We define adjusted net profit for the period attributable to owners of the parent as profit/(loss) for the period 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 period (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 period attributable to 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 period attributable to owners of the parent is not intended to be considered in isolation or as a substitute for the interim 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 period attributable to 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.

	Six months ended June 30, 2020 RMB'000	Six months ended June 30, 2019 RMB'000
Profit attributable to owners of the parent	**478,960**	161,323
Add:		
Share-based compensation expenses	**28,488**	–
Foreign exchange related gains or losses	**(2,712)**	(1,563)
Losses on derivative financial instruments related to foreign exchange	**30,008**	8,907
Non-IFRS net profit attributable to owners of the parent	**534,744**	168,667
Add:		
Realized and unrealized gains or losses from equity investments	**(103,136)**	(5,636)
Non-IFRS adjusted net profit attributable to owners of the parent	**431,608**	163,031

Cash Flows

During the Reporting Period, net cash flows generated from operating activities of the Group amounted to RMB617.9 million, representing an increase of RMB365.6 million or 144.9% over the six months ended June 30, 2019. The increase was mainly due to the increase in our revenue and profit during the Reporting Period.

During the Reporting Period, net cash flows used in investing activities of the Group amounted to RMB2,032.4 million, representing an increase of RMB1,530.4 million or 304.8% over the six months ended June 30, 2019. The net cash flows used in investing activities during this Reporting Period was mainly from (1) net cash outflows used in purchase of time deposits over three months and some medium-risk and low-risk wealth management products purchased from a number of reputable international banks of RMB1,279.7 million; (2) construction of our Phase II of Ningbo Hangzhou Bay R&D service center, Phase I of Shaoxing Shangyu manufacturing facility, Phase III of Tianjin CMC facility, and purchases of other property, plant and equipment of RMB393.7 million; (3) net cash outflows used in acquisition of subsidiaries and capital injection in associates of RMB340.2 million.

During the Reporting Period, net cash flows used in financing activities of the Group amounted to RMB743.1 million, which was mainly due to the repayments of bank loans and other borrowings during Reporting Period.

Liquidity and Financial Resources

The Group has maintained a sound financial position during the Reporting Period. As at June 30, 2020, the Group's cash and bank balance amounted to approximately RMB3,045.9 million. For the Reporting Period, net cash flows generated from operating activities of the Group amounted to approximately RMB617.9 million.

The Group recorded total current assets of approximately RMB5,283.5 million as at June 30, 2020 (December 31, 2019: approximately RMB5,944.5 million) and total current liabilities of approximately RMB1,325.2 million as at June 30, 2020 (December 31, 2019: approximately RMB1,269.7 million). The current ratio (calculated by dividing the current assets by the current liabilities) of the Group was approximately 4.0 as at June 30, 2020 (December 31, 2019: approximately 4.7).

Borrowings and Gearing Ratio

As at June 30, 2020, the Group aggregated interest-bearing bank and other borrowings of RMB152.4 million. Among the total borrowings, RMB24.7 million will be due within one year and RMB127.7 million will be due after one year.

As at June 30, 2020, the gearing ratio, calculated as total liabilities over total assets, was 17.8%, as compared with 21.1% as at December 31, 2019.

Pledge of Assets

As at June 30, 2020, the Group mortgaged buildings, land and equipment with a net carrying amount of approximately RMB588.4 million (December 31, 2019: approximately RMB1,333.2 million); and the mortgaged right-of-use assets had a net carrying amount of approximately RMB80.7 million (December 31, 2019: approximately RMB81.7 million).

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

Besides, as at June 30, 2020, the Group pledged deposits of approximately RMB7.3 million (December 31, 2019: approximately RMB17.6 million) to issue letters of credit and for environmental protection.

Contingent Liabilities

As at June 30, 2020, the Group did not have any material contingent liabilities.

Miscellaneous

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.

Acquisition of Additional 20% Interest in LinkStart

Reference is made to the annual report of the Company for the year ended December 31, 2019. The acquisition of 20% equity interest in LinkStart from Mr. Yuejiang Yu has been completed on June 30, 2020. Upon completion of the acquisition, the Company holds 68% equity interest in LinkStart and LinkStart has 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 until site closure.

Subscription for Shares of AccuGen Group

Reference is made to the annual report of the Company for the year ended December 31, 2019. The subscription for 50% of the equity interest (on a diluted basis) in AccuGen Group has been completed on April 9, 2020. Upon completion of the subscription, Pharmaron HK, a wholly-owned subsidiary of the Company, holds 50% equity interest in 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.

Other Investments

During the Reporting Period, in order to optimize the asset-liability structure of Pharmaron Tianjin, Pharmaron Shaoxing and Pharmaron Ningbo Tech and strengthen their market competitiveness, the Company increased the registered capital of Pharmaron Tianjin, Pharmaron Shaoxing and Pharmaron Ningbo Tech with its own funds. To meet the growing business demands, the Company continued to expand production capacity and build infrastructure. The construction of the Phase II of Ningbo Hangzhou Bay R&D service center and the Phase I of Shaoxing Shangyu manufacturing facility proceeded as planned and the Company has fulfilled the requirements for pandemic prevention and control and the approval from the government was obtained. It is expected that the Phase III of Tianjin CMC facility will be put into use by the end of 2020.

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 full-integrated pharmaceutical R&D solutions that combine radioisotope-based compound synthesis-clinical-analysis techniques with our AMS isotope analysis technologies, which is an important tool for 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 an IND application for 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 applications in China, the U.S. or Europe in parallel, which provide flexibility to the customers by 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 a proteomics and metabonomics platform that will, with its unique advantages, play an important role in the R&D of new drugs. It will provide valuable information for the discovery of new targets, the exploration of new mechanism of action of drugs, the development of biomarkers, and the evaluation of drug selectivity and safety. Furthermore, the Company's technology platform combining microautoradiography and immunohistochemistry with radiolabeled technology helps us better understand the mechanism of action of drugs so as to achieve higher 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 records 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 compared to 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 strengthening its leadership in such market.

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

During the Reporting Period, the Company introduced over 190 new customers in the first half of 2020 while over 90% of the revenue was contributed by the Company's large, diverse and loyal repeat customer base, of which, including the world's top 20 pharmaceutical 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, 3 of whom were named as National Talents and 14 named as Beijing Talents. 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 1,381 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 June 30, 2020, the Company had over 8,000 R&D, production technology and clinical services personnel 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 talent 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 talent, 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. In addition, the Company has entered into joint training plans for talent 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 talent. 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 THE SECOND HALF OF 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 the 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 the 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 the 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 the 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 the 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 the 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 appreciate the use of contract research services, particularly the contracting of clinical development services, having a relatively high cost of human resources, in order to advance the drug development stages more efficiently. According to research conducted by Frost & 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 stage drug licenses and domestic development of early stage 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 US$12.0 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 talent 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 the second half of 2020, based on its long-term development strategy, the Company will continue to 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 transformation and creates value for our customers by saving time and costs for the pharmaceutical R&D process. In the second half of 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 the second half of 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 the second half of 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 build 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 talent from China and abroad to meet the needs of its future business. The Company will continue develop future scientific research and manage talent through a multi-dimensional and comprehensive on-the-job learning platform, including the Pharmaron College, and systematically recruit, train and develop talent in various professional fields and retain a team composed of staff in multi-levels (i.e. senior, middle and junior), which serve 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 domestic customers based on its profound experience in international R&D services and understanding 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 the overseas market, the Company will deepen relationships with existing customers, conduct in-depth analysis and tap into customers' demands while at the same time attract 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. The Company has always put great emphasis on quality control and quality assurance, and built the Company's quality system by strictly following 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 on 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 an 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 its 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 anyone leaves the Company to join a competitor or to start his/her own business which competes with the Company, which could materially and adversely affect our business operations.

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 talent, 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' 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 facilities, 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 intended 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 international policy changes

We are a pharmaceutical R&D service platform with well-established global operations and a substantial portion of our customers are pharmaceutical and biotechnology companies outside of China. The demand for our services by these customers may be impacted by trade policies promulgated by respective local governments against Chinese pharmaceutical R&D service providers as a result of the rise in trade protectionism and unilateralism in recent years. In the event the trade tension between China and other major countries continue to escalate, or any such countries impose restrictions or limitations on pharmaceutical R&D outsourcing, our business and results of operations may be adversely affected.

In response to such risk, we continue to develop innovative pharmaceutical R&D technologies to maintain our competitiveness and have been expanding our service capabilities in overseas markets from 2015 with an aim to mitigate any potential impact such policy changes may have on our business.

(6) 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.

(7) 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 revenue 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.

(8) 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 services, clinical development 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 escalate. 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.

(9) 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 appeal to us, the Company will consider acquisitions to inject new service capabilities into our platform.

(10) 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.

INTERIM DIVIDEND

The Company did not declare any interim dividend for the six months ended June 30, 2020.

CORPORATE GOVERNANCE PRACTICES

The Board 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 during the Reporting Period.

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 interim 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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct for Directors' securities transactions. Having made specific enquiry with the Directors and Supervisors, all of the Directors and Supervisors each confirmed that they have complied with the required standards as set out in the Model Code during the Reporting 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).

EMPLOYEE REMUNERATION AND RELATIONS

As at June 30, 2020, the Group had a total of 9,113 employees, as compared to 7,393 employees as at December 31, 2019. 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 provides employees with opportunities to work on cutting-edge drug development projects with world-class scientists, as well as offer opportunities to continue 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 have purchased, sold or redeemed any of the Company's listed securities during the Reporting Period and up to the date of this interim report.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save disclosed in this interim report, 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.

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.

CHANGES IN INFORMATION OF THE DIRECTORS, AND SUPERVISORS AND CHIEF EXECUTIVES OF THE COMPANY

Reference is made to the announcements of the Company dated June 24, 2020 and July 10, 2020 and the circular of the Company dated June 20, 2020 in relation to the appointment of Directors of the second session of the Board, appointment of Supervisors of the second session of the supervisory committee and the appointment of employee representative supervisor. Save as disclosed in the aforesaid announcements and circular, there was no change of the information of Directors, Supervisors and chief executives of the Company during the Reporting Period which is required to be disclosed pursuant to Rules 13.51B(1) and 13.51B(2) of the Listing Rules.

REVIEW OF INTERIM FINANCIAL INFORMATION

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three members, namely, Mr. YU Jian, Mr. TSANG Kwan Hung Benson and Ms. CHEN Guoqin. Mr. YU Jian is the chairman of the Audit Committee, who possesses suitable professional qualifications.

The Audit Committee has reviewed the Company's interim financial information of the Group for the Reporting Period and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The Audit Committee has also discussed the auditing, internal control and financial reporting matters.

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

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 at June 30, 2020, 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 associated corporation (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 June 30, 2020, 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 June 30, 2020, 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	106,320,001(L)	16.10%	13.38%
JPMorgan Chase & Co [5]	H Shares	Interest of controlled corporation, investment manager, person having a security interest in shares, approved lending agent	11,413,209(L) 281,804(S) 7,388,605(P)	8.51% 0.21% 5.51%	1.44% 0.04% 0.93%
The Capital Group Companies, Inc. [6]	H Shares	Interest of controlled corporation	16,060,700(L)	11.98%	2.02%
FMR LLC [7]	H Shares	Interest of controlled corporation	11,113,401 (L)	8.29%	1.40%
Credit Suisse Group AG [8]	H Shares	Interest of controlled corporation	6,420,048 (L) 5,035,448 (S)	4.79% 3.76%	0.81% 0.63%
FIDELITY INVESTMENT TRUST	H Shares	Beneficial owner	8,508,774 (L)	6.35%	1.07%

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 90,680,858 and 15,639,143 A Shares respectively. According to the disclosure of interest notice filed by the relevant parties with a relevant dates of May 6, 2020 and June 23, 2020, 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	90,680,858 (L)
Junlian Maolin	Junlian Tongdao (as general partner)	2.46	Y	15,639,143 (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	106,320,001 (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	106,320,001 (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	106,320,001 (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))	Junqi Jiarui Enterprise Management Co., Ltd (北京君祺嘉睿企業管理有限公司) (as general partner)	0.01	N	106,320,001 (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	106,320,001 (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	106,320,001 (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	106,320,001 (L)
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))	Zhu Linan (朱立南)	48.85	N	106,320,001 (L)

Additionally, Mr. Wang Nengguang (王能光) and Mr. Chen Hao (陳浩) are also interested in 5,324,143 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	5,324,143 (L)
LC Fund VI, L.P.	LC Fund VI GP, L.P. (as general partner)	1.00	N	5,324,143 (L)
LC Fund VI GP, L.P.	Legend Capital Management Limited	70.00	N	5,324,143 (L)
LC Fund VI GP, L.P.	LC Fund VI GP Limited (as general partner)	1.00	N	5,324,143 (L)
LC Fund VI GP Limited	Legend Capital Management Limited	100.00	N	5,324,143 (L)
Legend Capital Management Limited	Elite Bliss Limited	45.50	N	5,324,143 (L)
Elite Bliss Limited	Wang Nengguang (王能光)	40.00	N	5,324,143 (L)
Elite Bliss Limited	Chen Hao (陳浩)	40.00	N	5,324,143 (L)

5. JPMorgan Chase & Co. has a total interest of 11,413,209 (long position), 281,804 (short position) and 7,388,605 (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 June 26, 2020, 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	1,600 (L)
JPMORGAN CHASE BANK, N.A. - LONDON BRANCH	JPMorgan Chase Bank, National Association	100.00	Y	7,388,605 (L)
JPMorgan Asset Management (Taiwan) Limited	JPMorgan Asset Management (Asia) Inc.	100.00	Y	277,500 (L)
JPMorgan Asset Management (Asia Pacific) Limited	JPMorgan Asset Management (Asia) Inc.	99.99	Y	3,566,200 (L)
J.P. MORGAN SECURITIES PLC	J.P. MORGAN CAPITAL HOLDINGS LIMITED	100.00	Y	179,304 (L) 281,804 (S)
J.P. Morgan Broker-Dealer Holdings Inc.	JPMorgan Chase Holdings LLC	100.00	N	1,600 (L)
JPMorgan Chase Holdings LLC	JPMorgan Chase & Co.	100.00	N	3,845,300 (L)
JPMorgan Chase Bank, National Association	JPMorgan Chase & Co.	100.00	N	7,567,909 (L) 281,804 (S)
JPMorgan Asset Management (Asia) Inc.	JPMorgan Asset Management Holdings Inc.	100.00	N	3,843,700 (L)
JPMorgan Asset Management Holdings Inc.	JPMorgan Chase Holdings LLC	100.00	N	3,843,700 (L)
J.P. MORGAN CAPITAL HOLDINGS LIMITED	J.P. Morgan International Finance Limited	100.00	N	179,304 (L) 281,804 (S)
J.P. Morgan International Finance Limited	JPMorgan Chase Bank, National Association	100.00	N	179,304 (L) 281,804 (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	130,704 (L)
	281,804 (S)
Investment manager	3,843,700 (L)
Person having a security interest in shares	50,200 (L)
Approved lending agent	7,388,605 (L)

Additionally, 500 H Shares (long position) and 62,200 H Shares (short position) were held through a cash settled unlisted derivative.

6. 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.

7. FMR LLC has a total interest of 11,113,401 (long position) Shares in our Company by virtue of its relationship with a number of corporation. According to the disclosure of interest notice filed by FMR LLC with a relevant event date of June 30, 2020, the following interest in H Shares were held by FMR LLC:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of H Shares
FIDELITY MANAGEMENT & RESEARCH COMPANY LLC	FMR LLC	100.00	Y	117,500 (L)
FIDELITY MANAGEMENT & RESEARCH COMPANY LLC	FMR LLC	100.00	N	10,787,501 (L)
FIDELITY MANAGEMENT & RESEARCH (HONG KONG) LIMITED	FIDELITY MANAGEMENT & RESEARCH COMPANY LLC	100.00	Y	10,784,037 (L)
FIAM HOLDINGS LLC	FMR LLC	100.00	N	1,434,083 (L)
FIDELITY INSTITUTIONAL ASSET MANAGEMENT TRUST COMPANY	FIAM HOLDINGS LLC	100.00	N	1,429,000 (L)
FIAM LLC	FIAM HOLDINGS LLC	100.00	N	5,083 (L)
FIDELITY ADVISORY HOLDINGS LLC	FMR LLC	100.00	N	208,400 (L)
STRATEGIC ADVISERS LLC	FIDELITY ADVISORY HOLDINGS LLC	100.00	N	208,400 (L)
FIDELITY CANADA INVESTORS LLC	OWNED BY CERTAIN EMPLOYEES AND SHAREHOLDERS OF FMR LLC	100.00	N	344,000 (L)
BAY STREET HOLDINGS LLC	FIDELITY CANADA INVESTORS LLC	100.00	N	344,000 (L)
483A BAY STREET HOLDINGS LP	BAY STREET HOLDINGS LLC	18.00	N	344,000 (L)
BLUEJAY LUX 1 S.A.R.L.	483A BAY STREET HOLDINGS LP	100.00	N	344,000 (L)
FIC HOLDINGS ULC	BLUEJAY LUX 1 S.A.R.L.	100.00	N	344,000 (L)
FIDELITY INVESTMENTS CANADA ULC	FIC HOLDINGS ULC	100.00	N	344,000 (L)

8. Credit Suisse Group AG has a total interest of 6,420,048 (long position) and 5,035,448 (short position) Shares in our Company by virtue of its relationship with a number of corporation. According to the disclosure of interest notice filed by Credit Suisse Group AG with a relevant event date of June 26, 2020, the following interest in H Shares were held by Credit Suisse Group AG:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of H Shares
Credit Suisse AG	Credit Suisse Group AG	100.00	N	1,731,200 (L)
Credit Suisse (Hong Kong) Limited	Credit Suisse AG	100.00	Y	1,731,200 (L)
Credit Suisse AG	Credit Suisse Group AG	100.00	Y	1,062,900 (L)
				1,368,500 (S)
Credit Suisse AG	Credit Suisse Group AG	100.00	N	3,447,748 (L)
				3,488,748 (S)
Credit Suisse Investments (UK)	Credit Suisse AG, Guernsey Branch	31.00	N	3,447,748 (L)
				3,488,748 (S)
Credit Suisse Investments (UK)	Credit Suisse AG	69.00	N	3,447,748 (L)
				3,488,748 (S)
Credit Suisse Investment Holdings (UK)	Credit Suisse Investments (UK)	100.00	N	3,447,748 (L)
				3,488,748 (S)
Credit Suisse Securities (Europe) Limited	Credit Suisse Investments Holdings (UK)	100.00	Y	3,447,748 (L)
				3,488,748 (S)
Credit Suisse AG	Credit Suisse Group AG	100.00	N	178,200 (L)
				178,200 (S)
Credit Suisse Holdings (USA), Inc.	Credit Suisse AG	100.00	N	178,200 (L)
				178,200 (S)
Credit Suisse (USA), Inc.	Credit Suisse Holdings (USA), Inc.	100.00	N	178,200 (L)
				178,200 (S)
Credit Suisse Securities (USA) LLC	Credit Suisse (USA), Inc.	100.00	Y	178,200 (L)
				178,200 (S)

Additionally, 1,384,600 H Shares (long position) and 1,731,200 H Shares (short position) were held through cash settled unlisted derivatives.

Substantial shareholders of other members of the Group

Name	Member of the Group	Approximate percentage held by the substantial shareholder
WU Yu	CR Medicon	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))	CR Medicon	14.73%
Nanjing Xiya Enterprise Management Partnership (Limited Partnership) (南京希雅企業管理合夥企業(有限合夥))	CR Medicon	6.67%
Shin Nippon Biomedical Laboratories, Ltd	Pharmaron CPC	20.00%
LIU Yang	LinkStart	22.40%
Beijing Deshu Enterprise Management Center (Limited Partnership) (北京德數企業管理中心(有限合夥))	LinkStart	8.00%
Hainan Shenzhou Deshu No. 1 Management Center (Limited Partnership) (海南神州德數一號管理中心(有限合夥))	Hainan Shenzhou Deshu Medical Technology Co., Ltd. (海南神州德數醫療科技有限公司)	20.00%

Save as disclosed above, as of June 30, 2020, 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.

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 interim report, no share options have been granted under the A Share Incentive Scheme and the 1,130,272 reserved A Shares have lapsed on August 15, 2020. As of the date of this interim report, 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.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

Upon completion of the global offering of its H Shares (the "Global Offering"), the Company raised net proceeds of approximately RMB4,522.7 million. As at June 30, 2020, the balance of unutilized net proceeds amounted to approximately RMB3,637.4 million. The net proceeds from the Global Offering have been and will be utilized in accordance with the purposes set out in the prospectus of the Company dated November 14, 2019. The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2020.

Use of proceeds	Percentage of allocation of net proceeds	Allocation of net proceeds (RMB million)	Utilized amount as at June 30, 2020 (RMB million)	Unutilized net proceeds as at June 30, 2020 (RMB million)	Expected timeline for utilizing the net proceeds from the Global Offering[1]
Expand capacities and capabilities in laboratory and manufacturing facilities in the PRC:	30.0%	1,356.8	375.0	981.8	Expected to be fully utilized by December 31, 2021
• investing in upgrading and expanding our Ningbo facility	19.5%	881.9	244.6	637.3	Expected to be fully utilized by December 31, 2021
• investing in upgrading and expanding our Tianjin facility	4.5%	203.5	62.1	141.4	Expected to be fully utilized by December 31, 2021
• investing in upgrading and expanding other manufacturing facilities	6.0%	271.4	68.3	203.1	Expected to be fully utilized by December 31, 2021
Fund further expansion of businesses in the U.S. and U.K.	10.0%	452.3	–	452.3	Expected to be fully utilized by December 31, 2021
Establish pharmaceutical R&D services platform for discovery and development of biologics	20.0%	904.5	–	904.5	Expected to be fully utilized by December 31, 2022

Use of proceeds	Percentage of allocation of net proceeds	Allocation of net proceeds (RMB million)	Utilized amount as at June 30, 2020 (RMB million)	Unutilized net proceeds as at June 30, 2020 (RMB million)	Expected timeline for utilizing the net proceeds from the Global Offering[1]
Expand clinical development services	15.0%	678.4	58.0	620.4	Expected to be fully utilized by December 31, 2022
Expand our capacity and capabilities through potential acquisitions of CRO and CMO companies and businesses	15.0%	678.4	–	678.4	Expected to be fully utilized by December 31, 2022
General corporate and working capital	10.0%	452.3	452.3	–	Have been fully utilized by June 30, 2020
Total	**100%**	**4,522.7**	**885.3**	**3,637.4**	**–**

Note: The Company intends to use the remaining unused net proceeds in the coming years in accordance with the purpose set out in the Prospectus. The Company will continue to evaluate the Group's business objectives and will change or modify the plans against the changing market conditions to suit the business growth of the Group. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

MATERIAL EVENT AFTER THE REPORTING PERIOD

Annual Dividends

On May 28, 2020, the 2019 profit distribution plan of the Company to pay a final dividend of RMB1.50 (inclusive of tax) per 10 shares or an aggregate of approximately RMB119.2 million was approved at the 2019 annual general meeting of the Company. Except for the dividend of RMB0.6 million declared to the holders of restricted A shares that would be paid no earlier than the unlocking date, the rest of the dividend was subsequently paid in July 2020.

Save as disclosed above, no other important events affecting the Company occurred since June 30, 2020 and up to the date of this interim report.

Report on Review of Interim Financial Information

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 37 to 65, which comprises the condensed consolidated statement of financial position of Pharmaron Beijing Co., Ltd. (the "Company") and its subsidiaries (the "Group") as at June 30, 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

August 26, 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2020

	Notes	Six months ended June 30, 2020 RMB'000 (unaudited)	2019 RMB'000 (audited)
REVENUE	4	**2,193,167**	1,636,513
Cost of sales		**(1,398,767)**	(1,114,088)
Gross profit		**794,400**	522,425
Other income and gains	5	**202,817**	21,263
Other expenses	5	**(40,442)**	(12,606)
Selling and distribution expenses		**(40,422)**	(28,766)
Administrative expenses		**(303,525)**	(241,463)
Research and development costs		**(43,104)**	(26,687)
Impairment losses on financial and contract assets, net of reversal	6	**(3,215)**	724
Finance costs		**(13,386)**	(42,399)
Share of losses of associates		**(20,824)**	(5,798)
Profit before tax		**532,299**	186,693
Income tax expense	7	**(65,664)**	(30,012)
Profit for the period		**466,635**	156,681
Attributable to:			
Owners of the parent		**478,960**	161,323
Non-controlling interests		**(12,325)**	(4,642)
		466,635	156,681
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
For profit for the period	9	**RMB0.6053**	RMB0.2500
Diluted			
For profit for the period	9	**RMB0.6045**	RMB0.2500

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2020

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Profit for the period	**466,635**	156,681
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(30,421)**	(1,707)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(30,421)**	(1,707)
Other comprehensive loss for the period, net of tax	**(30,421)**	(1,707)
Total comprehensive income for the period	**436,214**	154,974
Attributable to:		
Owners of the parent	**448,509**	159,656
Non-controlling interests	**(12,295)**	(4,682)
	436,214	154,974

Interim Condensed Consolidated Statement of Financial Position

June 30, 2020

	Notes	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**3,116,530**	2,973,354
Right-of-use assets		**530,393**	498,989
Investment properties		**43,421**	46,013
Goodwill	11	**364,225**	203,286
Other intangible assets		**85,706**	35,352
Investments in associates		**300,820**	131,246
Equity investments at fair value through profit or loss		**160,708**	59,054
Deferred tax assets		**7,096**	6,372
Other non-current assets		**91,471**	36,921
Total non-current assets		**4,700,370**	3,990,587
CURRENT ASSETS			
Inventories		**129,627**	97,050
Contract costs		**101,665**	60,347
Trade receivables	12	**967,152**	857,069
Contract assets	13	**114,934**	89,105
Prepayments, other receivables and other assets	14	**189,413**	197,576
Financial assets at fair value through profit or loss		**727,472**	169,762
Derivative financial instruments		**–**	13,689
Pledged deposits		**7,276**	17,634
Cash and cash equivalents		**3,045,927**	4,442,218
Total current assets		**5,283,466**	5,944,450
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	**24,681**	300,654
Trade payables	16	**164,164**	117,978
Other payables and accruals	17	**627,471**	486,702
Contract liabilities		**371,400**	271,547
Lease liabilities		**77,075**	64,150
Derivative financial instruments		**14,164**	–
Tax payable		**46,206**	28,649
Total current liabilities		**1,325,161**	1,269,680
NET CURRENT ASSETS		**3,958,305**	4,674,770
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,658,675**	8,665,357

	Notes	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	**127,731**	543,791
Deferred tax liabilities		**50,633**	40,782
Deferred income		**113,918**	111,606
Lease liabilities		**157,457**	131,160
Total non-current liabilities		**449,739**	827,339
NET ASSETS		**8,208,936**	7,838,018
EQUITY			
Share capital	18	**794,387**	794,387
Treasury shares		**(72,170)**	(72,781)
Reserves		**7,411,643**	7,045,457
Equity attributable to owners of the parent		**8,133,860**	7,767,063
Non-controlling interests		**75,076**	70,955
Total equity		**8,208,936**	7,838,018

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	Attributable to owners of the parent										
	Share capital (note 18) RMB'000	Treasury shares RMB'000	Share premium* RMB'000	Share-based payment reserve* RMB'000	Capital reserve* RMB'000	Statutory reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at January 1, 2020	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
Profit for the period (unaudited)	–	–	–	–	–	–	–	478,960	478,960	(12,325)	466,635
Other comprehensive income for the period: (unaudited)											
Exchange differences on translation of foreign operations (unaudited)	–	–	–	–	–	–	(30,451)	–	(30,451)	30	(30,421)
Total comprehensive income/(loss) for the period (unaudited)	–	–	–	–	–	–	(30,451)	478,960	448,509	(12,295)	436,214
Capital injection from non-controlling shareholders	–	–	3,263	–	–	–	–	–	3,263	2,610	5,873
Acquisition of a subsidiary (note 19)	–	–	–	–	–	–	–	–	–	12,808	12,808
Recognition of share-based payments	–	–	–	33,572	–	–	–	–	33,572	998	34,570
Dividends declared	–	611	–	–	–	–	–	(119,158)	(118,547)	–	(118,547)
As at June 30, 2020 (unaudited)	794,387	(72,170)	5,875,353	66,770	59,602	116,024	(28,127)	1,322,021	8,133,860	75,076	8,208,936

* These reserve accounts comprise the consolidated reserves of RMB7,411,643,000 in the condensed consolidated statements of financial position as at June 30, 2020.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	Attributable to owners of the parent									
	Share capital (note 18)	Share premium*	Share-based payment reserve*	Capital reserve*	Statutory reserve*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2019	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 period	–	–	–	–	–	–	161,323	161,323	(4,642)	156,681
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(1,667)	–	(1,667)	(40)	(1,707)
Total comprehensive income/(loss) for the period	–	–	–	–	–	(1,667)	161,323	159,656	(4,682)	154,974
Issuance of A shares upon listing on Shenzhen Stock Exchange	65,630	367,224	–	–	–	–	–	432,854	–	432,854
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	74,049	74,049
Dividends declared	–	–	–	–	–	–	(72,192)	(72,192)	–	(72,192)
As at June 30, 2019	656,294	1,414,709	22,007	59,602	70,151	(11,090)	622,225	2,833,898	82,358	2,916,256

* These reserve accounts comprise the consolidated reserves of RMB2,177,604,000 in the consolidated statements of financial position as at June 30, 2019.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	Notes	Six months ended June 30, 2020 RMB'000 (unaudited)	2019 RMB'000 (audited)
Cash flows from operating activities			
Profit before tax		**532,299**	186,693
Adjustments for:			
– Depreciation of property, plant and equipment	6	**167,654**	148,216
– Depreciation of right-of-use assets	6	**34,307**	29,717
– Depreciation of investment properties	6	**411**	403
– Amortisation of other intangible assets	6	**3,179**	1,378
– Impairment losses on inventories, net of reversal	6	**2,162**	826
– Impairment losses on financial and contract assets, net of reversal	6	**3,215**	(724)
– Losses of derivative financial instruments	5	**35,303**	10,479
– Gains on financial assets at fair value through profit or loss	5	**(15,722)**	(450)
– Gains on fair value change of equity investment at fair value through profit or loss	5	**(100,837)**	(1,054)
– Losses on disposal of items of property, plant and equipment	5	**390**	206
– Finance costs		**13,386**	42,399
– Interest income from time deposits with original maturity of more than three months when acquired		**(6,472)**	–
– Share of losses of associates		**20,824**	5,798
– Gains on fair value re-measurement of existing equity in business combination not under common control	5	**(23,123)**	(10,363)
– Share-based compensation expenses	6	**34,570**	–
		701,546	413,524
Increase in inventories		**(34,739)**	(11,859)
Increase in contract costs		**(41,318)**	(11,607)
Increase in trade receivables		**(106,473)**	(48,696)
Decrease/(increase) in prepayments, other receivables and other assets		**22,820**	(36,824)
Decrease/(increase) in contract assets		**11,571**	(56,035)
Decrease in pledged deposits		**–**	5,258
Decrease in other non-current assets		**2,596**	10,704
Increase in trade payables		**46,083**	12,147
Increase in accruals and other payables		**17,963**	2,179
Increase/(decrease) in deferred income		**2,347**	(4,546)
Increase/(decrease) in contract liabilities		**42,998**	(3,234)
Cash flows generated from operations		**665,394**	271,011
Income tax paid		**(47,446)**	(18,696)
Net cash flows generated from operating activities		**617,948**	252,315

	Notes	Six months ended June 30, 2020 RMB'000 (unaudited)	2019 RMB'000 (audited)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(393,699)**	(303,386)
Proceeds from disposal of property, plant and equipment		**263**	166
Proceeds from disposal of financial assets at fair value through profit or loss		**424,311**	2,450
Additions of other intangible assets		**(2,223)**	(4,204)
Proceeds from disposal of right-of-use assets		**2,800**	–
Purchase of equity investments at fair value through profit or loss		**(12,171)**	(8,554)
Settlement of derivative financial instrument		**(7,450)**	(6,936)
Purchase of financial assets at fair value through profit or loss		**(927,299)**	(15,000)
Purchase of time deposits with original maturity of more than three months when acquired		**(880,000)**	–
Proceeds from disposal of time deposits with original maturity of more than three months when acquired		**103,262**	–
Acquisition of subsidiaries	19	**(48,850)**	(59,497)
Capital injection in associates		**(291,375)**	(107,106)
Net cash flows used in investing activities		**(2,032,431)**	(502,067)
Cash flows from financing activities			
Interest on bank loans and other borrowings paid		**(10,339)**	(33,994)
Proceeds from bank loans and other borrowings		**50,341**	388,701
Repayments of bank loans and other borrowings		**(742,544)**	(482,281)
Payments of lease liabilities		**(33,329)**	(39,374)
Proceeds from issuance of shares		**–**	458,486
Payments of issue expenses		**(13,149)**	(13,344)
Capital injection from non-controlling shareholders		**5,873**	–
Net cash flows (used in)/generated from financing activities		**(743,147)**	278,194
Net (decrease)/increase in cash and cash equivalents		**(2,157,630)**	28,442
Cash and cash equivalents at beginning of period		**4,442,218**	307,235
Effect of foreign exchange rate changes, net		**(25,458)**	(4,353)
Cash and cash equivalents at end of period		**2,259,130**	331,324

1. GENERAL 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.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended June 30, 2020 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2019 which have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The interim condensed consolidated financial information has 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 interim condensed consolidated financial information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of the following revised IFRSs for the first time for the current period's financial information.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to IAS 1 and IAS 8	*Definition of Material*

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

The nature and impact of the revised IFRSs are described below:

(a) 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 has applied the amendments prospectively to transactions or other events that occurred on or after January 1, 2020. The amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

(c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before June 30, 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after June 30, 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group.

(d) 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. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. 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

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
Six months ended June 30, 2020 (unaudited)					
Segment revenue	1,433,721	506,460	242,549	10,437	2,193,167
Segment results	589,491	145,794	52,893	6,222	794,400
Unallocated amount:					
Other income and gains					202,817
Other expenses					(40,442)
Selling and distribution expenses					(40,422)
Administrative expenses					(303,525)
Research and development costs					(43,104)
Impairment losses on financial and contract assets, net of reversal					(3,215)
Finance costs					(13,386)
Share of losses of associates					(20,824)
Group's profit before tax					532,299

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

	Laboratory services RMB'000	CMC services RMB'000	Clinical development services RMB'000	Others RMB'000	Total RMB'000
Six months ended June 30, 2019 (audited)					
Segment revenue	1,059,856	376,885	190,215	9,557	1,636,513
Segment results	395,361	77,486	43,867	5,711	522,425
Unallocated amount:					
Other income and gains					21,263
Other expenses					(12,606)
Selling and distribution expenses					(28,766)
Administrative expenses					(241,463)
Research and development costs					(26,687)
Impairment losses on financial and contract assets, net of reversal					724
Finance costs					(42,399)
Share of losses of associates					(5,798)
Group's profit before tax					186,693

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. No analysis of segment asset and liability is presented as the management does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
North America	**1,389,926**	966,709
Europe	**454,454**	392,795
Asia (except mainland China)	**66,860**	74,004
Mainland China	**256,632**	191,482
Others	**25,295**	11,523
	2,193,167	1,636,513

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	June 30,	December 31,
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
China	**3,801,367**	3,200,346
North America	**329,903**	319,903
Europe	**401,296**	404,912
	4,532,566	3,925,161

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.

4. REVENUE

An analysis of revenue is as follows:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Revenue from contracts with customers	**2,182,730**	1,626,956
Revenue from other sources	**10,437**	9,557
	2,193,167	1,636,513

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Type of services		
Laboratory services	**1,433,721**	1,059,856
CMC services	**506,460**	376,885
Clinical development services	**242,549**	190,215
Total revenue from contracts with customers	**2,182,730**	1,626,956
Timing of revenue recognition		
Services transferred at a point of time	**1,172,809**	857,882
Services transferred over time	**1,009,921**	769,074
Total revenue from contracts with customers	**2,182,730**	1,626,956

(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.

5. OTHER INCOME AND GAINS AND OTHER EXPENSES

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Other income		
Interest income	**43,143**	1,513
Government grants and subsidies related to		
– Assets (i)	**5,159**	4,546
– Income (ii)	**11,428**	1,254
	59,730	7,313
Other gains		
Foreign exchange gains, net	**3,231**	1,863
Gains on fair value change of equity investment at fair value through profit or loss	**100,837**	1,054
Gains on financial assets at fair value through profit or loss	**15,722**	450
Gains on fair value re-measurement of existing equity in business combination not under common control	**23,123**	10,363
Others	**174**	220
	143,087	13,950
	202,817	21,263
Other expenses		
Losses on disposal of property, plant and equipment	**(390)**	(206)
Losses of derivative financial instruments	**(35,303)**	(10,479)
Others	**(4,749)**	(1,921)
	(40,442)	(12,606)

(i) The Group has received certain government grants related to assets to invest in laboratory equipment and plant. The grants related to assets were recognized in profit and loss over the useful lives of relevant assets.

(ii) The government grants and subsidies related to income have been received to compensate for the Group's research and development expenditures. Some of the grants related to income have future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognized in 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 recognized in profit or loss in the period in which they become receivable.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Depreciation of property, plant and equipment	**167,654**	148,216
Depreciation of right-of-use assets	**34,307**	29,717
Depreciation of investment properties	**411**	403
Amortization of other intangible assets	**3,179**	1,378
Staff cost (including directors' and chief executive's remuneration):		
Salaries and other benefits	**727,978**	571,209
Pension scheme contribution, social welfare and other welfare	**160,095**	169,963
Share-based compensation expenses	**34,570**	–
Gains on fair value re-measurement of existing equity in business combination not under common control	**(23,123)**	(10,363)
Gains on financial assets at fair value through profit or loss	**(15,722)**	(450)
Gains on fair value change of equity investment at fair value through profit or loss	**(100,837)**	(1,054)
Impairment losses on inventories, net of reversal	**2,162**	826
Impairment losses on financial and contract assets, net of reversal	**3,215**	(724)
Losses of derivative financial instruments	**35,303**	10,479
Auditor's remuneration	**1,740**	1,190

* The staff costs for the period are included in "Cost of sales", "Administrative expenses", "Selling and distribution expenses" and "Research and development costs" in the interim condensed consolidated statement of profit or loss.

7. INCOME TAX EXPENSE

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Current tax	**64,707**	22,143
Deferred tax	**957**	7,869
	65,664	30,012

8. DIVIDENDS

On May 28, 2020, the Company's shareholders approved the 2019 Profit Distribution Plan at annual general meeting, pursuant to which a final dividend of RMB0.15 (inclusive of tax) per share in respect of the year ended December 31, 2019 was declared to both holders of A shares and H shares and aggregate dividend amounted to RMB119,158,000 (inclusive of tax). Except for the dividend of RMB611,000 declared to the holders of restricted A shares that would be paid no earlier than the unlocking date, the rest of the dividend was subsequently paid in July 2020.

8. DIVIDENDS (CONTINUED)

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

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of basic and diluted earnings per share are based on:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Earnings:		
Profit attributable to ordinary equity holders of the parent	**478,960**	161,323
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**(611)**	–
Earnings for the purpose of calculating basic earnings per share	**478,349**	161,323
Add: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**611**	–
Earnings for the purpose of calculating diluted earnings per share	**478,960**	161,323

	Six months ended June 30,	
	2020	2019
	(unaudited)	(audited)
Number of shares:		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	**790,310,075**	645,355,242
Effect of dilution – weighted average number of shares: Restricted shares units	**2,000,880**	–
Weighted average number of ordinary shares in issue during the period, used in the diluted earnings per share calculation	**792,310,955**	645,355,242

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2020, the Group acquired assets with a cost of RMB321,200,000 (June 30, 2019: RMB218,197,000), excluding property, plant and equipment acquired through a business combination disclosed in note 19 to the interim condensed consolidated financial information, and disposed of assets with a net carrying amount of RMB479,000 (June 30, 2019: RMB597,000).

11. GOODWILL

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Cost	**364,225**	203,286
Accumulated impairment	**–**	–
Net carrying amount	**364,225**	203,286
Opening carrying amount, net of accumulated impairment	**203,286**	139,917
Acquisition of subsidiaries (note 19)	**158,931**	61,172
Exchange realignment	**2,008**	2,197
	364,225	203,286

12. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Within 1 year	**960,095**	849,691
1 year to 2 years	**7,057**	7,378
	967,152	857,069

Included in trade receivables are amounts due from a related party of RMB412,000 (December 31, 2019: nil) which are repayable on credit terms similar to those offered to the major customers of the Group.

13. CONTRACT ASSETS

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Contract assets	**117,401**	91,857
Allowance for impairment	**(2,467)**	(2,752)
	114,934	89,105

14. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Prepayments	12,739	4,645
Deposits and other receivables	17,736	48,433
Prepaid expenses	29,349	28,373
Tax recoverable	129,589	116,125
	189,413	197,576

As at each end of the reporting period, other receivables of the Group are considered to be of low credit risk and thus the Group has assessed that the ECL for other receivables is immaterial under the 12-month expected loss method.

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	June 30, 2020			December 31, 2019		
	Effective interest rate (%)	Maturity	RMB'000 (unaudited)	Effective interest rate (%)	Maturity	RMB'000 (audited)
Current						
Bank loans – secured (a)	4.650%	2021	261	3.000%~5.390%	2020	170,884
Bank loans – unsecured	1.88%~4.275%	2020~2021	12,076	4.750%~4.785%	2020	108,608
Other borrowings – secured (b)	4.500%~5.300%	2020~2021	12,344	4.500%~5.300%	2020	21,162
			24,681			300,654
Non-current						
Bank loans – secured (a)	4.650%	2027	27,655	4.275%~5.390%	2021~2025	542,027
Bank loans – unsecured	1%~4.275%	2022~2024	100,076	–	–	–
Other borrowings – secured (b)	–	–	–	5.300%	2021	1,764
			127,731			543,791
			152,412			844,445

15. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Analysed into:	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Bank loans and other borrowings repayable:		
Within one year	**24,681**	300,654
In the second year	**18,994**	80,579
In the third to fifth years, inclusive	**91,044**	340,065
Beyond five years	**17,693**	123,147
	152,412	844,445

(a) As at June 30, 2020, the bank loans with the amount of RMB27,916,000 (December 31, 2019: RMB250,067,000) are secured by the mortgage of the Group's long-term assets (property, plant and equipment, right-of-use assets) owned by the Group.

As at June 30, 2020, nil of the loans (December 31, 2019: RMB357,500,000) 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 June 30, 2020, nil of the bank loans (December 31, 2019: RMB105,344,000) are guaranteed by the Company's certain directors and related parties.

As at June 30, 2020, the mortgaged property, plant and equipment have a net carrying amount of approximately RMB555,539,000 (December 31, 2019: RMB1,333,198,000), and the mortgaged right-of-use assets have a net carrying amount of RMB80,749,000 (December 31, 2019: RMB81,651,000).

(b) As at June 30, 2020, the other borrowings with the amounts of RMB13,125,000 (December 31, 2019: RMB22,926,000), are secured by the mortgage of the Group's long-term assets (property, plant and equipment) owned by the Group amounting to approximately RMB32,890,000 (December 31, 2019: RMB36,740,000), and are guaranteed by the Company's certain directors and related parties.

16. 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 the reporting period, based on the invoice date, is as follows:

Analysed into:	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Within 1 year	**160,994**	114,897
Over 1 year	**3,170**	3,081
	164,164	117,978

16. TRADE PAYABLES (CONTINUED)

Included in the trade payables are amounts due to a related party of RMB528,000 (December 31, 2019: RMB4,000) which are repayable within 30 days, which represents credit terms similar to those offered by the related party to their major customers.

17. OTHER PAYABLES AND ACCRUALS

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Staff payroll and welfare payables	**256,783**	244,592
Other tax payable	**16,379**	15,081
Payables for acquisition of plant and equipment	**96,974**	96,102
Accrued expenses	**48,450**	46,869
Restricted stock repurchase obligation	**72,170**	72,781
Dividend payable	**117,274**	–
Payable for acquisition of equity interests in subsidiaries	**10,000**	–
Others	**9,441**	11,277
	627,471	486,702

18. SHARE CAPITAL

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Issued and fully paid:	**794,387**	794,387

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, 2019 and 1 January 2020	794,387,462	794,387
At June 30, 2020	794,387,462	794,387

19. BUSINESS COMBINATIONS

In June 2020, the Group acquired additional 20% equity interest of an associate, Beijing LinkStart Biotechnology Co., Ltd. ("LinkStart"), for a cash consideration of RMB60,000,000. Therefore, LinkStart became a subsidiary and no longer an associate of the Group. LinkStart provides site management services in China.

The fair values of the identifiable assets and liabilities of LinkStart as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	424
Other intangible assets	51,022
Financial assets at fair value through profit or loss	39,000
Trade receivables	7,252
Contract assets	37,115
Prepayments, other receivables and other assets	2,640
Cash and cash equivalents	9,150
Trade payables	(103)
Contract liabilities	(56,855)
Accruals and other payables	(42,755)
Deferred tax liabilities	(8,140)
Total identifiable net assets at fair value	38,750
Non-controlling interests	(12,808)
Fair value of an associate:	
Gains on fair value re-measurement of existing equity in business combination not under common control	(23,123)
Transferred from investment in an associate	(101,750)
Goodwill on acquisition	158,931
Satisfied by cash	60,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(60,000)
Unpaid cash consideration included in other payables and accruals	2,000
Cash and cash equivalents acquired	9,150
Net outflow of cash and cash equivalents included in cash flows generated in investment activities	(48,850)

19. BUSINESS COMBINATIONS (CONTINUED)

No material acquisition related costs were incurred.

Since the acquisition, no revenue and profit has been contributed to the Group's consolidated revenue and profit for the six months ended June 30, 2020.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the period would have been RMB2,229,625,000 and RMB430,035,000, respectively.

20. CONTINGENT LIABILITIES

As at June 30, 2020 and December 31, 2019, neither the Group nor the Company had any significant contingent liabilities.

21. 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:

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Within one year	**6,863**	12,086
In the second year	**–**	1,029
	6,863	13,115

(b) Capital commitments

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Contracted, but not provided for purchase of items of property, plant and equipment	**778,452**	565,981

22. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the six months ended June 30, 2020 and 2019, respectively:

(a) Transactions with related parties:

		Six months ended June 30,	
		2020	2019
		RMB'000	RMB'000
		(unaudited)	(audited)
Entities controlled by the close family members of the directors			
Purchase of raw materials	(i)	**4,617**	2,106
Entities in which the directors act as key management personnel			
Provision of pharmaceutical R&D service	(ii)	**3,587**	–

Notes:

(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.

(ii) The R&D service fees were made according to the price list for similar nature and quantity of services provided to other clients.

(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 RMB13,125,000 (December 31, 2019: RMB485,770,000), as further detailed in note 15 to the financial statements.

(c) Compensation of key management personnel of the Group:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Salaries and other benefits	**6,012**	5,654

(d) Outstanding balances with related parties

As at June 30, 2020, the Group had an outstanding balance with a related party included in contract liabilities amounting to RMB1,390,000 (December 31, 2019: nil).

Details of the Group's trade receivables and payables with its related parties as at June 30, 2020 and December 31, 2019 are disclosed in notes 12 and 16 to the financial information.

23. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at June 30, 2020 and December 31, 2019 are as follows:

June 30, 2020		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	–	160,708	–	160,708
Financial assets at fair value through profit or loss	–	–	727,472	727,472
Trade receivables	967,152	–	–	967,152
Other non-current assets	20,292	–	–	20,292
Financial assets included in prepayments, other receivables and other assets	17,736	–	–	17,736
Pledged deposits	7,276	–	–	7,276
Cash and cash equivalents	3,045,927	–	–	3,045,927
	4,058,383	160,708	727,472	4,946,563

	Financial liabilities at fair value through profit or loss		
Financial liabilities	Mandatorily designated as such RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	164,164	164,164
Derivative financial instruments	14,164	–	14,164
Financial liabilities included in other payables and accruals	–	237,035	237,035
Interest-bearing bank and other borrowings	–	152,412	152,412
Lease liabilities	–	234,532	234,532
	14,164	788,143	802,307

23. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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
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

24. 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 have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group's own non-performance risk for interest-bearing bank and other borrowings as at June 30, 2020 and December 31, 2019 was assessed to be insignificant.

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.

The fair values of the financial assets and liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. 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.

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at June 30, 2020 and December 31, 2019:

	Valuation technique	Significant unobservable inputs (level 3)	Range	Sensitivity of fair value to the input
Equity investments at fair value through profit or loss	Valuation multiples	Average EV/R&D multiple of peers	2.6-9.3	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

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 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	Total RMB'000
As at June 30, 2020				
Equity investments at fair value through profit or loss	–	151,682	9,026	160,708
Financial assets at fair value through profit or loss	–	727,472	–	727,472
	–	879,154	9,026	888,180
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

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets measured at fair value (continued)

Details of the reconciliation of equity investments at fair value through profit or loss measured at Level 3 fair value measurement are as follows:

Equity investments at fair value through profit or loss – unlisted	**As at 30 June 2020 RMB'000**	As at 31 December 2019 RMB'000
At January 1	**59,054**	24,267
Purchase	**–**	24,225
Transferred to level 2 (note)	**(50,159)**	–
Fair value gain	**–**	10,179
Exchange realignment	**131**	383
	9,026	59,054

Note: Zentalis was listed on April 3, 2020 on Nasdaq, and its open market transaction price can be obtained from the active market, but the shares are limited for sale. Therefore, the Group changed its fair value hierarchy from the level 3 to the level 2.

Liabilities measured at fair value

	Significant observable inputs (level 2) RMB'000	**Significant unobservable inputs (level 3) RMB'000**	**Total RMB'000**
As at June 30, 2020			
Derivative financial instruments – foreign currency forward contracts	**14,164**	**–**	**14,164**

During the six months ended June 30, 2020 and the years ended December 31, 2019, there were no transfers of fair value measurements between Level 1 and Level 2 for both financial assets and financial liabilities.

25. EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events after the reporting period up to the date of the approval of the unaudited interim condensed consolidated financial statements.

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
"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)
"CR Medicon"	Nanjing Sirui Biotechnology Co., Ltd. (南京思睿生物科技有限公司), a company incorporated in PRC on February 7, 2018 and is held as to 55.56% by our Company
"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
"EGM"	the second extraordinary general meeting of 2020 of the Company held on July 23, 2020
"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
"LinkStart"	Beijing LinkStart Biotechnology Co., Ltd. (北京聯斯達醫藥科技發展有限公司), a company incorporated in PRC on July 19, 2012 and is held as to 68% by our company
"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
"Pharmaron CPC"	Pharmaron CPC, Inc., formerly known as SNBL Clinical Pharmacology Center, Inc., a company incorporated in the U.S. on October 7, 2004, which is held as to 80% by Pharmaron HK International, our wholly-owned subsidiary, and 20% by Shin Nippon Biomedical Laboratories, Ltd.
"Pharmaron Ningbo Tech"	Pharmaron (Ningbo) Technology Development Co., Ltd. (康龍化成(寧波)科技發展有限公司), formerly known as Ningbo KTB Technology Development Co., Ltd. (寧波康泰博科技發展有限公司), a company incorporated in the PRC on January 12, 2015, our wholly-owned subsidiary

"Pharmaron Shaoxing"	Pharmaron Shaoxing Co., Ltd. (康龍化成(紹興)藥業有限公司), a company incorporated in the PRC on January 3, 2017, our wholly-owned subsidiary
"Pharmaron Tianjin"	Pharmaron (Tianjin) Process Development and Manufacturing Co., Ltd. (康龍化成(天津)藥物製備技術有限公司), a company incorporated in the PRC on July 16, 2008, our wholly-owned subsidiary
"PRC"	the People's Republic of China
"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 six months ended June 30, 2020
"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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