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 ANNUAL REPORT

* For identification purposes only

PREMIER R&D SERVICE PROVIDER FOR THE LIFE SCIENCES INDUSTRY

About Pharmaron

Pharmaron (Stock Code: 300759.SZ/3759.HK) is a premier R&D service provider for the life sciences industry. Founded in 2004, Pharmaron has invested in its people and facilities, and established a broad spectrum of R&D service capabilities ranging from synthetic and medicinal chemistry, biology, DMPK, pharmacology, safety assessment, radiochemistry and radiolabelled metabolism, clinical pharmacology, clinical analytical sciences, clinical CRO and SMO, to chemical & pharmaceutical development. With over 11,000 employees, and operations in China, the U.S., and the U.K., 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)
(ceased on December 11, 2020)
Ms. FENG Shu (馮書)
(appointed on December 11, 2020)
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

www.pharmaron.com

Chairman's Statement

Dear Shareholders:

I would like to extend my sincere gratitude for your continuous trust and support. On behalf of the Pharmaron Board of Directors and its subsidiaries (collectively, the "Company"), I present to you the results of the Company for the year ended December 31, 2020.

With the COVID-19 global pandemic, 2020 marked an extraordinary year for the world and the Company. On account of the solidarity and resilience of Pharmaron colleagues around the globe and the implementation of robust protection and preventive measures, the Company achieved the development and business targets set out in early 2020 and further strengthened the integrated services platform. I am pleased to report the major achievements we made in 2020.

I. Focus on our principal business of providing fully integrated R&D services to accelerate global drug innovation

The year 2020 is the first full fiscal year of the Company after the successful completion of the A+H listing. Each business segment maintained a strong growth momentum, which benefited from the advantage of a global and fully integrated pharmaceutical R&D services platform. The Company recorded total revenue of RMB5,133.6 million, representing an increase of 36.6% over the same period last year. With the benefit from economies of scale and the growth in revenue, the Company achieved a gross profit of RMB1,916.1 million and a gross profit margin of 37.3%, net profit attributable to owners of the parent of RMB1,172.4 million, representing an increase of 114.3% over the same period last year. A non-IFRS adjusted net profit attributable to owners of the parent of RMB1,064.0 million, representing an increase of 93.8% over the same period last year, and a net cash flow from operating activities of RMB1,648.6 million, representing an increase of 75.6% over the same period last year.

1. **Support the global and Chinese drug innovation**

Our pharmaceutical R&D service platform provided services to 1,500 customers, which include 721 new customers as well as the global top 20 pharmaceutical companies. At the same time, the Company contributed to the development of global innovative drug R&D by applying our long-accumulated expertise in pharmaceutical R&D. The Company conducted studies for 58 investigational new drugs (IND) or new drug applications (NDA) filing for our Chinese customers of pharmaceutical and biotech companies, of which, 46 projects applied simultaneously in multiple jurisdictions (including China, the U.S. and EU). Our pharmaceutical process development and manufacturing services segment worked on 739 APIs or intermediates in 2020, including 487 preclinical stage, 202 Phase I-II clinical stage, 47 Phase III clinical stage and 3 in commercial stage. By providing high-quality services, we gained trust from more customers and deepened our partnerships. In addition, the Company conducted extensive scientific collaborations with customers, jointly published research findings and obtained numerous patented inventorship at home and abroad (with intellectual properties owned by customers).

The Company participated in the research of COVID-19 vaccine and drugs. The clinical pharmacology center in the US participated in two Phase III clinical trials of COVID-19 vaccine research studies, which are now available in major international markets with mass vaccination underway. The bioanalytical services center in the U.S. applied the advanced technology of accelerator mass spectrometry to a clinical pharmacokinetic study for the only FDA-approved drug currently available for the treatment of COVID-19. The clinical development services team in China participated in clinical research of several high-profile Chinese COVID-19 vaccines.

2. **Enhance our fully integrated services platform**

In 2020, the Company continued to strengthen the service platform from multiple dimensions. Vertically, we strengthened the synergies of the same discipline in different stages of innovative drug R&D, which further improved our expertise and expanded our service offerings. Horizontally, we emphasized the collaboration between different disciplines in the same stage of new drug R&D to achieve seamless interdisciplinary collaboration and create value for our customers by saving time and costs. Over 80% of the revenue of our discovery stage bioscience services was contributed by our existing laboratory chemistry customers. Approximately 77% of CMC (small molecule CDMO) revenue was contributed by our existing customers from drug discovery services (laboratory chemicals and bioscience services).

3. **Build more laboratory spaces and facilities**

The Company added 22,500 m2 of laboratory space in Beijing to further enhance the capacity of laboratory services. The Company is close to completing the Phase III expansion of the Tianjin plant, which will significantly increase the capacity of our CMC (small molecule CDMO) services.

For long-term development, the Company continued the Phase II expansion for the Ningbo Hangzhou Bay R&D service center and Phase I construction of the Shaoxing Plant. The biologics CDMO service platform's build-up will be carried out at our Ningbo Hangzhou Bay service center II phase I.

4. Expand our global footprint

In 2020, the Company continued to expand its global footprint and acquired Absorption Systems LLC and its subsidiaries in November 2020. This acquisition enhances the Company's fully integrated, end-to-end drug R&D service offering globally. Absorption Systems' core expertise in DMPK/ADME and bioanalysis for both small and large molecules, consolidates Pharmaron's leading position with its fully integrated discovery and development DMPK service platform. In addition, the Company is able to create additional value to the customers with Absorption Systems' capability to evaluate CGT products in the rapidly growing field of emerging therapies, combined with the established services in the areas of ophthalmology and medical devices.

II. Increase global competitiveness with continuous technological improvements

Since its establishment, the Company regards technology as the foundation of our business and technology innovation and improvement as the way to enhance our competitiveness. To continuously improve our core competency, we implemented a new talent development system and improved technology to support the long-term and sustainable growth of the Company.

1. Strengthen management and global operation capabilities

To strengthen our core competitiveness, we further integrated our resources to build a global services platform. We improved the execution efficiency of the management team to better support our global expansion strategy. We were able to overcome the negative impact of the pandemic and bolster efforts to improve our global operations.

2. Invest in technology

Advanced technology is essential for the Company to maintain a leading position in the industry. In the area of chemical synthesis and manufacturing technology improvement, we focused on the application of the high throughput chemical reaction screening platform, flow chemical technology and biocatalysts technology. In the discovery and bioscience areas, the Company improved technological platforms, such as Pharmaron's DNA-encoded Library (DEL) screening platform, chemoproteomics platform, *in vivo* imaging technology platform and a 3D spheroid and organoid screening platform.

3. Support the corporate learning culture

The Company enhanced its multi-dimensional comprehensive on-the-job learning system. In response to the "new normal" of pandemic prevention and control, the Company arranged a series of monthly online lectures titled "Frontiers in Synthesis and Medicinal Chemistry." Renowned professors from around the world presented sessions focused on cutting-edge science and technology, which provided an academic exchange platform for our scientists to understand the latest advances in organic synthesis and medicinal chemistry. These high-quality online lectures, combined with additional learning activities, were well received by our scientists and further strengthened the corporate learning culture.

In 2020, we were pleased to be included in the Hang Seng Composite Index, Hang Seng Healthcare Index, MSCI China Healthcare Price Index, Shenzhen 100 Index, ChiNext Composite Index, Shenzhen Component Index and other core indices of the securities market, as these reflect the recognition and trust from the capital market. We feel a strong sense of responsibility and we will continue to push for higher standards and greater vision to propel Pharmaron's growth journey. In 2021, we will continue to strengthen our leading position in small molecule services and further enhance our technologies to expand our global footprint. We will accelerate the build-up of our biologics and CGT services platform to achieve our objective to become a global leader in pharmaceutical R&D services across multiple therapeutic modalities. For the corporate governance, we will continue to improve the execution efficiency of the management team. We will continue to improve our service standards and quality to provide customized, high-quality, value-added services and solutions to our customers. Our team's drive to support global innovative drug R&D brings positive energy to society!

On behalf of the Board of Directors and all of our hard-working employees, I would like to once again express sincere thanks to our shareholders who have trusted and supported us!

Pharmaron Beijing Co., Ltd.
Dr. Lou Boliang
Chairman and Chief Executive Officer

March 26, 2021

Financial Highlights

	Year ended December 31,		
	2020	2019	Change
	RMB'000	RMB'000	%
Revenue	**5,133,597**	3,757,160	36.6
Gross profit	**1,916,113**	1,331,701	43.9
Profit attributable to owners of the parent	**1,172,383**	547,190	114.3
Non-IFRSs adjusted net profit attributable to owners of the parent	**1,064,029**	549,133	93.8
Net cash flows generated from operating activities	**1,648,610**	938,585	75.6

During the Reporting Period, the Group recorded aggregate revenue of approximately RMB5,133.6 million, representing an increase of approximately RMB1,376.4 million, or 36.6%, as compared to the year ended December 31, 2019.

During the Reporting Period, the profit attributable to owners of the parent was approximately RMB1,172.4 million, representing an increase of approximately 114.3% as compared to the year ended December 31, 2019.

During the Reporting Period, the net cash flows generated from operating activities was approximately RMB1,648.6 million, representing an increase of approximately 75.6% as compared to the year ended December 31, 2019.

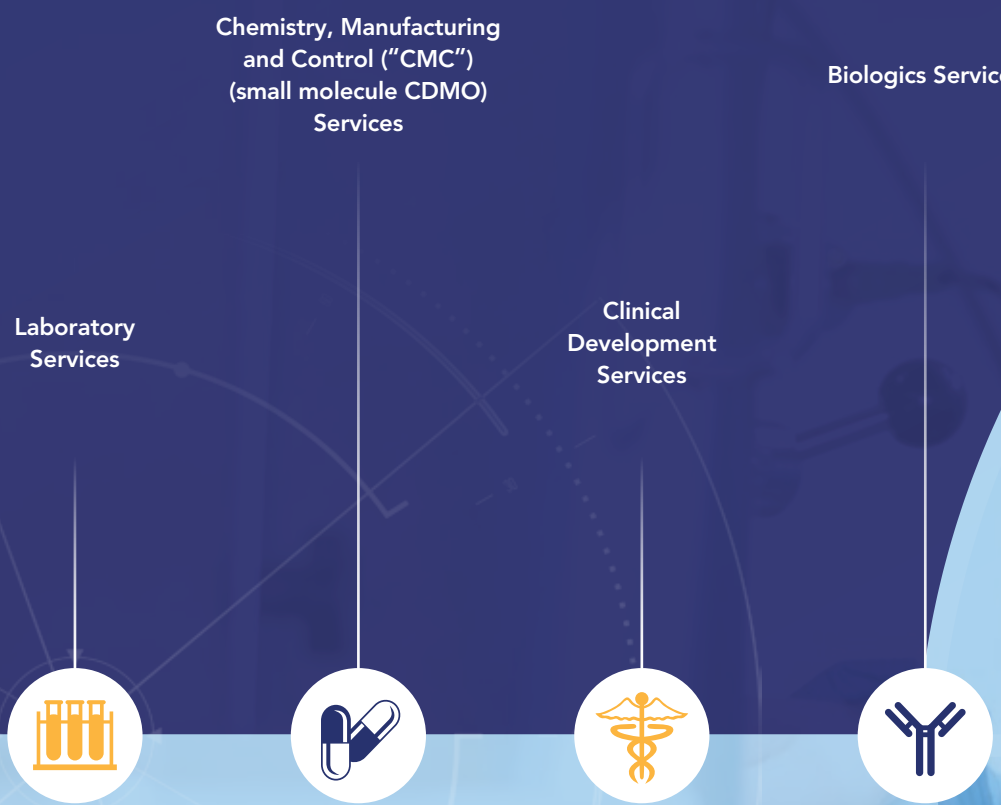
The Board proposed to declare a final dividend of RMB3.0 (inclusive of tax) per 10 shares or an aggregate of approximately RMB238.3 million for the year ended December 31, 2020.

Financial Summary

	For the year ended December 31				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Operating results					
Revenue	1,634,239	2,294,118	2,908,123	3,757,160	**5,133,597**
Gross profit	497,906	774,465	948,050	1,331,701	**1,916,113**
Profit for the year	171,334	218,664	335,843	530,672	**1,146,992**
Profit attributable to owners of the parent	171,334	222,497	336,042	547,190	**1,172,383**
Profitability					
Gross profit margin	30.5%	33.8%	32.6%	35.4%	**37.3%**
Profit margin for the year	10.5%	9.5%	11.5%	14.1%	**22.3%**
Earnings per share (RMB)					
Earnings per share –Basic	0.3421	0.3767	0.5689	0.8284	**1.4825**
Earnings per share – Diluted	0.3421	0.3767	0.5689	0.8282	**1.4781**

	For the year ended December 31				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Total assets	2,912,771	4,143,664	4,802,079	9,935,037	**11,908,792**
Total liabilities	1,153,146	2,145,560	2,475,508	2,097,019	**2,975,053**
Non-controlling interests	–	12,618	12,991	70,955	**63,420**
Equity attributable to owners of the parent	1,759,625	1,985,486	2,313,580	7,767,063	**8,870,319**
Gearing ratio	39.6%	51.8%	51.6%	21.1%	**25.0%**

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




3M 9042

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

PHARMARON IN CHINA

Beijing Headquarters

Beijing TSP

PHARMARON IN CHINA

Ningbo

Shanghai

Tianjin

Xi'an

Shaoxing

Nanjing

PHARMARON IN UNITED KINGDOM

Cardiff

Hoddesdon

Rushden

PHARMARON IN UNITED STATES

Baltimore

Germantown

Exton

San Diego

Boston

Management Discussion and Analysis

BUSINESS REVIEW

Principal Business

The Company is a leading fully-integrated pharmaceutical R&D services platform with global operations to accelerate drug innovation for our customers. The Company's research, development and manufacturing services platform of small molecule drugs 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 scale. Leveraging on our core laboratory chemistry business, the Company has established a comprehensive discovery bioscience platform covering biology, DMPK and pharmacology to provide customers with integrated drug discovery services. The Company's fully-integrated pharmaceutical R&D services platform is in the industry leading position and has accumulated a broad customer base. In addition to further strengthening the existing services, the Company will continue to expand its capabilities downstream, including clinical development and commercial stage manufacturing services. Also, the Company will accelerate the establishment of R&D service capabilities for biologics and CGT products as Pharmaron is committed to becoming a global leader in pharmaceutical R&D services across multiple therapeutic modalities.

The Company has a well-established R&D services 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 (small molecule CDMO) services. The Company's drug development services platform mainly provides drug safety assessment services with GLP compliance accredited by NMPA, FDA and OECD, chemical and formulations development services, GMP manufacturing services for chemical APIs and finished dosages, comprehensive radiolabelled science services that combine radioisotope based compound synthesis, clinical trial and analysis, as well as clinical development services including drug & device registration and application, medical affairs, clinical operation, data management and biostatistics and bioanalysis in both China and U.S..

In terms of biologics and CGT products, the Company has accelerated the establishment of the team and facilities in China. Also, through the acquisition of Absorption Systems LLC and its wholly-owned subsidiaries, Absorption Systems California LLC and Absorption Systems Boston LLC (together, "Absorption Systems") in November 2020 for the team's world-class drug evaluation capabilities in the emerging field of CGT, the Company has begun to develop a service platform for CGT products. To further enhance our CGT services platform and enable the Company to better meet the needs of our customers, the Company has entered into a definitive agreement with AbbVie in February 2021 to acquired Allergan Biologics Limited which operates a manufacturing facility in Liverpool, U.K..

The Company has built a fully-integrated pharmaceutical R&D services platform with 16 facilities in China, U.S. and U.K. and over 1,500 customers worldwide. The Company has more than 11,000 employees, of which, over 9,800 R&D, production technology and clinical services staff. This world-class talent pool and their high-quality R&D services have been widely recognized by the industry.

Operating Models

The Company provides fully-integrated drug research, development and manufacturing services throughout the research and development cycle. Our principal businesses can be categorized into three service segments: laboratory services, CMC (small molecule CDMO) services and clinical development services.

1. Laboratory services

Laboratory services of the Company include laboratory chemistry and bioscience (including DMPK/ADME, *in vitro* biology and *in vivo* pharmacology, safety assessment, discovery biologics and U.S. laboratory services) services. Laboratory chemistry is the core and cornerstone of small molecule drug discovery, and it's also the starting point for the Company's business.

The Company has accumulated extensive experiences and established a core talent pool in the field of compound design and synthesis, providing target selection, compound design and synthesis, and compound screening services according to the needs of the customers. As the important components of our laboratory services, *in vitro* and *in vivo* DMPK/ADME, *in vitro* biology and *in vivo* pharmacology provide customers with drug discovery services including target validation, structure activity relationship studies, candidate compound identification, drugability studies (from aspects of biology, DMPK/ADME, pharmacology and safety assessment).

With the advantage of global GLP compliance (FDA, NMPA, OECD), the Company's drug safety assessment services provide a comprehensive IND support to our global customers by performing all the related safety assessment studies to support their IND filing in different jurisdictions. With our global R&D team and validated quality standards and systems, our drug discovery and development services assists our customers in accelerating their R&D projects from preclinical R&D to clinical phases in a number of countries.

To further strengthen the fully-integrated services platform and continue expand the global footprint, the Company acquired Absorption Systems in November 2020 and launched U.S. laboratory services through such acquisition. U.S. laboratory services mainly includes DMPK/ADME and bioanalysis for both small and large molecules, particularly in transporters, human PK prediction and translational pharmaceutics. With the global network of laboratory services capabilities, the Company will further strengthen and consolidate its leading position in discovery and development DMPK platform. In addition, the U.S. laboratory services also include drug evaluation services for CGT products and laboratory services in the areas of ophthalmology and medical devices.

2. *CMC (small molecule CDMO) services*

Our experienced CMC (small molecule CDMO) services team delivers customized and cost-efficient solutions to customers in drug development and manufacturing, including process development and manufacturing, materials science/pre-formulation, formulation development and manufacturing, and analytical development services to support pre-clinical and clinical development. The CMC (small molecule CDMO) services of the Company mainly provide pharmaceutical companies with chemical and formulation process development and clinical scale manufacturing services during the drug development stage with capabilities and capacities to cover the process development and manufacturing needs throughout clinical Phase I to III. The cGMP API and drug product manufacturing facilities of the Company are qualified to manufacture products to support clinical trials in global markets, including the U.S., China and EU. Our quality assurance system follows guidelines of the International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH Guidelines) and supports the development and manufacture regulation of APIs and pharmaceuticals in compliance with FDA, NMPA and EMA, and can also support the preparation of complete regulatory data packages and documentation for regulatory filings and cGMP audits in the U.S., EU, and Asia.

For the capability's improvement, the Company keeps investing on cutting-edge technologies of small molecule to provide value-added process optimization and manufacture services to domestic and foreign customers to meet their needs at different drug development stages. In providing CMC (small molecule CDMO) services, the Company practiced the concept of green chemistry and vigorously applies new technologies such as flow chemistry and biocatalysis to develop safer and more efficient chemical processes for the customers. In addition, the chemistry team further strengthened the competitive advantage of CMC (small molecule CDMO) full service jointly with the teams of material science, crystallization R&D and formulation. In terms of R&D and manufacturing capacity, the Company has facilities in Tianjin, Shaoxing, Ningbo and the U.K., and will continue to increase capacity to provide customers with services that consistently meeting their global quality standards and production requirement. In terms of customer services, leveraging on the integrated services platform and the technical experience accumulated over the years, the Company's development and manufacturing services get involved at the early stage of the drug development projects, the solid foundation of the early stage projects has paved the way for the development of our commercial manufacturing business.

3. *Clinical development services*

Our clinical development services include overseas and domestic clinical development services.

The overseas clinical development services includes clinical trial services, site management services, regulatory bioanalysis and radiolabelled science services. Our independent early clinical R&D center with 96 beds in Maryland, the U.S., has an experienced medical and support team in clinical pharmacology, specializing in comprehensive FIH studies, vaccine development/infection challenge studies, comprehensive ^{14}C human ADME studies, TQT/cardiac safety, cross-ethnic bridging studies and patient recruitment.

Meanwhile, the Company has the global bioanalytical capabilities in China, the U.S. and the U.K., which is available for use by clinical trials around the world. Our regulatory bioanalysis includes small molecule bioassays, biologics bioassays, and ^{14}C-API and ^{14}C metabolism bioassays. The Company's experienced scientists in synthetic chemistry, analytical and DMPK/ADME of radiolabelled compounds help our customers synthesize ^{14}C and 3H radiolabelled compounds and use for the DMPK/ADME studies of various compounds during clinical, preclinical and discovery stages, so as to accelerate their clinical development process.

Domestic clinical development services are mainly provided through our subsidiaries, CR Medicon and Beijing LinkStart, which include clinical research services, site management services, biostatistics and bioanalysis, covering different service needs of clinical research. CR Medicon focuses on providing clinical research services in China, mainly including: regulatory and registration services, medical affairs, clinical operations, data management and statistics, bioanalysis and pharmacovigilance, etc.; Beijing LinkStart focuses on providing one-stop shop services for clinical site management, including CRC services, hospital selection, SSU (Study Start Up) rapid start-up, recruitment and management, quality assurance and training and post-marketing studies, etc.

With the establishment of domestic and overseas clinical development services platforms, it enables our customers to submit IND application for their drug candidates in China, the U.S. or EU in parallel, building an integrated platform for clinical development services. With the synergetic effect of the integrated services approach and the continuous improvement of our capabilities, the Company's clinical development service business expands rapidly.

FINANCIAL REVIEW

Despite the COVID-19 pandemic in 2020, the Company, adhering to the pragmatic and prudent work culture and efficient collaboration of our global integrated services platform, not only achieved the development and business targets set out in early 2020 and further strengthened the integrated services platform through both internal development and external acquisition.

Risks always come with opportunities. While the Company put in great effort to fight against COVID-19 pandemic, the Company also seized the opportunities of rapid growth of the pharmaceutical industry and deepen the collaboration with both the overseas and China pharmaceutical communities. Furthermore, Pharmaron is committed to becoming a global leader in pharmaceutical R&D services across multiple therapeutic and is accelerating the establishment of R&D service capabilities for biologics and CGT products.

During the Reporting Period, all business segments of the Company maintained strong growth momentum. The Company recorded total revenue of RMB5,133.6 million, representing an increase of 36.6% over the same period of last year. With the benefit from economies of scale and the growth in revenue, the Company achieved gross profit of RMB1,916.1 million and gross profit margin of 37.3%, net profits attributable to owners of the parent of RMB1,172.4 million, representing an increase of 114.3% over the same period of last year, and the Non-IFRSs adjusted net profit attributable to owners of the parent of RMB1,064.0 million, representing an increase of 93.8% over the same period of last year. The Company continue to implement its established growth strategies to further strengthen the laboratory and CMC (small molecule CDMO) services and at the same time strategically expand the clinical and biologics services. During the Reporting Period, each services segment achieved high quality development in terms of services capabilities and business growth which in turn further strengthened our fully integrated pharmaceutical R&D services platform.

With the growth in business demand, the Company continuously expanding its talent pool. As of December 31, 2020, The Company had over 11,000 employees, of which, over 9,800 R&D, production technology and clinical services staff, accounting for 89% of the total headcount. As of December 31, 2020, the headcount of R&D, production technology and clinical services staff increased by 3,426 as compared with 31 December, 2019 (including the increase in headcount due to the acquisition of Absorption Systems and Beijing LinkStart).

Overall Operation Results

1. Customer services

Our R&D services platform offered services to over 1,500 customers with a total of 721 new customers introduced in 2020. While we had significant growth in number of customers in 2020, over 90% of the revenue was contributed by the Company's large, diverse and loyal repeat customer base which including the world's top 20 pharmaceutical companies. Our end-to-end R&D services platform with seamless integration approach further enhance the synergies of our different service segments and gained more and more customer recognition. During the Reporting Period, over 80% of the revenue of our discovery stage bioscience services contributed by our existing laboratory chemistry customers, and 77% of CMC (small molecule CDMO) revenue contributed by our existing customers from drug discovery services (laboratory chemicals and bioscience services).

During the Reporting Period, with our strengths in providing high-quality services through our global service network, our discovery stage laboratory services gained more and more customer recognition with significant increase in customer numbers as well as deepen collaboration with customers. In addition, the Company conducted extensive scientific collaboration with customers and jointly published research findings. In 2020, a total of 15 papers were published on J. Med. Chem., Bioorg. Med. Chem. Lett. and Synlett and other international academic journals, together with 19 patented inventorship at home and abroad (with intellectual properties owned by customers). During the Reporting Period, the Company contributed to the development of global innovative drug R&D by applying our long-accumulated expertise in pharmaceutical R&D to support our customers' R&D projects, the Company contributed to the global pharmaceutical R&D community and conducted studies for 58 investigational new drugs (IND) or new drug applications filing for our Chinese customers, of which, 46 projects applied simultaneously in multiple jurisdictions (including China, the U.S. and EU) with the support of our integrated IND enabling service.

With the strengthening of both capability and capacity of the pharmaceutical process development and manufacturing services, the Company worked on 739 APIs or intermediates in 2020, including 487 preclinical stage, 202 Phase I-II clinical stage, 47 Phase III clinical stage and 3 in commercial stage.

We continuously strengthen our service capabilities of our clinical development service by integrating and coordinating resources at home and abroad. Following the acquisition of Beijing LinkStart in June 2020, the Company was in a position to offer comprehensive clinical development services in China including both CRO and SMO services.

With international operation as one of our core competitiveness and long-term strategy, it strengthen the capabilities of our fully integrated services platform and provided customized service solutions with the cutting-edge technology to our customer by utilizing the R&D resources of our global service network. In 2020, we further strengthen our international operation despite the impact from COVID-19 pandemic. In particular, our process chemistry and drug discovery team in U.K. and China worked closely together to provide customized solutions with hybrid model which continued to gain recognition from customers. Furthermore, leveraging on our expertise in international R&D services and our understanding of the Chinese customers' needs, we continuously tailored our service offerings for the Chinese customers and bridged them with our overseas operations (such as, our early clinical center in Maryland).

2. *Capacity expansion*

The Company continued expanding capacity to meet the growing business demand. During the Reporting Period, the Company increased 22,500 m^2 of laboratory spaces in Beijing to further enhance the capacity of the laboratory services. In addition, during the Reporting Period, the Company was about to complete the construction of phase III of Tianjin plant (40,000 m^2) and schedule to be operational in the first quarter of 2021 which will increase the process development capacity of our CMC (small molecule CDMO) services.

During the Reporting Period, the Company continued the construction of Phase II of Ningbo Hangzhou Bay R&D service center. The first 120,000 m^2 of laboratory space of phase II of Ningbo Hangzhou Bay R&D service center was about to complete and expected to be operational in the first quarter of 2021. The remaining 42,000 m^2 of phase II of Ningbo Hangzhou Bay R&D service center was under construction and expected to complete the main structure and start internal installation in 2021. Once completed, phase II of Ningbo Hangzhou Bay R&D service center can provide additional laboratory space for up to 2,500 scientists and technician for our laboratory and CMC (small molecule CDMO) services. Furthermore, with our strategy to expand our CMC (small molecule CDMO) service downstream to late-stage clinical and commercial manufacturing, we accelerated the construction of Shaoxing Phase I facility with an area of 81,000 m^2 and reactor volume of 600 m^3, of which, reactor volume of 200 m^3 was expected to be operational in the second half of 2021 and the remaining 400 m^3 will be completed in 2022.

In 2020, the Company continued to develop the discovery biologics service capability and accelerated the build up of the biologics CDMO service platform. In early 2020, we started the construction of 70,000 m^2 of our biologics product development and manufacturing facility at our Ningbo Hangzhou Bay service center II phase I and was expected to start internal installation in June 2021 and become operational for GMP production in the second half of 2022.

3. *Technological investment*

Continuous advancement of our technology and scientific platform is a key to maintain the leading position in the industry and the Company putting great emphasis on technological investment during the Reporting Period. In the chemical synthesis and manufacturing technology area, we focused on the application of the high throughput chemical reaction screening platform, flow chemical technology and biocatalysis technology. Using infinitesimal reaction materials to attempt a reaction condition, the high throughput chemical reaction screening platform can assess dozens or even hundreds of catalytic reaction conditions in a short time, to assist in finding the best synthetic solutions. In 2020, it assisted the chemistry departments in resolving nearly 2,000 challenging chemical reactions. The flow chemistry team completed more than 50 different types of flow reaction projects with the largest scale up to 140kg. Furthermore, the Company established a dedicated biocatalysis department in 2020, which had developed nearly 1,000 biocatalytic enzymes for a wide range of organic synthesis reactions, including oxidation, reduction, transamination, esterification and ester hydrolysis.

In the discovery and bioscience area, the Company had established and improved Pharmaron DNA-encoded Library (DEL) screening platform, chemopoteomics platform, *in vivo* imaging technology platform and 3D spheroid and organoid screening platform. In 2020, the Company conducted hit screening campaigns using Pharmaron DEL against the new biological target of interest and successfully identified several novel hit compound series for the customers, which not only helped our customers to speed up their drug discovery programs, but also laid concrete foundation for attracting more customers for Pharmaron DEL services. The chemopoteomics platform using activity and reactivity-based probes together with proteomics profiling allows quick identification of interacting proteins and targets within the cells or tissues. The *in vivo* imaging technology platform can provide valuable data to support drugability evaluation with respect to the efficacy and safety of drug candidates. Our

image technology platform can quantify drug candidates' tissue distribution dynamically in rodent tumor model using radioistope labelled compounds. In addition, we had developed a simplified method that could conduct isotopic tracing and assess the qualitative and quantitative distribution of compounds in animal at different time points in a faster, more efficient and low-cost manner which can further promote the application of such technology in early drug discovery programs. Also, we are in the process of building up 3D spheroids and organoid screening platform which are closer to the complex *in vivo* conditions as compared to traditional 2D culture. Using 3D spheroids and organoids as *in vitro* assay platform to investigate the efficacy and safety of drug candidates has more clinical significance.

4. External expansion

During the Reporting Period, the Company continued to expand its global footprint. In addition to strengthen our service capabilities and capacities with our existing U.S. and U.K. operations, the Company completed the acquisition of Absorption Systems in November 2020. The principal business of Absorption Systems are to provide non-clinical *in vitro and in vivo* analytical services, bioassays testing and animal testing services for biologics, small molecule drugs, CGT and medical device products to support the discovery, development and regulatory approval of the products. Combining with Absorption Systems' core expertise in DMPK/ADME and bioanalysis for both small and large molecules and its strategic presence in life science hubs in the U.S., it further strengthened the Company's global service networks and strengthen Pharmaron's leading position in discovery and development DMPK services. In addition, the Company is able to create additional value to its customers with Absorption Systems' established services in the areas of ophthalmology and medical devices. Also, leveraging on Absorption Systems' expertise in evaluating CGT products, the Company further strengthens its CGT services platform to better serve our customers and entered into definitive agreement to acquire Allergan Biologics Limited in Liverpool, U.K. from AbbVie for establishing CDMO services of CGT products.

In order to expand and strengthen our clinical service offering in China, the Company completed the acquisition of Beijing LinkStart during the Reporting Period and made bolt-on acquisitions of Beijing S&Q Healthcare Co., Ltd and RAMED (Beijing) Medical Technology Co., Ltd. to further strengthen the service offering in site management, recruitment and medical device regulatory and clinical services.

Operation results of each business sector

1. Laboratory services

The Company's laboratory services consists of laboratory chemistry and bioscience (including DMPK/ADME, *in vitro* biology and *in vivo* pharmacology, safety assessment, discovery biologics and U.S. laboratory services) services. 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 is on the rising trend. During the Reporting Period, the Company, through it's global resources allocation and long-accumulated laboratory service capabilities, supported our customers to continue their pharmaceutical R&D programs during the pandemic and have undertaken more research works from customers, which contributed to the rapid growth of laboratory service revenue. The Company recorded revenue of RMB3,262.7 million in laboratory services, which representing an increase of 37.1% as compared to 2019, with the gross profit margin of 42.6%, representing an increase of 2.4% compared with last year.

Laboratory chemistry represents the core and cornerstone of small molecule drug discovery, as well as the starting point of the Company's business. The Company had nearly 4,000 scientists and technicians in laboratory chemistry area which is one of the world leading chemistry groups in terms of size and expertise.

During the Reporting Period, whilst our laboratory chemistry services achieved steady growth, bioscience services entered the fast lane of development with the bioscience revenue contribution to the laboratory service increased to 41.3% in 2020 (including the revenue contribution of U.S. laboratory services following the acquisition of Absorption Systems in November 2020), as a result of the seamless integration with laboratory chemistry services. With over 1,600 scientists and technicians in the bioscience areas, we gradually established our expertise in the bioscience area in terms of service capabilities and coverages with *in vitro* and *in vivo* DMPK/ADME services covered the entire process of drug discovery. Our *in vivo* DMPK/ADME service cover DMPK screening for animals in different sizes, including rodents, canines and monkeys. Our *in vitro* DMPK/ADME service developed nearly 20 non-regular *in vitro* drug metabolism assays in 2020 and is now establishing a 3D cell model and physiology-based pharmacokinetic model. During the Reporting Period, the Company continued the team building and technology innovation of our *in vitro* biology and *in vivo* pharmacology services platform which has rapid business growth and increased customer recognition. Our *in vitro* biology department had established leading expertise *in vitro* drug efficacy and preliminary toxicity assessment and further expands its capabilities in target validation, high throughput screening, cell-based target specific assays and resistance model, the development of specific and diversified enzyme-based and cell-based screening platform. The team has also been working on the application of emerging RNA editing technique in our lab with high throughput screening capability. All of these have enriched our *in vitro* biology services platform. Through continued strengthening of its technology and building up new disease models, our *in vivo* pharmacology team further expands its service offering to provide customers with efficient and quality pharmacology and efficacy services and is on track to become one of the world leading pharmacology service teams.

During the Reporting Period, the Company acquired U.S. Absorption Systems and launched U.S. laboratory services through such acquisition. U.S. laboratory services mainly includes DMPK/ADME and bioanalysis for both small and large molecules, particularly in transporters, human PK prediction and translational pharmaceutics. With the global network of laboratory services capabilities, the Company further strengthen its leading position in discovery and development DMPK platform. In addition, the U.S. laboratory services also include drug evaluation services for CGT products and laboratory services in the areas of ophthalmology and medical devices.

In order to meet the increasing business demand, the Company continued to expand its services capacity. At the same time, in order to meet the business needs, the Company continues to expand its R&D team and improve the caliber of its personnel. As of December 31, 2020, the staff for the laboratory service business were 5,685, representing an increase of 1,384 as compared to December 31, 2019.

2. CMC (small molecule CDMO) services

Our experienced CMC (small molecule CDMO) team delivers customized and cost-efficient solutions to customers in drug development and manufacturing, including process development and manufacturing, materials science/pre-formulation, formulation development and manufacturing, and analytical development services to support pre-clinical and clinical development, which can help our customers significantly reduce R&D costs and expedite the R&D process. During the Reporting Period, the Company recorded revenue of RMB1,222.0 million in CMC (small molecule CDMO) services, representing an increase of 35.5% as compared to 2019, with the gross profit margin of 32.6%, representing an increase of 4.9% as compared to last year.

The increase in revenue from CMC (small molecule CDMO) services was mainly due to more drug discovery projects accumulated over the years progressing to the development stage, the expanded CMC (small molecule CDMO) services offering, the improvement of technical capabilities, and the continuous expansion of manufacturing capacity and the increased demand from the domestic innovative drug development market. During the Reporting Period, the Company continuously strengthens the CMC (small molecule CDMO) service platform with the U.K. and Chinese teams worked more closely together which in turn contributing to the continuous improvement in the business quality in the CMC (small molecule CDMO) services.

During the Reporting Period, the Company worked on 739 APIs or intermediates, including 487 in preclinical stage, 202 in Phase I-II clinical stage, 47 in Phase III clinical stage and 3 in commercial stage.

In terms of technology, the Company practiced the concept of green chemistry and vigorously applies new technologies such as flow chemistry and biocatalysis to develop safer and more efficient chemical processes for the customers. In addition, the chemistry team further strengthened the competitive advantage of full CMC (small molecule CDMO) services jointly with the teams of material science, crystallization R&D and formulation.

Our material science and crystallization R&D services continued improving market competitiveness and contributed to high-quality growth of CMC (small molecule CDMO) services. We continued to develop capabilities for our formulation development and manufacturing services which completed 26 GMP projects in 2020.

In 2020, the Company continued to strengthen its quality management by adhering to the highest-level international quality control standards to pave the way for the further development of CMC (small molecule CDMO) service. In view of the COVID-19 pandemic and the restriction from our customers for the onsite audit, our QA team promptly launched remote audit function and worked flexibility with our customers to carry out the audit by the combination of online and offline measures. During the Reporting Period, we successfully completed and passed a total of 55 audits including audits from the global top 20 pharmaceutical companies. The implementation of electronic quality management system further improved the accessibility and data integrity of our quality system. In addition, the Company was committed to continuously improve our EHS management by setting higher standard for employee's health protection and safety operation which is essential for the growth of the business.

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 (small molecule CDMO) market will continue to grow. In order to meet the growing demand for CMC (small molecule CDMO) services, the Company is actively expanding its CMC (small molecule CDMO) service team. As of December 31, 2020, the Company had 1,934 employees engaged in CMC (small molecule CDMO) services, representing an increase of 390 employees as compared to December 31, 2019.

3. *Clinical development services*

Our clinical development services include overseas and domestic clinical development services. During the Reporting Period, with the help of our unique integrated services platform of radioisotope compound "synthesis-clinical-analysis", our overseas operations achieved steady growth despite the fact that the operation of our early phase clinical center in the U.S. was significant affected by the COVID-19 pandemic. For the China-based operations, with the effective control of the COVID-19 pandemic in China, our clinical development service in China gradually recovered since second quarter. During the Reporting Period, the Company recorded revenue of RMB629.4 million in clinical development services, representing an increase of 37.9% over the same period of last year, and a gross profit margin of 18.8%.

With the acquisition of Beijing LinkStart in June 2020 and CR Medicon in 2019, respectively, the Company established an integrated clinical development services platform in China with comprehensive service offering for both CRO and SMO services. The Company continuously develop the clinical development services and increased the talent pool in clinical development services. As of December 31, 2020, the Company had 2,208 employees engaged in clinical development services, representing an increase of 1,652 as compared to December 31, 2019.

Gross Profit and Gross Profit Margin

During the Reporting Period, our gross profit was approximately RMB1,916.1 million, as compared to RMB1,331.7 million for the year ended December 31, 2019. Gross profit margin increased from 35.4% to 37.3% as compared to the year ended December 31, 2019.

Gross profit of our laboratory services increased from RMB956.1 million for the year ended December 31, 2019 to RMB1,389.1 million for the Reporting Period. Gross profit margin of our laboratory services increased from 40.2% for the year ended December 31, 2019 to 42.6% for the Reporting Period, primarily due to the higher operating efficiency due to economy of scale as a results of increase in laboratory services revenue.

Gross profit of our CMC (small molecule CDMO) services increased from RMB249.7 million for the year ended December 31, 2019 to RMB398.0 million for the Reporting Period primarily due to the increased demand for our CMC (small molecule CDMO) services. Gross profit margin of our CMC (small molecule CDMO) services increased from 27.7% for the year ended December 31, 2019 to 32.6% for the Reporting Period, primarily due to the successful production ramp-up since second quarter.

Gross profit of our clinical development services increased from RMB113.9 million for the year ended December 31, 2019 to RMB118.2 million for the Reporting Period. Gross profit margin of our clinical development services decreased from 25.0% for the year ended December 31, 2019 to 18.8% for the Reporting Period, representing a decrease of 6.2% over the same period last year.

Other Income and Gains

During the Reporting Period, other income and gains was approximately RMB493.0 million, representing an increase of approximately 602.8% or RMB422.9 million as compared to the year ended December 31, 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). In December 2020, the Company sold 285,062 shares of Zentalis and recognized gains on disposal from Zentalis of RMB78.0 million. As of December 31, 2020, the Company still holds 285,062 shares of Zentalis, the Group recognized gains on fair value change from Zentalis of RMB75.5 million; (2) increase in interest income of RMB64.5 million; (3) increase in government grants of RMB10.5 million; (4) increase in gains on financial assets at fair value through profit or loss of RMB53.5 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) increase in gains on derivative financial instruments at fair value through profit or loss of RMB140.8 million, which was mainly from foreign exchange forward contracts and collar contracts with banks in order to manage the Group's foreign currency exposure in relation to USD against RMB; (6) 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.

Other Expenses

During the Reporting Period, other expense was approximately RMB143.8 million, representing an increase of approximately 1,122.8% or RMB132.1 million as compared to the year ended December 31, 2019. The increase was mainly due to the foreign exchange loss of RMB131.2 million in 2020.

Selling and Distribution Expenses

The selling expenses in the Reporting Period were approximately RMB92.6 million, increased by approximately 26.9% or approximately RMB19.7 million as compared to the year ended December 31, 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 RMB684.7 million, as compared to approximately RMB526.4 million for the year ended December 31, 2019. The increase was mainly due to our continued business expansion. Our administrative expenses as a percentage to revenue decreased from 14.0% in the year ended December 31, 2019 to 13.3% 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 RMB105.3 million, representing an increase of approximately 67.6% or RMB42.5 million as compared to the year ended December 31, 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 RMB23.9 million, representing a decrease of approximately 71.1% or RMB58.6 million as compared to the year ended December 31, 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 RMB172.4 million, representing an increase of 69.2% or approximately RMB70.5 million as compared to the year ended December 31, 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 RMB1,172.4 million, increased by 114.3% as compared to RMB547.2 million for the year ended December 31, 2019.

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

To supplement the financial statements prepared by us, we use non-IFRSs adjusted net profit attributable to owners of the parent as an additional financial measure. We define non-IFRSs adjusted net profit attributable to owners of the parent as net profit before certain expenses/(gains) as set out in the table below.

The Company believes that the consideration of the non-IFRSs adjusted net profit attributable to owners of the parent by eliminating the impact of certain incidental, non-cash or non-operating items is useful for better understanding and assessing underlying business performance and operating trends for the Company's management, shareholders and potential investors.

The non-IFRSs adjusted net profit attributable to owners of the parent is not an alternative to (i) profit before tax or net profit (as determined in accordance with IFRSs) as a measure of our operating performance, (ii) cash flows from operating, investing and financing activities as a measure of our ability to satisfy our cash needs, or (iii) any other measures of performance or liquidity. In addition, the presentation of the non-IFRSs adjusted net profit attributable to owners of the parent is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRSs. Shareholders and potential investors should not view the non-IFRSs adjusted net profit 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.

	Year ended December 31, 2020 RMB'000	Year ended December 31, 2019 RMB'000
Profit attributable to owners of the parent	**1,172,383**	547,190
Add:		
Share-based compensation expenses	**51,949**	9,496
Foreign exchange related losses/(gains)	**111,431**	(1,579)
(Gains)/losses on derivative financial instruments related to foreign exchange	**(119,678)**	7,364
Non-IFRS net profit attributable to owners of the parent	**1,216,085**	562,471
Add:		
Realized and unrealized (gains)/losses from equity investments	**(152,056)**	(13,338)
Non-IFRS adjusted net profit attributable to owners of the parent	**1,064,029**	549,133

Cash Flows

During the Reporting Period, net cash flows generated from operating activities of the Group amounted to RMB1,648.6 million, representing an increase of RMB710.0 million or 75.6% over the year ended December 31, 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 RMB3,371.1 million, representing an increase of RMB2,325.8 million or 222.5% over the year ended December 31, 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 RMB1,124.8 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 (small molecule CDMO) facility and purchases of other property, plant and equipment of RMB1,308.4 million; (3) cash outflows used in acquisition of subsidiaries and capital injection in associates of RMB1,082.9 million; (4) net of cash inflows from disposal of equity investments at fair value through profit or loss of RMB96.8 million.

During the Reporting Period, net cash flows used in financing activities of the Group amounted to RMB280.2 million, which was due to (1) payment of dividends of RMB118.6 million; (2) payment of lease liabilities of RMB90.7 million; (3) net repayment of bank loans and other borrowings of RMB46.8 million.

Liquidity and Financial Resources

The Group has maintained a sound financial position during the Reporting Period. As at December 31, 2020, the Group's cash and bank balance amounted to approximately RMB2,935.1 million. For the Reporting Period, net cash flows generated from operating activities of the Group amounted to approximately RMB1,648.6 million.

The Group recorded total current assets of approximately RMB5,540.4 million as at December 31, 2020 (December 31, 2019: approximately RMB5,944.5 million) and total current liabilities of approximately RMB1,981.8 million as at December 31, 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 2.8 as at December 31, 2020 (December 31, 2019: approximately 4.7).

Borrowings and Gearing Ratio

As at December 31, 2020, the Group aggregated interest-bearing bank and other borrowings of RMB781.0 million. Among the total borrowings, RMB386.1 million will be due within one year and RMB394.8 million will be due after one year.

As at December 31, 2020, the gearing ratio, calculated as total liabilities over total assets, was 25.0%, as compared with 21.1% as at December 31, 2019.

Pledge of Assets

As at December 31, 2020, the Group mortgaged property, plant and equipment with a net carrying amount of approximately RMB405.6 million (December 31, 2019: approximately RMB1,333.2 million); and the mortgaged right-of-use assets had a net carrying amount of approximately RMB180.5 million (December 31, 2019: approximately RMB81.7 million).

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

Besides, as at December 31, 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 December 31, 2020, the Group did not have any material contingent liabilities.

Miscellaneous

Evaluation on the impact of the 2020 Novel Coronavirus

In 2020, under the backdrop of the COVID-19 pandemic, the importance and social value of healthcare industry has been further heightened. The Company was at a critical moment of development with both opportunities and challenges existed. In the face of the pandemic, the Company took various prevention and control measures to vigorously protect the health of its employees, and ensure the Company continued its rapid growth strategy as set at the beginning of the year.

Since the outbreak of the COVID-19 pandemic, the Company postponed the resumption of China operations for one week in the first quarter, which slightly delays in meeting the delivery schedules for some of the orders in the first quarter of 2020. Starting from the second quarter, with the pandemic in China under effective control, our China-based laboratories and manufacturing facilities resumed to normal rapidly. With the strong demand from laboratories and CMC (small molecule CDMO) services, the revenue of the Company continuously to grow. Although the COVID-19 pandemic in EU and the U.S. has certain impact on the company's overseas clinical development services, the domestic clinical development services have gradually recovered in the second half of the year; At the same time, with the unique radioisotope compound "synthesis-clinical-analysis" integrated services platform, the overall clinical development services also achieved steady growth in 2020. The COVID-19 pandemic had no significant adverse impact on the Company's business, operation and cashflow, and the Company had successfully achieved its business goals in 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 the 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 services platform with strong capabilities and comprehensive service offerings across the globe

The Company has a well-established pharmaceutical R&D services 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 services platform with operations in China, the U.S. and the U.K. The Company has established comprehensive expertise in different R&D stages, 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 have accumulated a 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 services platform has the following three core competences:

(1) Comprehensive chemistry platform throughout the entire drug R&D and commercial stages

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

With the comprehensive chemical technology platform covering compound design (including CADD), design and synthesis of a compound library, medicinal chemistry, synthetic chemistry, analytical chemistry, early process chemistry, and process chemistry and GMP API manufacturing, 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 manufacturing at the preclinical drug development stage, mid-scale process and GMP manufacturing at the clinical stage as well as process development for GMP commercial manufacturing, which fully cater to the diversified needs of different types of customers. In addition to providing R&D services for the compound synthesis process, combined with its formulation development services, the Company is able to provide customers with fully-integrated pharmaceutical R&D and manufacturing solutions from initial compounds to finished dosages.

(2) DMPK/ADME service platform throughout the entire drug R&D process

The Company provides DMPK/ADME services covering the whole R&D process from drug discovery to development. The early DMPK/ADME studies are of great importance as they can provide a key basis for our customers to determine their late-stage drug development strategy. Radioisotopic analysis technology is critical as an important drug metabolism analysis technology during the clinical stage. Following the approval of the radioisotopic use license at the Company's clinical center in the U.S. in early 2018, the Company is the only pharmaceutical R&D service provider that offers integrated pharmaceutical R&D solutions, which cover radioisotope compound synthesis and human ADME studies using regular isotope analysis technology or high-sensitivity AMS technology. In addition, with acquisition of Absorption Systems, the Company broadened its global service network and further strengthen its leading position in discovery and development DMPK platform.

(3) Comprehensive integrated platform from drug discovery to POC ("proof of concept")

From inception, the Company has committed to the establishment of integrated services platform from drug discovery to proof of concept stage, which covers compound design, compound library synthesis, synthetic and medicinal chemistry, biology, DMPK, pharmacology, toxicology, drug safety assessment, radiolabelled chemistry and DMPK, clinical pharmacology, clinical bioanalysis, clinical data statistics, chemical process development and API manufacturing and formulation and drug product manufacturing.

With this comprehensive integrated services platform, the Company has undertaken many integrated research projects, and achieved a considerable number of milestones. In addition, the Company can also provide a customized service package at a particular stage of drug R&D process, such as an integrated service package for IND enabling which includes preclinical safety assessment, early process development and manufacturing, pharmacology, DMPK and clinical proposal. With this comprehensive IND enabling solutions and the ability to support IND filing for different jurisdictions, it provides flexibility to the customers, accelerates their drug development process and reduces their overall R&D costs.

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 16 laboratories, clinical and manufacturing facilities in China, the U.S. and the U.K., of which 8 operating facilities from overseas. 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 in different geographic location and efficient services with seamless integration. 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.

It is the Company's core strategy for each international acquisition to effectively integrate with our global services platform and brought in the world class talent and facilities into our integrated services platform to further strengthen our overall services capabilities and increase the efficiency of our services. These strategies complement each other to effectively improve the Company's international operation capability and bring high value-added services to customers. For example, our process chemistry and drug discovery team in U.K. and China worked closely together to provide customized solutions with hybrid model which continued to gain recognition from customers.

Through our global operation, the Company has established a services network and strategic presence in global life science hubs which enhance the customer communication and understanding of customer needs. Also, by carrying out our R&D services under different jurisdictions, it provides flexibility to customize our services solutions that best suit our customers' geographic and strategic needs. The clinical pharmacology team in the U.S. has worked seamlessly with our Chinese team to help customers in China for the preparation and filing of IND application and conducted the first-in-human (FIH) studies in the U.S.. In addition, the Company's experience in regulatory filings in various jurisdictions and its service model of providing customers with total solution enable our customers to file IND applications for their drug candidates in China, the U.S., or EU in parallel, which makes the IND applications of our customers more flexible and efficient.

3. Committed to utilizing innovative technologies to meet evolving R&D needs and increase efficiency

Since inception, the Company has put great emphasis on technology and innovation to fuel the constant grow of the business and satisfy the evolving R&D needs. It develops new technologies through multiple measures such as internal research and development, collaboration with academic and professional institutions, customer collaboration and acquisitions. In recent years, the Company has been strategically developing new technologies and capabilities in chemistry and bioscience areas, and committed to further strengthening of the integrated services platform.

In the chemical synthesis and manufacturing technology area, we focused on the application of the high throughput chemical reaction screening platform, flow chemical technology and biocatalysis technology. Using infinitesimal reaction materials to attempt a reaction condition, the high throughput chemical reaction screening platform can assess dozens or even hundreds of catalytic reaction conditions in a short time, to assist in finding the best synthetic solutions. In 2020, it assisted the chemistry departments in resolving nearly 2,000 challenging chemical reactions. The flow chemistry team completed more than 50 different types of flow reaction projects with the largest scale up to 140kg. Furthermore, the Company established a dedicated biocatalysis department in 2020, which had developed nearly 1,000 biocatalytic enzymes for a wide range of organic synthesis reactions, including oxidation, reduction, transamination, esterification and ester hydrolysis.

In the discovery and bioscience area, the Company had established DNA-encoded Library (DEL) screening platform, chemopoteomics platform, in vivo imaging technology platform and 3D spheroid and organoid screening platform. In 2020, the Company conducted hit screening campaigns using Pharmaron DEL against the new biological target of interest and successfully identified several novel hit compound series for the customers, which not only helped our customers to speed up their drug discovery programs, but also laid concrete foundation for attracting more customers for our DEL services. The chemopoteomics platform using activity and reactivity-based probes together with proteomics profiling allows quick identification of interacting proteins and targets within the cells or tissues. The in vivo imaging technology platform can provide valuable data to support drugability evaluation with respect to the efficacy and safety of potential drugs. Our image technology platform can quantify potential drugs' tissue distribution dynamically in rodent tumor model using radioistope labelled compounds. In addition, we had developed a simplified method that could conduct isotopic tracing and assess the qualitative and quantitative distribution of compounds in animal at different time points in a faster, more efficient and low-cost manner which can further promotion the application of such technology in early drug discovery programs. Also, we are in the process of building up 3D spheroids and organoid screening platform which are closer to the complex in vivo conditions as compared to traditional 2D culture. Using 3D spheroids and organoids as in vitro assay platform to investigate the potential efficacy and safety of drugs has more clinical significance.

4. Dedicated, stable and visionary management teams, experienced talent pools with progressive corporate culture

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 senior scientific and technical leaders, 3 of whom were named as National Talents and 15 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 nearly 2,000 technical managers and high-caliber scientific research talents across 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 efficiency. As of December 31, 2020, the Company had over 9,800 R&D, production technology and clinical services staff in China, the U.K. and the U.S.. The highly professional technical team ensures the Company's continuous provision of high-quality R&D services for customers. The open platform for talent development ensures that the Company will continuously attract talents from around the globe.

The Company is committed to its corporate philosophy of "Employee First and Customer Centric" which put strong emphasis on employee training and improves all mechanisms so as to integrate their career development into the Company's overall development strategy. In order to develop and train our talents, the Company provides training to our employees through our in-house training system including the "Pharmaron College", 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 of the industry. In addition, the Company has developed training programs with the world renowned universities and research institutes for high-caliber scientific research talent. The above measures have greatly improved the scientific research capabilities and cohesion of the Company and its employees. Furthermore, we respect and value every single customer so as to ensure R&D quality by tackling each technical challenges and complete every single tasks with integrity and scientific rigor.

Our dedicated, stable and visionary management team, experienced talent pool and outstanding corporate culture lay a solid foundation for the Company's long-term success.

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

The Company has a large, diverse and loyal customer base consisting of more than 1,500 customers, including the global top 20 pharmaceutical companies and numerous reputable biotech companies. In 2020, the Company introduced 721 new customers, with over 90% of revenue contributed by the Company's large, diverse and loyal repeat customers 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 the early clinical stage.

The Company benefits from its strategic partnership with specific customers. Through know-how sharing and training 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 the intellectual property protection system and building the 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 a good reputation among our existing customers, and to further expand our customer base by acquiring new customers through word-of-mouth referrals.

6. Insight into industry trends and well positioned to capture growth opportunities arising from industry evolution

The Company, with profound industry accumulation, large customer base and close partnership, keeps abreast of the global pharmaceutical R&D trends. It's strong awareness and understanding of evolving R&D needs allow the Company to be adaptive and expand into new emerging fields and implement innovative technology to better serve our customers.

It is a trend for pharmaceutical R&D companies to enter into deeper collaborations with their pharmaceutical R&D service providers that provide end-to-end services with good track records to achieve higher R&D efficiency. In addition, the number of biotech start-ups and their R&D investments increase rapidly. Out of consideration of costs and time efficiency, these biotech start-ups more extensively use the fully-integrated R&D services platform to support their pharmaceutical R&D programs. Through long-term collaboration with customers, the Company will contribute to transforming the drug R&D industry in a more efficient way and continuously benefit from the growing demand for pharmaceutical R&D services.

Along with the trend of the Chinese pharmaceutical industry shifting from generic drugs to innovative drugs and the rapidly increasing number of biotech start-ups in China, making it the fastest-growing pharmaceutical R&D services market across the world. The Company is well-positioned to capitalize on the strong growth drivers in China's pharmaceutical R&D industry and further strengthen its leadership in such a market.

OUTLOOK FOR 2021

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 and 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 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 solid growth. According to Frost & Sullivan's forecast, the size of global pharmaceutical service market is expected to be US$99.9 billion in 2020. It is estimated that the size of global pharmaceutical service market will increase to US$149.8 billion by 2024, representing an excepted CAGR of 10.7% from 2020 to 2024. Compared to global pharmaceutical service market, China's pharmaceutical service market is smaller in size but is growing at a faster growth rate. According to Frost & Sullivan's forecast, the size of China's pharmaceutical service market is expected to reach US$12 billion in 2020, and it is expected to increase to US$32.7 billion by 2024, twice the growth rate of global pharmaceutical service market. According to Frost & Sullivan's forecast, the size of global pharmaceutical R&D outsourcing services market was US$67.2 billion in 2020, representing a market penetration rate (the proportion of the size of the total CRO services market in the total R&D investment) of 35.2%; meanwhile, the size of Chinese pharmaceutical R&D outsourcing services market is expected to be US$8 billion in 2020, representing a market penetration rate of 31.7%. In 2024, the size of global pharmaceutical R&D outsourcing services market is expected to be US$96 billion, and the market penetration rate will further climb to 42.3%; the Chinese market is expected to reach US$22.2 billion and the market penetration rate is expected to be 46.6%.

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

Drug discovery is a multidisciplinary and systematic work and process. According to Frost & Sullivan's forecast, the size of global drug discovery service market is expected to be US$14.2 billion in 2020, representing a market penetration rate (the proportion of the revenue from services in the total R&D investment) of 35.5%. It is estimated that the size of global drug discovery service market will increase to US$20.4 billion by 2024, representing a CAGR of 9.5% from 2020 to 2024, 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 43.3%; meanwhile, the size of China's drug discovery service market is estimated to be US$1.6 billion in 2020, accounting for 43.2% 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$4.3 billion by 2024, 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 62.1%.

(3) Market conditions of pharmaceutical development and manufacturing services

Pharmaceutical development and manufacturing services cover the whole process of preclinical research, clinical research, drug registration and commercial manufacturing. According to Frost & Sullivan's forecast, the size of global pharmaceutical CMO service market is expected to be US$32.7 billion in 2020. It is estimated that the size of global pharmaceutical CMO service market will increase to US$53.8 billion by 2024, representing a CAGR of 13.3% from 2020 to 2024; meanwhile, the size of China's pharmaceutical CMO service market is expected to be US$4 billion in 2020, accounting for 12.2% of the entire pharmaceutical CMO service market. It is estimated that the size of China's pharmaceutical CMO service market will increase to US$10.5 billion by 2024, 14.0% higher than the growth rate of global pharmaceutical CMO service in the same period.

(4) Market conditions of clinical development services

Drug clinical development services cover phase I to III of 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 rising number of small to medium size biotech companies globally, pharmaceutical companies leverage the services providing by CRO, particular in the clinical development area, in order to advances the drug development stages more efficiently. According to Frost and Sullivan's forecast, the global market for drug clinical development services reached US$43.2 billion in 2020, and market penetration (the proportion of revenue of clinical development CRO service in total clinical development investment) is 33.5%. The global market is expected to reach US$62.2 billion by 2024, representing an expected CAGR of 9.5%, and market penetration is expected to reach 40.3%; at the same time, the market for drug clinical development outsourcing services in China has reached US$4.4 billion, accounting for 10.1% of the global market for drug clinical development services, and market penetration was 26.0%. With the rapid growth of the Chinese pharmaceutical industry, it is expected that the market for drug clinical research service in China will reach US$13.7 billion and market penetration rate of 42.7% by 2024, representing an expected CAGR of 33.1%, far exceeding the global market growth rate of 9.5% during the same period.

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

The Company will continue to build and improve our fully-integrated international pharmaceutical R&D services platform, which has always been our core development strategy. In addition to continue develop our small molecule integrated R&D services platform, the Company will accelerate the establishment of R&D service capabilities for biologics and CGT products as Pharmaron is committed to becoming a global leader in drug R&D services across multiple therapeutic modalities. Through the fully-integrated services platform, the Company is able to provide customers with more flexible and efficient services, business teams equipped with various professional skills customize services for customers according to their needs in a timely manner, and promptly respond to the requirements of relevant R&D projects, so as to help customers successfully and efficiently complete pharmaceutical R&D works while promoting collaboration between different disciplines. On one hand, our international acquisition effectively integrate with our global services platform and brought in the world class talent and facilities into our integrated services platform to further strengthen our overall services capabilities and increase the efficiency of our services. On the other hand, our global operation has established a services network and strategic presence in global life science hubs which enhance the customer communication and understanding of customer needs as well as offers customized solutions to customers by integrating the expertise and presence from our global operations.

We will adhere to the business development strategy that put emphasis on both domestic and overseas markets. Through our established effort in developing overseas market, we have a large customers base with solid customer relationship and we will constantly improves our R&D capabilities and professional skills to offer high quality services to our customers and expand our collaboration with them. Also, we will take advantage of our brand reputation and develop and introduce our services to more customers. For the domestic market, we will pay more attention in cultivating the domestic market and adopt a specific market strategy to address the domestic needs.

3. *Main operational plan of the Company for 2021*

In 2021, guided by its long term growth strategy, the Company will carry out works focusing on the following aspects:

(1) Maintain its leading position in the small molecule R&D service area and further enhance our technologies and global footprint expansion.

Advanced technologies are crucial for the Company to maintain its leading position in the small molecule area, the Company will build upon its established fully-integrated small molecule drugs R&D services platform and continuously invest in the latest small molecule technology to expand the services offerings. Also, regarding business development, we will pay more attention to brand building by providing top quality small molecule services to further strengthen customer loyalty and brand recognition.

(2) Accelerate the build up of biologics and CGT services platform

While developing discovery biologics service capabilities, we will accelerate the build-up of the CDMO service platform for biologics and CGT products. In 2021, we will further develop our biologics drug discovery service capabilities by expanding our team and introduce more professional talent and broaden our services offering. We will accelerate the construction of biologics manufacturing capacities for drug development stage in Ningbo and establishing a quality system that meet the highest international standard. Furthermore, we will leverage on the existing CGT service capabilities of Absorption Systems and the acquisition of Allergan Biologics Limited which we expect to complete in second quarter of 2021 to establish our global CGT service platform.

(3) Further enhance management capabilities

To strengthen our core competitiveness, we will further integrate our global resources to build a global services platform. As such, we will improve execution efficiency of the management team to better support our global expansion strategy. Our management capabilities also involves quality and safety management. In 2021, the Company will provide high quality services and products to our customers by adhering to the highest international quality standards. Safety production will continue to be the top priority of our daily operation which is crucial for the sustainability of the Company businesses. On top of that, information security will become an important component of our safety production efforts. For this purpose, we will continuously optimize and upgrade the information system of our global operation to constantly safeguard customers' information and intellectual properties.

(4) Continue to expand domestic and overseas market shares

For the overseas market growth, we will continue to maintain our solid relationships with our existing customer base, deeply analyze and explore customer needs, expand our service offerings, and introduce new customers with the help of our reputation and brand influence. For the domestic market, we will pay more attention in cultivating the domestic market and adopt a specific market strategy to address the domestic needs to improve our competitiveness in the domestic market. With the increase of our late stage CMC (small molecule CDMO) service capacity, we are seeking further expansion in the domestic market.

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

Human resources are the foundation of innovation and key to strengthen our core competitiveness. As future development of the Company rely on high caliber talents in different areas, we deeply understand the urgency and necessity of building an inclusive and open talent development platform to continually infuse new energy to fuel our company innovation and growth.

4. Potential risks

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

The Company is a leading fully-integrated pharmaceutical R&D services platform with global operations to accelerate drug innovation for our customers. 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, 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. The Company will continue to implement its strategies, improve its scientific research capabilities and service quality and enhance its market competitiveness.

(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.

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.

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

(4) Risks regarding policies and regulation

There are strict laws, regulations and industry standards in many countries or regions to which drugs are intended to be ultimately sold (such as China, the U.S., the U.K. and several EU 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.

The Company will monitor the trend of applicable policies and regulations to ensure its continuous fulfillment of regulatory policy requirements.

(5) Risk of international policy changes

We are a pharmaceutical R&D services 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. We have been expanding our service capabilities in overseas markets since 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. The Company has and will continue to strictly monitor its licensing management. 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.

(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.

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 services platform with laboratory services, clinical development and CMC (small molecule CDMO) services 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.

(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. The Company will continue to invest a large amount of human and capital resources to develop new technologies and upgrade our services 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. The Company has and will continue to steadily advance quality management to provide customers with high-quality products and services. 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 busines.

OTHER INFORMATION

Employee Remuneration and Relations

As at December 31, 2020, the Group had a total of 11,012 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 provide employees with opportunities to work on cutting-edge drug development projects with world-class scientists, as well as opportunities to continued academic learning in the Group's Pharmaron College.

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

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

Significant Investments and Future Plans for Material Investments or Capital Assets

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

Save as disclosed in the Company's announcements dated November 9, 2020 and December 3, 2020 in relation to the acquisition of Absorption Systems, the Group has no material acquisitions and disposal of subsidiaries, associates and joint ventures during the Reporting Period.

Financial Instruments

Details of the financial instruments held by the Company are set out in note 47 to the consolidated financial statements.

Material Events after the Reporting Period

Acquisition of 100% equity interest in Allergan Biologics Limited ("ABL")

In February 2021, Pharmaron Biologics (UK) Holdings Limited and Pharmaron (Hong Kong) International Limited (both are wholly-owned subsidiaries of the Company) entered into a sale and purchase Agreement with AGN Sundry LLC to acquire 100% equity interest of ABL, at an estimated cash consideration of US$120,000,000 (equivalent to RMB776,556,000). ABL (an indirect subsidiary of AbbVie Inc., a company listed on the New York Stock Exchange) is an in-house R&D center of AbbVie Inc. for biologics and other advanced therapeutics. It operates a manufacturing facility in Liverpool, U.K., which is one of the most advanced research and development and clinical manufacturing facilities in the area. For further details, please refer to the announcement of the Company dated March 1, 2021.

The acquisition is expected to be completed in the second quarter of 2021.

Profile of Directors, Supervisors and Senior Management

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

DIRECTORS

The Board currently comprises 11 Directors, of which three (3) are executive Directors, four (4) are non-executive Directors and four (4) are independent non-executive Directors. The following table sets forth information in respect of our Directors:

Name	Age	Position	Date of Appointment as Director
Dr. LOU Boliang	57	Chairman, chief executive officer and executive Director	October 27, 2016
Mr. LOU Xiaoqiang	52	Chief operating officer, president and executive Director	October 27, 2016
Ms. ZHENG Bei	53	Executive vice president and executive Director	October 27, 2016
Mr. CHEN Pingjin	50	Non-executive Director	October 13, 2017
Mr. HU Baifeng	39	Non-executive Director	October 13, 2017
Mr. LI Jiaqing	47	Non-executive Director	October 27, 2016
Mr. ZHOU hongbin	47	Non-executive Director	October 27, 2016
Mr. DAI Lixin	96	Independent non-executive Director	October 27, 2016
Ms. CHEN Guoqin	48	Independent non-executive Director	October 27, 2016
Mr. TSANG Kwan Hung Benson	55	Independent non-executive Director	November 28, 2019
Mr. YU Jian	46	Independent non-executive Director	July 23, 2020

SUPERVISORS

Our Supervisory Committee consists of three (3) Supervisors. The following table sets forth information in respect of our Supervisors:

Name	Age	Position	Date of Appointment as Supervisors
Dr. YANG Kexin	57	Chairman of the Supervisory Committee	October 27, 2016
Ms. FENG Shu	35	Supervisor	December 11, 2020
Ms. ZHANG Lan	38	Employee representative Supervisor	October 27, 2016

EXECUTIVE DIRECTORS

Dr. LOU Boliang (樓柏良), aged 57, is the chairman, chief executive officer and an executive Director of our Company. Dr. LOU co-founded our Group together with Mr. LOU and Ms. ZHENG in July 2004. He is primarily responsible for the overall management, strategic planning and corporate development of our Group. He is also actively involved in formulating our business development strategy and developing strategic relationship with our customers. He also serves as a director of most of the subsidiaries of our Group. Dr. LOU is the brother of Mr. LOU and the brother-in-law of Ms. ZHENG.

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

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

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

Dr. LOU's awards and recognitions include:

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

Mr. LOU Xiaoqiang (樓小強), aged 52, is the chief operating officer, president and an executive Director of our Company. Mr. LOU co-founded our Group together with Dr. LOU and Ms. ZHENG in July 2004. Mr. LOU is primarily responsible for the overall operations of the business of our Group. In particular, Mr. LOU is responsible for the execution of our Group's growth strategy both in China and globally. He also serves as a director at several subsidiaries of our Group. Mr. LOU is the brother of Dr. LOU and the husband of Ms. ZHENG.

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

Prior to joining our Group, he worked in sales and management roles at various electronics companies. For more details, please refer to the paragraphs headed "Directors, Supervisors and Senior Management – Executive Directors" of the Prospectus.

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

Ms. ZHENG Bei (鄭北), aged 53, is the executive vice president and an executive Director of our Company. Ms. ZHENG co-founded our Group together with Dr. LOU and Mr. LOU in July 2004. Ms. ZHENG is primarily responsible for the administration and asset management of our Group. In particular, she is responsible for the facilities expansion of our Group. Ms. ZHENG is the wife of Mr. LOU and the sister-in-law of Dr. LOU.

From March 2007 to January 2016, Ms. ZHENG was a director of Pharmaron Holdings Limited. For more details of Ms. ZHENG's previous experience, please refer to the paragraphs headed "Directors, Supervisors and Senior Management – Executive Directors" of the Prospectus.

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

NON-EXECUTIVE DIRECTORS

Mr. CHEN Pingjin (陳平進), aged 50, is our non-executive Director. Mr. CHEN is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. CHEN joined our Group on October 13, 2017.

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

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

Mr. HU Baifeng (胡柏風), aged 39, is our non-executive Director. Mr. HU is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. HU joined our Group on October 27, 2016 and was our Supervisor from October 2016 to October 2017.

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

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

Mr. LI Jiaqing (李家慶), aged 47, is our non-executive Director. Mr. LI is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. LI joined our Group on March 12, 2007.

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

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

Mr. ZHOU Hongbin (周宏斌), aged 47, is our non-executive Director. Mr. ZHOU is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. ZHOU joined our Group on October 27, 2016.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. DAI Lixin (戴立信), aged 96, was appointed as an independent non-executive Director on October 27, 2016. Mr. DAI is primarily responsible for supervising and providing independent advice to the Board.

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

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

Ms. CHEN Guoqin (陳國琴), aged 48, was appointed as an independent non-executive Director on October 27, 2016. Ms. CHEN is primarily responsible for supervising and providing independent advice to the Board.

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

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

Mr. TSANG Kwan Hung Benson (曾坤鴻), age 55, was appointed as an independent non-executive Director on August 15, 2019 (effective from the Listing Date). Mr. TSANG is primarily responsible for supervising and providing independent advice to the Board.

Since March 2019, he has served as the director of Hongsen Investment Management Limited, the general partner of Hongsen Investment Fund L.P. which started operation since January 2020. Since July 2018, he has served as an independent director and chairman of the audit committee of Athenex Inc., a company listed in the United States (NASDAQ: ATNX). From July 2017 to August 2020, he has served as a director of the board of Puritek Canada Inc., the Canadian investment arm of Puritek China Company. From July 2014 to August 2020, he has served as a director of the board of Hydraservices Inc., a waste management and odour control solutions company based in Canada. From October 2017 to December 2018, he served as an executive-in-residence adviser at ShangPharma Innovation Inc., an early stage pharmaceutical company based in the United States. From March 2010 to June 2015, he served as the chief financial officer of ATA Inc., a large scale computer-based testing service provider listed in the United States (NASDAQ: ATAI). From November 2010 to March 2013, he served as an independent director at ShangPharma Corp., a pharmaceutical R&D contract service organization company previously listed in the United States (NYSE: SHP), which was privatized in September 2013.

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

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

Mr. YU Jian (余堅), aged 46, was appointed as an independent non-executive Director on July 23, 2020. Mr. YU is primarily responsible for supervising and providing independent advice to the board.

Mr. YU has extensive experience in finance and accounting. He has served as independent director of Milkyway Chemical Supply Chain Services Co., Ltd. (密爾克衛化工供應鏈服務股份有限公司) since September 2015. He has served as independent director of Pengxin International Mining Co., Ltd. (鵬欣環球資源股份有限公司) since May 2015. Since October 2008, he has worked in the Teaching and Research Department of Shanghai National Accounting Institute (上海國家會計學院) as an associate professor, and engaged in teaching and research in financial management. He served as the financial director of Infoservice Information Technology Co., Ltd. (上海英孚思為信息科技有限公司) from January to September 2008. He served as the financial director of Shanghai Chengtou Land Group Co., Ltd. (上海城投置地集團有限公司) from January 2006 to January 2008. He served as the financial director of Shanghai Transportation Investment Group Co., Ltd. (上海交通投資集團有限公司) from December 2004 to January 2006. He served as the financial director of Shanghai Pulan Investment Management Co., Ltd. (上海普蘭投資管理有限公司) from August 2002 to December 2004. From March 1999 to February 2002, he served successively as the financial supervisor of the Planning and Finance Department, deputy head of the audit and supervision department, and deputy head of the project investment department in the headquarters of Shanghai Chengtou Group Corporation (上海城投集團).

Mr. YU is a CPA, and obtained his bachelor's degree in economics from Zhejiang Institute of Finance (浙江財經學院) in July 1996. Mr. YU obtained his master' degree in management from Shanghai University of Finance and Economics (上海財經大學) in January 1999. He obtained his PhD in management from Shanghai University of Finance and Economics (上海財經大學) in July 2005.

SUPERVISORS

Dr. YANG Kexin (楊珂新), aged 57, was appointed as the chairman of the Supervisory Committee on October 27, 2016 and is primarily responsible for the overall operation of the Supervisory Committee and supervision of the performance of the Directors and senior management members. Dr. YANG joined our Group on July 1, 2004 and is currently our vice president of chemical technology.

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

Ms. FENG Shu (馮書), aged 35, was appointed as a Supervisor on December 11, 2020. Ms. FENG is primarily responsible for the supervision of the performance of the Directors and senior management members.

From February 2016 to May 2017, she served as Vice President and Senior Vice President of CITIC M&A Fund Management Co., Ltd.* (中信併購基金管理有限公司) ("CITIC M&A Fund"), which is a substantial shareholder of the Company. Since May 2017, she has worked at Goldstone Investment Co., Ltd.* (金石投資有限公司) ("Goldstone Investment"), the sole shareholder of CITIC M&A Fund, and currently serves as the Director at Goldstone Investment; since August 2019, she has served as the Director, the Head of Strategy and Business Development, the Director of Real Estate of CLSA Capital Partners (HK) Limited and a Member of the Investment Committee of CLSA Capital Partners (HK) Limited.

Ms. FENG obtained her bachelor's degree from Zhejiang University (浙江大學) and a master' degree from Baylor University in the U.S..

Ms. ZHANG Lan (張嵐), aged 38, was appointed as the employee representative Supervisor on October 27, 2016 and is primarily responsible for the supervision of the performance of the Directors and senior management members. Ms. ZHANG joined our Group on April 5, 2006 and currently serves as our associate director.

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

SENIOR MANAGEMENT

CHAIRMAN & CEO

Boliang LOU, Ph.D.

Dr. LOU Boliang (樓柏良), aged 57, is the chairman, chief executive officer and an executive Director of our Company. Dr. LOU co-founded our Group together with Mr. LOU and Ms. ZHENG in July 2004. He is primarily responsible for the overall management, strategic planning and corporate development of our Group. He is also actively involved in formulating our business development strategy and developing strategic relationship with our customers. He also serves as a director of most of the subsidiaries of our Group. See "– Executive Directors" for more details.

PRESIDENT & COO

Larry LOU, EMBA, M.Eng

Mr. LOU Xiaoqiang (樓小強), aged 52, is the chief operating officer, president and an executive Director of our Company. Mr. LOU co-founded our Group together with Dr. LOU and Ms. ZHENG in July 2004. Mr.LOU is primarily responsible for the overall operations of the business of our Group. In particular, Mr. LOU is responsible for the execution of our Group' growth strategy both in China and globally. He also serves as a director at several subsidiaries of our Group. See "– Executive Directors" for more details.

EXECUTIVE VICE PRESIDENT

Bei ZHENG, M.A.

Ms. ZHENG Bei (鄭北), aged 53, is the executive vice president and an executive Director of our Company. Ms. ZHENG co-founded our Group together with Dr. LOU and Mr. LOU in July 2004. Ms. ZHENG is primarily responsible for the administration and asset management of our Group. In particular, she is responsible for the facilities expansion of our Group. See "– Executive Directors" for more details.

CHIEF SCIENTIFIC OFFICER

Hua YANG, Ph.D.

Dr. YANG Hua (陽華), aged 58, is our chief scientific officer. He joined our Group in July 2007 as our chief scientific officer and is primarily responsible for the overall research and scientific development strategy for the integrated services platform of our Group. Since March 2017, he has also served as a director of one of our subsidiaries.

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

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

CHIEF FINANCIAL OFFICER

Gilbert LI, CFA, CPA

Mr. LI Shing Chung Gilbert (李承宗), aged 42, is our chief financial officer and secretary of our Board. He joined our Group in January 2008 as our financial controller and was appointed as our chief financial officer in January 2015. He was appointed as the secretary of the Board in October 2016 and is primarily responsible for the overall financial function of our Group. In particular, he is responsible for the financing and M&A activities of our Group. Mr. LI also serves as a supervisor or director at several subsidiaries of our Group.

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

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

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2020 (the "year").

CORPORATE GOVERNANCE

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

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

Save as disclosed herein, the Company has complied with the code provisions as set out in the CG Code for the period from January 1, 2020 to December 31, 2020 (the "Related Period").

THE BOARD

Duties and Delegation of Authority to the Management

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

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

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

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

Corporate Governance Function of the Board

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

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

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

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

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

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

Board Structure

From January 1 to July 23, 2020 in the year, the first session of the Board consists of twelve directors and one chairman. The Board members consist of three executive Directors, four non-executive Directors and five independent non-executive Directors. On July 23, 2020, the election of the second session of the Board is completed, and the term of office of the directors is three years. The Board members consist of three executive Directors, four non-executive Directors and four independent non-executive

Directors. As at the date of this annual report, the Board consists of eleven directors and one chairman. The Board members consist of three executive Directors, four non-executive Directors and four independent non-executive Directors.

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

Executive Directors:

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

Non-Executive Directors:

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

Independent Non-Executive Directors:

Mr. DAI Lixin
Ms. LI Lihua (ceased on July 23, 2020)
Ms. CHEN Guoqin
Ms. SHEN Rong (ceased on July 23, 2020)
Mr. TSANG Kwan Hung Benson
Mr. YU Jian (appointed on July 23, 2020)

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

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

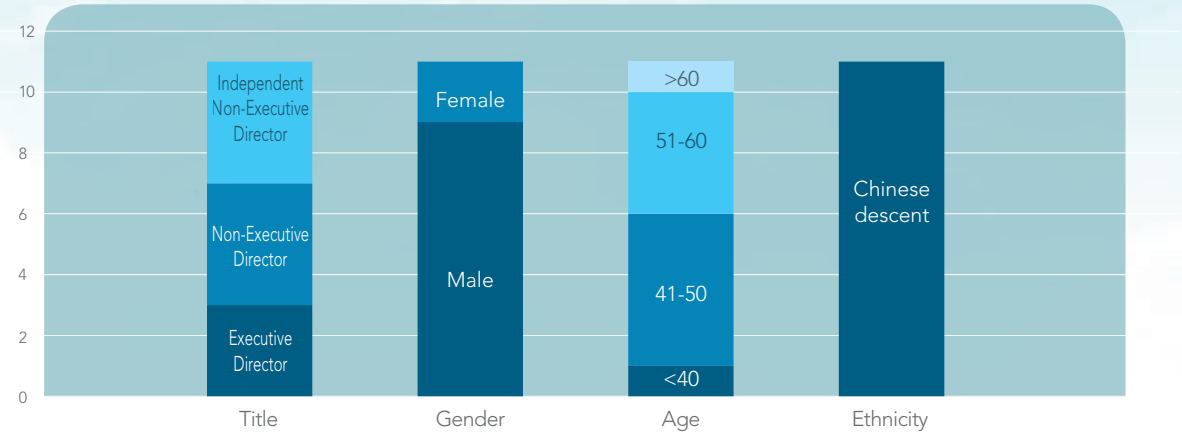
Board Diversity Policy

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

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

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

The following figure shows the diversification of second session of the Board as of December 31, 2020:



Chairman and Chief Executive Officer

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

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

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

Independent Non-Executive Directors

The Board at all times met the requirements of Rules 3.10 (1) and 3.10 (2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. In addition, under Rule 3.10A of the Listing Rules, independent non-executive Directors shall represent at least one-third of the Board. During the year, from January 1, 2020 to July 23, 2020, the first session of Board had five independent non-executive Directors, accounting for five-twelfths of Board members. On July 23, 2020, the Company elected members for the second session of the Board, including four independent non-executive Directors. As at the date

of this Annual Report, the second session of the Board has 4 independent non-executive Directors, accounting for four-elevenths of Board members, so the Company has complied with the relevant regulations.

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

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

Appointment, Re-election and Removal of Directors

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

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

In addition, the term of office of the directors in the first session of the Board is three years, from October 27, 2016 to October 26, 2019. In view of the fact that the Company was processing a listing application on the main board of the Stock Exchange at the time, the Company, in order to avoid affecting the relevant applications and normal business operations, signed a Supplementary Agreement on the Appointment of Directors with directors on October 26, 2019, agreeing to extend the term of the first session of the Board. The directors shall continue to perform his/her duties in accordance with the Company Law of the People's Republic of China, the Articles of Association and the original contract provisions until the election of the new session of the Board is completed. On July 23, 2020, the Company completed the election for the second session of the Board, and 11 directors were elected at the general meeting for the second session of the Board, each of them will serve a three-year term since July 23, 2020.

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

Board Meetings

Pursuant to the Articles of Association, the Board shall hold at least four meetings each year, which shall be convened by the Chairman and notified to all the directors and supervisors fourteen days prior to the meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. If a director is unable to attend the meeting in person, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the name of the agent, the delegation matters, the scope of authorization and the period of validity. However, directors may not vote on any board resolution that

approves a contract, transaction or arrangement or any other relevant Resolution in which he/she or any of his/her close associates (as defined in the applicable Listing Rules in force from time to time) have a significant interest. Board meetings are held on site as a principle. A director who fails to attend a Board meeting or to entrust a representative to attend is deemed to have waived his/her voting right at the relevant meeting. The Board shall make minutes of the decisions on the matters considered at the meeting, and the directors present at the meeting shall sign the minutes of the meeting.

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

During the year, the Board held twelve meetings on January 9, 2020, February 27, 2020, March 27, 2020, April 28, 2020, June 24, 2020, July 28, 2020, August 26, 2020, October 28, 2020, November 6, 2020 and November 25, 2020, respectively.

Directors' Training and Professional Development

During the year, all directors have received directors' training in writing or by attending lectures. Directors' training is mainly about (i) directors' duties and relevant regulations; (ii) responsibilities for the Prospectus; (iii) the Model Code for Securities Transactions by Directors of Listed Issuers and disclosure of rights and interests; (iv) statutory disclosure obligations for inside information; (v) Chapter 13 of the Listing Rules – Continuing Obligations; (vi) Chapter 14 of the Listing Rules – Notifiable Transactions; (vii) Chapter 14A of the Listing Rules – Connected Transactions; and (viii) the 2020 training dedicated for directors and supervisors and training on securities law for listed companies, organized by the Listed Companies Association of Beijing.

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

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

Name of directors	Attending or participating in relevant seminars/ reading relevant materials
Executive Directors	
Dr. LOU Boliang	✓
Mr. LOU Xiaoqiang	✓
Ms. ZHENG Bei	✓
Non-Executive Directors	
Mr. CHEN Pingjin	✓
Mr. HU Baifeng	✓
Mr. LI Jiaqing	✓
Mr. ZHOU Hongbin	✓
Independent Non-Executive Directors	
Mr. DAI Lixin	✓
Ms. LI Lihua (ceased on July 23, 2020)	✓
Ms. CHEN Guoqin	✓
Ms. SHEN Rong (ceased on July 23, 2020)	✓
Mr. TSANG Kwan Hung Benson	✓
Mr. YU Jian (appointed on July 23, 2020)	✓

Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules of the Stock Exchange as the Company's code of conduct for directors and supervisors in securities transactions. After making specific inquiries to all directors and supervisors, the directors and supervisors each confirmed that they have complied with the required rules set out in the Model Code during the Related Period.

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

Special Board Committees

Pursuant to the CG Code, the Board has established four special committees including the Strategy Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee, and has granted these special committees with their respective responsibilities. The Company completed the election for the second session of the special Board committees on July 28, 2020. The composition, main duties and work of these special committees during the year are set out below:

Strategy Committee

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

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

During the year, the Strategy Committee held two meetings where the following matters were considered:

(1) The Fifth Meeting of the Strategic Committee of the First Session of the Board was held on March 26, 2020 to consider and approve the Resolution on the Expected Application for Credit Line to Non-Related Party Financial Institutions for 2020, the Resolution on the Use of Part of Idle Self-owned Funds to Purchase Wealth Management Products, and the Resolution on Quota of the Hedging Product Transaction for 2020.

(2) The First Meeting of the Second Session of Strategic Committee of the Board was held on December 23, 2020 to consider and approve the Resolution on Acquisition of 100% Equity of Overseas Company.

Audit Committee

From January 1, 2020 to July 28, 2020, the first session of the Audit Committee of the Board consists of Ms. SHEN Rong (chairperson), Ms. LI Lihua and Ms. CHEN Guoqin. From July 28, 2020, the Audit Committee of the second session of the Board consists of Mr. YU Jian (chairperson), Ms. CHEN Guoqin and Mr. TSANG Kwan Hung Benson. All members of the Audit Committee are independent non-executive Directors.

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

The Audit Committee held five meetings during the year. From January 1, 2020 to July 28, 2020, members of the Audit Committee of the first session of the Board attended three meetings. From July 28, 2020 to December 31, 2020, members of the Audit Committee of the second session of the Board attended two meetings. The Audit Committee considered the following matters:

(1) The fifteenth meeting of the Audit Committee of the first session of the Board was held on January 15, 2020, and considered and approved the Resolution on the Audit Plan for the Financial Report for 2019, and the Resolution on Confirmation of Connected Legal Persons, Connected Natural Persons and Connected Persons of the Company.

(2) The sixteenth meeting of the Audit Committee of the first session of the Board was held on March 26, 2020, and considered and approved the Resolution on the Financial Report for 2019, Resolution on Self-Evaluation Report on Internal Control for 2019, Resolution on the Full Text and Summary of the Annual Report for 2019, and Announcement on the Annual Results for 2019, Resolution on the Appointment of Domestic Accounting Firm for 2020, Resolution on the Appointment of Overseas Accounting Firm for 2020, Resolution on the Special Review on the Occupation of Funds by the Company's Controlling Shareholders and Other Related Parties, Resolution on the Confirmation of Daily Connected Transactions in 2019 and Estimate of Daily Connected Transactions in 2020, Resolution on Expected Quota of the Hedging Product Transaction for 2020, Resolution on Internal Audit Report for 2019, and Resolution on the Summary of the Audit Work for 2019.

(3) The seventeenth meeting of the Audit Committee of the first session of the Board was held on April 28, 2020, and considered and approved the Resolution on the 2020 First Quarterly Report, Resolution on Increase in Expected Related-Party Transactions in the Ordinary Course of Business in 2020, Resolution on Confirmation of Connected Legal Persons, Connected Natural Persons and Connected Persons of the Company, and Resolution on Special Report by the Internal Audit Department.

(4) The first meeting of the Audit Committee of the second session of the Board was held on August 26, 2020, and considered and approved the Resolution on the Full Text and Summary of the Semiannual Report, and Announcement on Interim Results for 2020, Resolution on the Confirmation of the Company's Connected Legal Persons, Connected Natural Persons and Connected Persons, Resolution on Review of the Interim Report for 2020, and Resolution on Work Summary of Internal Audit Department for the First Half of 2020.

(5) The second meeting of the Audit Committee of the second session of the Board was held on October 28, 2020, and considered and approved the Resolution on 2020 Third Quarterly Report on Internal Control and Internal Audit Works, Resolution on 2020 Third Quarterly Report, Resolution on Increase in Expected Related-Party Transactions with Beijing Anikeeper Biotech Co., Ltd. in the Ordinary Course of Business, and Resolution on Audit Plan for 2020.

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

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

Nomination Committee

From January 1, 2020 to July 28, 2020, the Nomination Committee of the first session of the Board consists of Ms. CHEN Guoqin (chairperson), Dr. LOU Boliang, Ms. ZHENG Bei, Ms. SHEN Rong and Ms. LI Lihua. From July 28, 2020, the Nomination Committee of the second session of the Board consists of Ms. CHEN Guoqin (chairperson), Dr. LOU Boliang, Ms. ZHENG Bei, Mr. YU Jian and Mr. TSANG Kwan Hung Benson. Among them, independent non-executive Directors serve as the chairperson and make up the majority.

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

During the year, the Nomination Committee held two meetings. From January 1, 2020 to July 28, 2020, the members of the Nomination Committee of the first session of the Board participated in the two meetings where the following matters were considered:

(1) The third meeting of the Nomination Committee of the first session of the Board was held on June 24, 2020, and considered and approved the Resolution on Election of New Board and Non-independent Directors for the Second Board, and Resolution on Election of New Board and Independent Directors for the Second Board.

(2) The fourth meeting of the Nomination Committee of the first session of the Board was held on July 24, 2020, and considered and approved the Resolution on Proposed Appointment of Senior Management for the New Board.

Remuneration and Appraisal Committee

From January 1, 2020 to July 28, 2020, the Remuneration and Appraisal Committee of the first session of Board consists of Ms. SHEN Rong (chairperson), Dr. LOU Boliang, Mr. LOU Xiaoqiang, Ms. LI Lihua and Ms. CHEN Guoqin. From July 28, 2020, the Remuneration and Appraisal Committee of the second session of Board consists of consists of Ms. CHEN Guoqin (chairperson), Dr. LOU Boliang, Mr. LOU Xiaoqiang, Mr. TSANG Kwan Hung Benson and Mr. YU Jian. Among them, independent non-executive Directors serve as the chairperson and make up the majority.

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

During the year, the Remuneration and Appraisal Committee held four meetings. From January 1, 2020 to July 28, 2020, the members of the Remuneration and Appraisal Committee of the first session of the Board participated in two meetings. From July 28, 2020 to December 31, 2020, the members of the Remuneration and Appraisal Committee of the second session of the Board participated in two meetings. In the four meetings, the following matters were considered:

(1) The fifth meeting of the Remuneration and Appraisal Committee of the first session of the Board was held on March 26, 2020, and considered and approved the Resolution on the Remuneration Program of the Company's Directors, Resolution on the Remuneration Program of the Company's Supervisors, Resolution on the Remuneration Program of the Company's Senior Management, and Resolution on the 2019 Annual Performance Evaluation of the Company's Senior Management.

(2) The sixth meeting of the Remuneration and Appraisal Committee of the first session of the Board was held on July 24, 2020, and considered and approved the Resolution on the 2020 Remuneration Program of Senior Management Appointed after Election of the New Board of the Company.

(3) The first meeting of the Remuneration and Appraisal Committee of the second session of the Board was held on November 6, 2020, and considered and approved the Resolution on the 2020 Restricted A Shares Incentive Plan for 2020 (Draft) of Pharmaron Beijing Co., Ltd. and its Abstract ، Resolution on Deliberating the Measures for Management of the 2020 Restricted A Shares Incentive Plan for 2020 of Pharmaron Beijing Co., Ltd., Resolution on Verifying the List of Incentive Targets Granted by the Company's 2020 Restricted A Shares Incentive Plan for 2020 of Pharmaron Beijing Co., Ltd., Resolution on Requesting the Shareholders' General Meeting to Authorize the Board to Handle Equity Incentive-Related Matters, Resolution on the First H Shares Incentive Trust Plan (Draft) of Pharmaron Beijing Co., Ltd., and Resolution on Requesting the Shareholders' General Meeting to Authorize the Board and the Management Committee to Handle Matters Relating to the First H Shares Incentive Trust Plan.

(4) The second meeting of the Remuneration and Appraisal Committee of the second session of the Board was held on November 25, 2020, and considered and approved the Resolution on Fulfilment of Conditions for Unlocking within the First Unlocking Period and Temporary Non-listing with Respect to The First Grant under the Restricted Stock and Stock Option Incentive Plan for 2019.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

The following table sets forth the records of each director's attendance at the Board and board committee meetings as well as the Shareholders' General Meeting for the year ended December 31, 2020 during their term of office:

	Attendance/Number of Meetings						
Name of Directors	Board	Audit Committee	Remuneration and Appraisal Committee	Strategy Committee	Nomination Committee	Annual general meeting for 2019	Other General Meetings
Executive Directors							
Dr. LOU Boliang	12/12	N/A	4/4	2/2	2/2	1/1	2/3
Mr. LOU Xiaoqiang	12/12	N/A	4/4	2/2	N/A	1/1	2/3
Ms. ZHENG Bei	12/12	N/A	N/A	N/A (Attending once)	2/2	1/1	2/3
Non-executive Directors							
Mr. CHEN Pingjin	12/12	N/A	N/A	2/2	N/A	1/1	0/3
Mr. HU Baifeng	12/12	N/A	N/A	N/A (Attending once)	N/A	1/1	0/3
Mr. LI Jiaqing	12/12	N/A	N/A	2/2	N/A	1/1	0/3
Mr. ZHOU Hongbin	12/12	N/A	N/A	N/A (Attending once)	N/A	1/1	0/3
Independent Non-executive Directors							
Mr. DAI Lixin	12/12	N/A	N/A	2/2	N/A	1/1	0/3
Ms. LI Lihua (ceased to be an independent non-executive director on July 23, 2020 and a member of the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee on July 28)	5/5	3/3	2/2	N/A	2/2	1/1	0/2
Ms. CHEN Guoqin	12/12	5/5	4/4	N/A (Attending once)	2/2	1/1	1/3
Ms. SHEN Rong (ceased to be an independent non-executive director on July 23, 2020 and a member of the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee on July 28)	5/5	3/3	2/2	N/A	2/2	1/1	0/2
Mr. TSANG Kwan Hung Benson (Appointed as a member of the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee on July 28,2020)	12/12	2/2	2/2	N/A (Attending once)	0	1/1	0/3
Mr. YU Jian (appointed as an independent non-executive director on July 23, 2020 and a member of the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee on July 28, 2020)	7/7	2/2	2/2	N/A (Attending once)	0	0	0/1

REMUNERATION OF DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

Pursuant to Code Provision B.1.5 of the CG Code, the annual remuneration of the senior management (including Directors and Supervisors) of the Company by band for the year ended December 31, 2020 is set out below:

Remuneration Band (RMB)	Number of Individuals
0-1,000,000	8
3,000,000 above	5

DIRECTOR NOMINATION POLICY

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

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

REMUNERATION POLICY

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

Directors receive remunerations in different forms, including salaries and subsidies.

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

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

DIVIDEND POLICY

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

SUPERVISORY COMMITTEE

As at the date of this annual report, the Supervisory Committee consists of three members, two of whom are elected by shareholders and one by employees. The term of office of Supervisors is three years, and Supervisors can be re-elected upon the expiration of the term of office. On July 28, 2020, the Company completed the election of the new Supervisory Committee and appointment of supervisors for the second session of the Supervisory Committee, and each supervisor has a three-year term of office. Mr. LIU Jun resigned from the position of supervisor for the second session of the Supervisory Committee to hold another position, and Ms. FENG Shu was elected on December 11, 2020 as a supervisor for the second session of the Supervisor Committee.

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

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

Dr. YANG Kexin
Ms. FENG Shu (appointed on December 11, 2020)
Ms. ZHANG Lan

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

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

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

COMPANY SECRETARY

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

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

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

FINANCIAL REPORTING

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

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

RESPONSIBILITIES OF DIRECTORS CONCERNING FINANCIAL STATEMENTS

All Directors of the Company had committed their responsibilities for the preparation of the financial statements of the Company for the year ended December 31, 2020.

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

AUDITORS' REMUNERATION

The Company engaged Ernst & Young and Ernst & Young Hua Ming LLP as its international auditor and domestic auditor respectively. For the year ended December 31, 2020, the details of the remuneration payable by the Company to the auditors for the audit services and non-audit services were as follows:

Services	Remuneration (RMB' 000)
Audit services	4,300.0
Non-audit services (Note)	2,628.3
Total	6,928.3

Note: Non-audit services comprise consultancy services for Environmental, Social and Governance Reporting, taxation services and Due Diligence services rendered by the reporting accountant.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is fully responsible for evaluating and determining the nature and extent of the risks that the Company is willing to take in achieving its strategic objectives. The Board is also responsible for strengthening and standardizing the Company's internal management, enhancing the Company's self-discipline, realizing corporate governance goals, and improving the quality of information disclosure, managerial and administrative expertise, and capabilities of forestalling and defusing various risks, to push forward the Company's standardized operations and sustainable development. According to the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Accounting Law of the People's Republic of China, Audit Law of the People's Republic of China, Audit Regulations of the People's Republic of China, Guidelines for the Standardized Operation of Listed Companies on the ChiNext Market of Shenzhen Stock Exchange, Rules Governing the Listing of Stocks on Stock Exchanges, Basic Standard for Enterprise Internal Control, CG Code in Appendix 14 of the Hong Kong Listing Rules, and other laws and regulations and the Articles and Association, and in light of the actual management needs of the Company, the Company has formulated and adopted the Risk Management System, Early Warning System for Major Risks and Emergency Response System, Internal Control Management System, and Internal Audit Management System.

The Company's risk management system is designed to improve the risk prevention capabilities, enhance competitiveness, and advance the sustainable and healthy development of the Company. The internal audit system is intended to improve the quality and efficiency of internal audit, perfect the Company's mechanisms for supervision and risk control, and step up the Company's self-improvement and development. To strengthen the Company's management of major risks and emergencies, the mechanism for early warning and emergency response has been established to minimize losses, maintain the Company's normal operating order, and protect the legitimate interests of investors. The systems aim at managing rather eliminating the risk of failure to achieve business objectives and providing reasonable assurance of no material misstatement or loss.

FUNCTIONAL STRUCTURE OF RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

SPECIFIC PROCEDURES FOR IDENTIFYING, EVALUATING, AND MANAGING MAJOR RISKS

1. Risk identification

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

2. Risk analysis

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

3. Risk evaluation

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

4. Risk response

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

5. Risk management strategy

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

6. Risk monitoring and improvement

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

PROCESSING AND PUBLISHING INSIDE INFORMATION

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

REGULATIONS FOR EVALUATION AND MANAGEMENT OF INTERNAL CONTROL

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

ANNUAL REVIEW

On March 26, 2021, the Board meeting reviewed the risk management and internal control during the year. The results of the internal control, internal audit, and risk management during the year showed the following highlights:

(1) According to the identification of significant defects in internal control over financial reporting of the Company, the Company did not have any significant defect in internal control over non-financial reporting as at the base date of internal control evaluation report. The Board believes that the Company has maintained, in all material respects, effective internal control over financial reporting in accordance with the requirements of the internal control standard and system and related regulations.

(2) According to the identification of significant defects in internal control over non-financial reporting of the Company, no significant defects in internal control over non-financial reporting were found as at the base date of internal control evaluation report.

(3) From the base date of internal control evaluation report to the issuing date of the internal control evaluation report, factors affecting the conclusion of internal control effectiveness evaluation did not occur.

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

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company considered and approved the revised Articles of Association at the EGM held on April 8, 2020, July 23, 2020 and December 11, 2020 respectively. An up to date version of the Company's Articles of Association is available on the websites of the Company and the Hong Kong Stock Exchange.

SHAREHOLDERS' RIGHTS

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

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

PROCEDURES FOR MAKING ENQUIRIES TO THE BOARD

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

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

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

PROCEDURE FOR SUBMITTING PROPOSALS AT GENERAL MEETINGS

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

COMMUNICATION WITH INVESTORS AND INVESTOR RELATIONSHIP

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

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

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

Report of the Directors

The Board is pleased to present this annual report for the year 2020 and the audited consolidated financial statements of the Group for the year ended December 31, 2020.

PRINCIPAL ACTIVITIES

The Company is a leading fully-integrated pharmaceutical R&D services platform with global operations to accelerate drug innovation for our customers. The principal activity of 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 organised in three major categories: laboratory services, chemistry, manufacturing and controls ("CMC") (small molecule CDMO) services and clinical development services.

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

BUSINESS REVIEW

The description of principal risks and uncertainties that the Group may be facing, a fair review of the Group's business during the year, and the probable future business development of the Group are provided in the Corporate Governance Report and the Management Discussion and Analysis section on pages 49 to 67 and on pages 14 to 39 respectively of this annual report.

Also, the financial risk management objectives and policies of the Group can be found in note 49 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights on page 8 of this annual report. In addition, discussions on the relationships with its staff, customers and suppliers is also contained in the Environmental, Social and Governance Report section on pages 86 to 120 of this annual report. Discussions on the Group's environmental policies and compliance with relevant laws and regulations which have a significant impact on the Group are contained in this annual report on pages 86 to 120.

ENVIRONMENTAL PROTECTION

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

To the best of the Group's knowledge, during the year ended December 31, 2020, the Group had complied with the applicable environment laws and regulations in the PRC in all material respects. Please refer to pages 86 to 120 of this annual report for the Environmental, Social and Governance Report of the Company prepared in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2020, the percentage of the major customers and suppliers in the Group's total sales and purchase are as follow:

	Percentage in the Group's total	
	Sales	Purchases
Largest customer	6.0%	–
Total of the five largest customers	18.8%	–
Largest supplier	–	2.3%
Total of the five largest suppliers	–	9.3%

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

USE OF PROCEEDS FROM THE GLOBAL OFFERING

Upon completion of the global offering of its H Shares (the "Global Offering"), the Company raised net proceeds of approximately RMB4,522.7 million. As at December 31, 2020, the balance of unutilized net proceeds amounted to approximately RMB2,293.0 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 December 31, 2020.

Use of proceeds		Allocation of net proceeds (RMB million)	Utilized amount as at December 31, 2020 (RMB million)	Unutilized net proceeds as at December 31, 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	909.9	446.9	Expected to be fully utilized by December 31, 2021
• upgrading and expanding our Ningbo facility	19.5%	881.9	482.8	399.1	Expected to be fully utilized by December 31, 2021
• upgrading and expanding our Tianjin facility	4.5%	203.5	155.7	47.8	Expected to be fully utilized by December 31, 2021
• upgrading and expanding other manufacturing facilities	6.0%	271.4	271.4	–	Have been fully utilized by December 31, 2020

Use of proceeds		Allocation of net proceeds (RMB million)	Utilized amount as at December 31, 2020 (RMB million)	Unutilized net proceeds as at December 31, 2020 (RMB million)	Expected timeline for utilizing the net proceeds from the Global Offering [1]
Fund further expansion of businesses in the U.S. and U.K.	10.0%	452.3	114.6	337.7	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
Expand clinical development services	15.0%	678.4	74.5	603.9	Expected to be fully utilized by December 31, 2022
Expand our capacity and capabilities through acquisitions of CRO and CMO companies and businesses	15.0%	678.4	678.4	–	Have been fully utilized by December 31, 2020
General corporate and working capital	10.0%	452.3	452.3	–	Have been fully utilized by December 31, 2020
Total	–	4,522.7	2,229.7	2,293.0	

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.

RESULTS AND DIVIDEND

The consolidated results of the Group for the Reporting Period are set out on pages 125 to 217 of this annual report.

The Board recommends the payment of the Proposed Final Dividend of RMB3.0 (inclusive of applicable tax) per 10 shares. The aforesaid proposal is subject to the consideration and approval at the AGM. If the distribution proposal is approved at the AGM, it is expected that the final dividend for the year ended December 31, 2020 will be paid in 60 days after AGM to the shareholders whose names appear on the register of members of the Company on Tuesday, June 8, 2021 (the "Record Date").

The final dividend distribution shall be calculated based on the total number of Shares in issue as of the Record Date and the final cash dividend distribution shall be based on RMB3.0 per 10 shares (inclusive of applicable tax). In order to qualify for the final dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (address: Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Wednesday, June 2, 2021. For the purpose of ascertaining the holders of H Shares who qualify for the final dividend, the register of members for H Shares will be closed from Thursday, June 3, 2021 to Tuesday, June 8, 2021, both days inclusive, during which period no transfer of H Shares will be effected.

The final dividend will be denominated and declared in RMB. The holders of Domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The actual amount declared in HK dollars is converted based on the average benchmark exchange rate of Renminbi against HK dollars as promulgated by the People's Bank of China for the five business days preceding the date of the AGM.

To the best of the Company's knowledge, no shareholder has waived or agreed to waive any dividends.

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

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

TAX RELIEF AND EXEMPTION

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

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 38 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 40 and note 50 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at December 31, 2020, the Company's distributable reserves, calculated in accordance with PRC rules and regulations, were RMB1,630.9 million.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year and as of the date of this annual report are as follows:

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Mr. DAI Lixin (戴立信)
Ms. LI Lihua (李麗華) (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)
(ceased on December 11, 2020)
Ms. Feng Shu (馮書)
(appointed on December 11, 2020)
Ms. ZHANG Lan (張嵐)

Biographical details of the Directors, the Supervisors and the senior management of the Group as of the date of this annual report are set out on pages 40 to 48 in the section headed "Profiles of Directors, Supervisors and Senior Management" of this annual report.

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

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

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the Controlling Shareholders has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

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

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

PERMITTED INDEMNITY PROVISION

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

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES OF THE COMPANY

As of December 31, 2020, the interests and short positions of the Directors, the Supervisors and the chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is keen to taken or deemed to have under such provisions of the SFO), or as recorded in the registered maintained by the Company under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Position in Shares

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

Note:

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

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

Save as disclosed above, as of December 31, 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

As of December 31, 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	78,478,871(L)	11.88%	9.88%
JPMorgan Chase & Co [5]	H Shares	Interest of controlled corporation, investment manager, person having a security interest in shares, approved lending agent	17,094,630(L) 1,226,000(S) 8,763,989(P)	12.75% 0.91% 6.53%	2.15% 0.15% 1.10%
The Capital Group Companies, Inc. [6]	H Shares	Interest of controlled corporation	16,060,700(L)	11.98%	2.02%
BlackRock, Inc. [7]	H Shares	Interest of controlled corporation	7,931,600(L)	5.92%	1.00%
FMR LLC [8]	H Shares	Interest of controlled corporation	9,506,236(L)	7.09%	1.20%
China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司) ("**China Structural Reform Fund**") [9]	H Shares	Beneficial owner	7,931,600(L)	5.92%	1.00%
FIDELITY INVESTMENT TRUST	H Shares	Beneficial owner	6,825,267(L)	5.09%	0.86%

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 67.03% 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") directly held 72,332,628 A Shares. To the best knowledge of our Company, the general partner of Junlian Wenda is Junlian Tongdao, the general partner of which is Lasa Junqi Enterprise Management Co., Ltd. (拉薩君祺企業管理有限公司) ("Lasa Junqi"). Junlian Tongdao is held as to 76.41% by Beijing Junqi Tongdao Investment Consultancy Partnership (Limited Partnership) (北京君祺同道投資顧問中心(有限合夥)) ("Junqi Tongdao") as a limited partner, the general partner of which is Lasa Junqi. Junqi Tongdao is held as to 74.83% by Lasa Bodao Investment Management Partnership (Limited Partnership) (拉薩博道投資管理合夥企業(有限合夥)) ("Lasa Bodao") as a limited partner. Lasa Junqi is wholly-owned by Legend Capital, which is held as to 80% by 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)) ("Juncheng Hezhong"). The general partner of Juncheng Hezhong is Beijing Junqi Jiarui Enterprise Management Co., Ltd. (北京君祺嘉睿企業管理有限公司) ("Junqi Jiarui"), which is held as to 40%, 40% and 20% by Mr. WANG Nengguang (王能光), Mr. CHEN Hao (陳浩) and Mr. ZHU Linan (朱立南), respectively. Juncheng Hezhong is owned as to 58.12% and 41.87% by Tianjin Huizhi Yihao Enterprise Management Consultancy Partnership (Limited Partnership) (天津匯智壹號企業管理諮詢合夥企業(有限合夥)) ("Huizhi Yihao") and Tianjin Junlian Jieyou Enterprise Management Consultancy Partnership (Limited Partnership) (天津君聯傑佑企業管理諮詢合夥企業(有限合夥)) ("Junlian Jieyou") as limited partners, respectively. Huizhi Yihao is owned as to 48.85% by Mr. ZHU Linan (朱立南) as limited partner. Additionally, Junlian Wenda is held as to 39.48% by Beijing Junlian Xinhai Equity Investment Partnership (Limited Partnership) (北京君聯新海股權投資合夥企業(有限合夥)) ("Junlian Xinhai") as a limited partner, the general partner of which is Junlian Tongdao. Therefore, Junlian Xinhai is deemed to be interested in the same number of A Shares in which Junlian Wenda is interested under the SFO. In addition, Junlian Maolin directly held 6,146,243 A Shares. To the best knowledge of our Company, the general partner of Junlian Maolin is Junlian Tongdao. As such, Junlian Tongdao, Lasa Junqi, Junqi Tongdao, Lasa Bodao, Legend Capital, Juncheng Hezhong, Junqi Jiarui, Huizhi Yihao, Junlian Jieyou, Mr. WANG Nengguang (王能光), Mr. CHEN Hao (陳浩) and Mr. ZHU Linan (朱立南) are deemed to be interested in our A Shares held by Junlian Wenda and Junlian Maolin under the SFO.

5. JPMorgan Chase & Co. has a total interest of 17,094,630 (long position), 1,226,000 (short position) and 9,763,9890 (lending pool) Shares in our Company by virtue of its relationship with a number of corporation. According to the disclosure of interest notice filed by JPMorgan Chase & Co. with a relevant event date of December 23, 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 shares
China International Fund Management Co., Ltd.	JPMORGAN ASSET MANAGEMENT (UK) LIMITED	49.00	Y	908,400 (L)
JPMorgan Asset Management (Taiwan) Limited	JPMorgan Asset Management (Asia) Inc.	100.00	Y	206,500 (L)
J.P. Morgan Securities LLC	J.P. Morgan Broker-Dealer Holdings Inc.	100.00	Y	396,300 (L)
JPMORGAN CHASE BANK, N.A. – LONDON BRANCH	JPMorgan Chase Bank, National Association	100.00	Y	8,763,989 (L)
JPMORGAN ASSET MANAGEMENT (UK) LIMITED	JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED	100.00	Y	25,700 (L)
J.P. Morgan Investment Management Inc.	JPMorgan Asset Management Holdings Inc.	100.00	Y	321,100 (L)
JPMorgan Chase Bank, National Association	JPMorgan Chase & Co.	100.00	Y	276,600 (L)
JPMorgan Asset Management (Asia Pacific) Limited	JPMorgan Asset Management (Asia) Inc.	99.99	Y	3,539,600 (L)
J.P. MORGAN SECURITIES PLC	J.P. MORGAN CAPITAL HOLDINGS LIMITED	100.00	Y	2,656,441 (L) 1,226,000 (S)
JPMORGAN ASSET MANAGEMENT (UK) LIMITED	JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED	100.00	N	908,400 (L)
JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED	JPMorgan Asset Management Holdings Inc.	100.00	N	934,100 (L)
JPMorgan Asset Management Holdings Inc.	JPMorgan Chase Holdings LLC	100.00	N	5,001,300 (L)
JPMorgan Chase Holdings LLC	JPMorgan Chase & Co.	100.00	N	5,397,600 (L)
JPMorgan Asset Management (Asia) Inc.	JPMorgan Asset Management Holdings Inc.	100.00	N	3,746,100 (L)
J.P. Morgan Broker-Dealer Holdings Inc.	JPMorgan Chase Holdings LLC	100.00	N	396,300 (L)
JPMorgan Chase Bank, National Association	JPMorgan Chase & Co.	100.00	N	11,420,430 (L) 1,226,000 (S)
J.P. MORGAN CAPITAL HOLDINGS LIMITED	J.P. Morgan International Finance Limited	100.00	N	2,656,441 (L) 1,226,000 (S)
J.P. Morgan International Finance Limited	JPMorgan Chase Bank, National Association	100.00	N	2,656,441 (L) 1,226,000 (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	1,929,941 (L) 1,226,000 (S)
Invest manager	5,277,900 (L)
Person having security interest in the shares	1,122,800 (L)
Approved lending agent	8,763,989(L)

Additionally, 127,200 (short position) H Shares were held through a physically settled unlisted derivative, and 293,000 (long position) H Shares and 1,098,800 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. According to the disclosure of interest notice filed by BlackRock Inc. with a relevant event date of November 30, 2020, the following interest in H Shares were held by BlackRock Inc.:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of shares
Trident Merger, LLC	BlackRock, Inc.	100.00	N	100,300 (L)
BlackRock Investment Management, LLC	Trident Merger, LLC	100.00	Y	100,300 (L)
BlackRock Holdco 2, Inc.	BlackRock, Inc.	100.00	N	9,550,525 (L)
BlackRock Financial Management, Inc.	BlackRock Holdco 2, Inc.	100.00	N	8,975,125 (L)
BlackRock Financial Management, Inc.	BlackRock Holdco 2, Inc.	100.00	Y	575,400 (L)
BlackRock Holdco 4, LLC	BlackRock Financial Management, Inc.	100.00	N	3,549,900 (L)
BlackRock Holdco 6, LLC	BlackRock Holdco 4, LLC	90.00	N	3,549,900 (L)
BlackRock Delaware Holdings Inc.	BlackRock Holdco 6, LLC	100.00	N	3,549,900 (L)
BlackRock Institutional Trust Company, National Association	BlackRock Delaware Holdings Inc.	100.00	Y	1,667,900 (L)
BlackRock Fund Advisors	BlackRock Delaware Holdings Inc.	100.00	Y	1,882,000 (L)
BlackRock Capital Holdings, Inc.	BlackRock Financial Management, Inc.	100.00	N	27,800 (L)
BlackRock Advisors, LLC	BlackRock Capital Holdings, Inc.	100.00	N	21,100 (L)
BlackRock Advisors, LLC	BlackRock Capital Holdings, Inc.	100.00	Y	6,700 (L)
BlackRock Capital Management, Inc.	BlackRock Advisors, LLC	100.00	Y	21,100 (L)
BlackRock International Holdings, Inc.	BlackRock Financial Management, Inc.	100.00	N	5,397,425 (L)
BR Jersey International Holdings L.P.	BlackRock International Holdings, Inc.	86.00	N	5,397,425 (L)
BlackRock Lux Finco S.à r.l.	BlackRock HK Holdco Limited	100.00	N	561,512 (L)
BlackRock Japan Holdings GK	BlackRock Lux Finco S.à r.l.	100.00	N	561,512 (L)
BlackRock Japan Co., Ltd.	BlackRock Japan Holdings GK	100.00	Y	561,512 (L)

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of shares
BlackRock Holdco 3, LLC	BR Jersey International Holdings L.P.	100.00	N	4,650,213 (L)
BlackRock Canada Holdings LP	BlackRock Holdco 3, LLC	99.90	N	13,100 (L)
BlackRock Canada Holdings ULC	BlackRock Canada Holdings LP	100.00	N	13,100 (L)
BlackRock Asset Management Canada Limited	BlackRock Canada Holdings ULC	100.00	Y	13,100 (L)
BlackRock Australia Holdco Pty. Ltd.	BR Jersey International Holdings L.P.	100.00	N	65,800 (L)
BlackRock Investment Management (Australia) Limited	BlackRock Australia Holdco Pty. Ltd.	100.00	Y	65,800 (L)
BlackRock (Singapore) Holdco Pte. Ltd.	BR Jersey International Holdings L.P.	100.00	N	681,412 (L)
BlackRock HK Holdco Limited	BlackRock (Singapore) Holdco Pte. Ltd.	100.00	N	642,512 (L)
BlackRock Asset Management North Asia Limited	BlackRock HK Holdco Limited	100.00	Y	81,000 (L)
BlackRock Cayman 1 LP	BlackRock Holdco 3, LLC	100.00	N	4,637,113 (L)
BlackRock Cayman West Bay Finco Limited	BlackRock Cayman 1 LP	100.00	N	4,637,113 (L)
BlackRock Cayman West Bay IV Limited	BlackRock Cayman West Bay Finco Limited	100.00	N	4,637,113 (L)
BlackRock Group Limited	BlackRock Cayman West Bay IV Limitied	90.00	N	4,637,113 (L)
BlackRock Finance Europe Limited	BlackRock Group Limited	100.00	N	1,624,828 (L)
BlackRock Advisors (UK) Limited	BlackRock Finance Europe Limited	100.00	Y	20,500 (L)
BlackRock Group Limited–Luxembourg Branch	BlackRock Group Limited	100.00	N	3,012,285 (L)
BlackRock Luxembourg Holdco S.à r.l.	BlackRock Group Limited – Luxembourg Branch	100.00	N	3,012,285 (L)
BlackRock Investment Management Ireland Holdings Limited	BlackRock Luxembourg Holdco S.à r.l.	100.00	N	745,685 (L)
BlackRock Asset Management Ireland Limited	BlackRock Investment Management Ireland Holdings Limited	100.00	Y	745,685 (L)
BLACKROCK (Luxembourg) S.A.	BlackRock Luxembourg Holdco S.à r.l.	100.00	Y	2,266,600 (L)
BlackRock Investment Management (UK) Limited	BlackRock Finance Europe Limited	100.00	N	843,955 (L)
BlackRock Investment Management (UK) Limited	BlackRock Finance Europe Limited	100.00	Y	760,373 (L)
BlackRock Fund Managers Limited	BlackRock Investment Management (UK) Limited	100.00	Y	843,955 (L)
BlackRock (Singapore) Limited	BlackRock (Singapore) Holdco Pte. Ltd.	100.00	Y	38,900 (L)

8. According to the disclosure of interest notice filed by FMR LLC. with a relevant event date of December 11, 2020, the following interest in H Shares were held by FMR LCC:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of shares
FIDELITY MANAGEMENT & RESEARCH COMPANY LLC	FMR LLC	100.00	Y	100,000 (L)
FIDELITY MANAGEMENT & RESEARCH COMPANY LLC	FMR LLC	100.00	N	9,128,636 (L)
FIDELITY MANAGEMENT & RESEARCH (HONG KONG) LIMITED	FIDELITY MANAGEMENT & RESEARCH COMPANY LLC	100.00	Y	8,843,436 (L)
FIAM HOLDINGS LLC	FMR LLC	100.00	N	1,158,229 (L)
FIDELITY INSTITUTIONAL ASSET MANAGEMENT TRUST COMPANY	FIAM HOLDINGS LLC	100.00	N	1,153,700 (L)
FIAM LLC	FIAM HOLDINGS LLC	100.00	N	4,529 (L)
FIDELITY ADVISORY HOLDINGS LLC	FMR LLC	100.00	N	277,600 (L)
STRATEGIC ADVISERS LLC	FIDELITY ADVISORY HOLDINGS LLC	100.00	N	277,600 (L)
FIDELITY CANADA INVESTORS LLC	OWNED BY CERTAIN EMPLOYEES AND SHAREHOLDERS OF FMR LLC	100.00	N	259,710 (L)
BAY STREET HOLDINGS LLC	FIDELITY CANADA INVESTORS LLC	100.00	N	259,710 (L)
483A BAY STREET HOLDINGS LP	BAY STREET HOLDINGS LLC	18.00	N	259,710 (L)
BLUEJAY LUX 1 S.A.R.L.	483A BAY STREET HOLDINGS LP	100.00	N	259,710 (L)
FIC HOLDINGS ULC	BLUEJAY LUX 1 S.A.R.L.	100.00	N	259,710 (L)
FIDELITY INVESTMENTS CANADA ULC	FIC HOLDINGS ULC	100.00	N	259,710 (L)

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

as filed by CCB Trust

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

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

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

Substantial shareholders of other members of the Group

Name	Member of the Group	Approximate percentage held by the substantial shareholder
WU Yu	Nanjing Sirui Biotechnology Co., Ltd. (南京思睿生物科技有限公司)	23.04%
Nanjing Sanomai Kang Enterprise Management Partnership (Limited Partnership) (南京賽諾邁康企業管理合夥企業（有限合夥))	Nanjing Sirui Biotechnology Co., Ltd. (南京思睿生物科技有限公司)	14.73%
Nanjing Xiya Enterprise Management Partnership (Limited Partnership)(南京希雅企業管理合伙企業（有限合夥))	Nanjing Sirui Biotechnology Co., Ltd. (南京思睿生物科技有限公司)	6.67%
Shin Nippon Biomedical Laboratories, Ltd	Pharmaron CPC, Inc	20.00%
LIU Yang	LinkStart (北京聯斯達醫藥科技發展有限公司)	22.40%
Beijing Deshu Enterprise Management Center (Limited Partnership)(北京德數企業管理中心（有限合夥))	LinkStart (北京聯斯達醫藥科技發展有限公司)	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%
寧波康智眾盛企業管理諮詢合伙企業（有限合夥)	康龍化成（寧波）生物醫藥有限公司	15.00%

Save as disclosed above, as of December 31, 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.

CONNECTED TRANSACTIONS

During the year ended December 31, 2020, details of the Group's continuing connected transaction subject to the reporting, annual review, announcement requirements are set out as follows:

Continuing connected transaction	Date	Connected person	Description and purpose of the transaction	Annual cap for the year ended December 31, 2020	Actual transaction value for the year ended December 31, 2020
Study Animals Procurement Framework Agreement	October 28, 2020	Beijing Anikeeper Biotech Co., Ltd. (北京安凱毅博生物技術有限公司), a company held as to 75% by Hangzhou Nafeng Investment Co., Ltd. (杭州納澧投資有限公司), which is in turn held as to 50% by Mr. LOU Guoqiang, brother of Dr. LOU Boliang and Mr. LOU Xiaoqiang, and 20% by Ms. ZHENG Bei ("Anikeeper")	Our Company has entered into the agreement to procure study animals that are necessary for our pharmacology services.	RMB10 million	RMB8.49 million
Commissioned Experiments and Research Framework Agreement	June 16, 2020	Ningbo Newbay Technology Development Co., Ltd. (寧波新灣科技發展有限公司) ("Newbay Technology"), a company in which Mr. LOU Xiaoqiang acts as its director and is voluntarily treated as a connected person of the Company	Our Group shall provide certain pharmaceutical research and development, manufacturing, clinical research and other technical services to Newbay Technology and its subsidiaries.	RMB40 million	RMB16.8 million

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

Study Animals Procurement Framework Agreement

On October 28, 2020, the Company and Anikeeper entered into the new study animal procurement framework agreement for a term of 3 years from October 28, 2020 to December 31, 2022, pursuant to which the Company would purchase study animal from Anikeeper to be used for scientific experiments. The Company and Anikeeper will enter into separate purchase order which will set out the specific terms and conditions according to the principles in the new study animals procurement framework agreement.

Pricing

As a general principle, the prices for the laboratory animals will be on normal commercial terms, negotiated on arm's length basis, on similar basis as the Group conducts businesses with other independent third party suppliers and shall be on terms no less favourable to the Group than those offered by independent third party suppliers.

Unless agreed by both parties after arm's length negotiations, the prices for the transactions contemplated under the new study animals procurement framework agreement shall be calculated and determined based on the unit price list as set out in the new study animals procurement framework agreement. In addition to the general principle disclosed above, the Group has taken into account the following factors when determining the unit price list: (i) market prices of similar laboratory animals offered by other independent third party suppliers; (ii) breeds, quantities, weight and size of laboratory animals; (iii) feeding conditions of the laboratories animals; and (iv) delivery method. Any deviation from the unit price list shall be subject to further negotiations between the Company and Anikeeper, and the execution of supplemental agreement to reflect the same.

The unit price list is applicable to similar transactions conducted by the Company with other independent third party suppliers. Hence, the terms of the purchases by the Group from Anikeeper will be no less favourable to the Group than those offered by independent third party suppliers.

Annual caps

For the years ending December 31, 2020, 2021 and 2022, the maximum aggregate annual amount of rentals under the study animals procurement framework agreement shall not exceed RMB10 million, RMB15 million and RMB20 million, respectively.

Commissioned Experiments and Research Framework Agreement

On June 16, 2020, the Company and Newbay Technology entered into the commissioned experiments and research framework agreement for a term of 1 year from June 16, 2020, pursuant to which the Group would provide certain pharmaceutical research and development, manufacturing, clinical research and other technical services to Newbay Technology and it subsidiaries. The Company and Anikeeper will enter into separate individual agreements or work orders which will set out the specific terms and conditions according to the principles in the commissioned experiments and research framework agreement.

Pricing

Services fees will be charged at rates no less favorable than rates at which our Group charges independent third parties for comparable transactions and will be determined by the relevant parties through arm's length negotiations based on a number of factors applicable to all customers, including but not limited to the nature, complexity, and value of tasks completed by the Group at each stage under each work order, the materials required to complete the tasks, the fees charged for historical transactions of similar nature and the then prevailing market rates.

Annual caps

For the years ending June 15, 2021, the total service fees receivable by the Group for the services under the commissioned experiments and research framework agreement is expected not to exceed RMB40 million.

Review by and confirmation of independent non-executive Directors of the Company

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

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

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

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

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

Confirmation of the auditor

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

The auditors of the Group had informed the Board and confirmed nothing has come to their attention that cause them to believe that the continuing connected transactions:

(i) have not been approved by the Board;

(ii) are not carried out in accordance with the related transaction agreement in any material respects; and

(iii) exceed the annual cap.

In respect of the above mentioned non-exempt connected transactions, the Directors also confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

During the reporting period, save as disclosed above in the announcements of the Company dated January 20, 2020, February 6, 2020 and September 22, 2020 in relation to the establishment of fund, there was no connected transaction or continuing connected transaction of the Group which has to be disclosed in accordance with the Listing Rules. For details, please refer to the abovementioned announcements of the Company.

RELATED PARTY TRANSACTIONS

Details on related party transactions for the Reporting Period are set out in note 46 to the consolidated financial statements. Save as disclosed in the paragraph headed "Connected Transactions" in this annual report, the related party transactions as set out in note 46 to the consolidated financial statements are not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE, REDEMPTION OR CANCELLATION OF LISTED SECURITIES

For the year ended December 31, 2020, neither the Company nor any of its subsidiaries purchased, sold, redeemed or cancelled any of the Company's listed securities.

EQUITY-LINKED AGREEMENT

During the Reporting Period, other than the share incentive arrangements as set out in the section under "Share Incentive Scheme" set out on page 84 of this annual report and note 39 to the consolidated financial statements on pages 196 to 198 of this annual report, the Company has not entered into any equity-linked agreement.

DONATIONS

During the Reporting Period, the Company made donations of RMB4.7 million.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of December 31, 2020 are set out in note 1 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. The Board is of the opinion that the Company has complied with the applicable code provisions under the CG Code throughout the Reporting Period. Principal corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 49 to 67 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

SHARE INCENTIVE SCHEME

A Share Incentive Scheme

In order to establish and improve long-term corporate incentive systems of our Group, attract and retain talent, motivate the employees of our Group, effectively align the interests of our Shareholders, our Group and the employees of our Group and enabling the respective parties to become aware of our Group's long-term development, and to promote the realization of the development strategies of our Group, on August 15, 2019, the shareholders' meeting of the Company passed a resolution to adopt the A Share Incentive Scheme. On July 29, 2019, the Board resolved to grant 4,521,087 Restricted A Shares, representing approximately 80% of the Shares available under the A Share Incentive Scheme. On October 30, 2019, 4,077,387 Restricted A Shares were granted to a total of 227 employees. For details of the terms of the A Share Incentive Scheme and the Restricted A Shares, please refer to the prospectus of the Company dated November 14, 2019.

During the Reporting Period, no Restricted A Shares or options were forfeited since granted.

First H Share Award and Trust Scheme

The Shareholders have resolved to adopt the First H Share Award and Trust Scheme during the extraordinary general meeting of the Shareholders on December 11, 2020. Pursuant to the First H Share Award and Trust Scheme, the maximum number of H Shares that can be purchased on the market by the trustee appointed by the Company for the purpose of servicing the First H Share Award and Trust Scheme shall not exceed 7,940,000 H Shares, representing approximately 6% of the Company's total number of issued H Shares. For details of the terms of the First H Share Award and Trust Scheme, please refer to the circular of the Company dated November 25, 2020.

On December 14, 2020, the management committee of the First H Share Award and Trust Scheme has resolved to grant awards of a total of 776,100 H Shares to 81 eligible employees under the First H Share Award and Trust Scheme. None of the grantees is a director or connected person of the Company.

CLOSURE OF THE REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, May 25, 2021 to Friday, May 28, 2021, both days inclusive, during which period no transfer of Shares will be effected. In order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Monday, May 24, 2021.

For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from Thursday, June 3, 2021 to Tuesday, June 8, 2021, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for receiving the Proposed Final Divided (subject to the approval by the Shareholders at the AGM), all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Wednesday, June 2, 2021.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

AUDITOR

There has been no change in auditors during the Reporting Period. The consolidated financial statements for the Reporting Period have been audited by Ernst & Young, who are proposed for reappointment at the forthcoming AGM.

By order of the Board
Pharmaron Beijing Co., Ltd.
Dr. Lou Boliang
Chairman

Beijing, the PRC
March 26, 2021

Environmental, Social and Governance Report

CONTENTS

Adhering to the concept of sustainable development, the Group continuously integrates the requirements of sustainable development into daily management to improve its responsible management and quality of products and services. By leading innovation-driven development, we strengthen supply chain management and practice environmental protection. In the meantime, we protect labor rights and interests, facilitate employee development, participate in charitable undertakings, and promote sustainable operations.

This report is the second Environmental, Social and Governance (hereafter referred to as ESG) report issued by the Group. It reports our ESG performance from 1 January 2020 to 31 December 2020, with some aspects covered beyond this period. This report complies with the provisions of the Appendix 27 "ESG Reporting Guide" to the *Guidelines for Listing Rules* of the Stock Exchange of Hong Kong Limited (hereinafter referred to as the HKEX). Unless otherwise specified, the financial data cited in this report was derived from audited financial statements and the rest of the data from the Company's internal official documents and related statistics.

1. RESPONSIBLE MANAGEMENT

Pharmaron has always adhered to the values of sustainable development by constantly improving the construction of the ESG management system, actively responding to the needs and expectations of stakeholders, and strengthening the anti-corruption system building, in order to improve its sustainable development and advance the comprehensive integration of ESG concepts and its management and operations.

1.1. ESG Management

Attaching great importance to ESG management work, Pharmaron constantly promotes the construction of ESG management system and improves its ESG management ability and internal awareness of ESG work.

The Group formulated the *Corporate Social Responsibility Management System*, which stipulates that the general manager (GM) of the Company shall be responsible for leading the fulfillment of social responsibilities, and the Social Responsibility Management Committee has also been established. The Committee is authorized by the GM to be responsible for the daily work related to corporate social responsibility. The chairman of the Committee is served by the deputy manager, who assumes the ultimate responsibility for the operation of the Company's social responsibility system and social responsibility performance; the head of the Office for Environment, Health and Safety (EHS Office) serves as the executive assistant and is responsible for chairing and coordinating the daily work of the committee; members of the committee also include the heads of Human Resources Department, Finance Department, Government Affairs Department, Procurement Department, Administration Department, Internal Control Department, Union representatives as well as leaders of its branches and subsidiaries.

In order to more effectively manage the Company's performance of social responsibility in various aspects, the Company refined the various functions of the Social Responsibility Management Committee, implemented the ESG resolutions of the Board of Directors, and planned the ways for stakeholder engagement and communication. We sorted out the material ESG issues at each stage, identified ESG risks and opportunities, set ESG goals and reported to the Board and the management on progress in a timely manner.

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

In December 2020, the Company officially held a meeting on a special survey for preparing the annual ESG report. By adopting an online and offline model, the meeting clarified new changes and new trends in ESG work, formulated an ESG report preparation work plan, set goals for building and improving the Company's internal ESG system, and organized various tasks such as departmental interviews, stakeholder research, and information collection.

1.2. Stakeholder Engagement

Maintaining close communication and contact with various stakeholders is an important part of our responsible management. In the Company's operations, the effective participation of stakeholders can help us correctly assess the impact of its decisions, adjust its course of action in a timely manner, and make strategic decisions for responsible management, thereby achieving the sustainable development of the Company and its stakeholders.

In 2020, the Company actively communicated with the six major stakeholders – the government and regulators, shareholders, customers and partners, suppliers, employees, the community and the public to understand the needs of stakeholders and respond accordingly in a timely manner.

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

1.3. Response to ESG Reporting Principle

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

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

Steps to identify material environmental, social and governance issues

Sources of issues

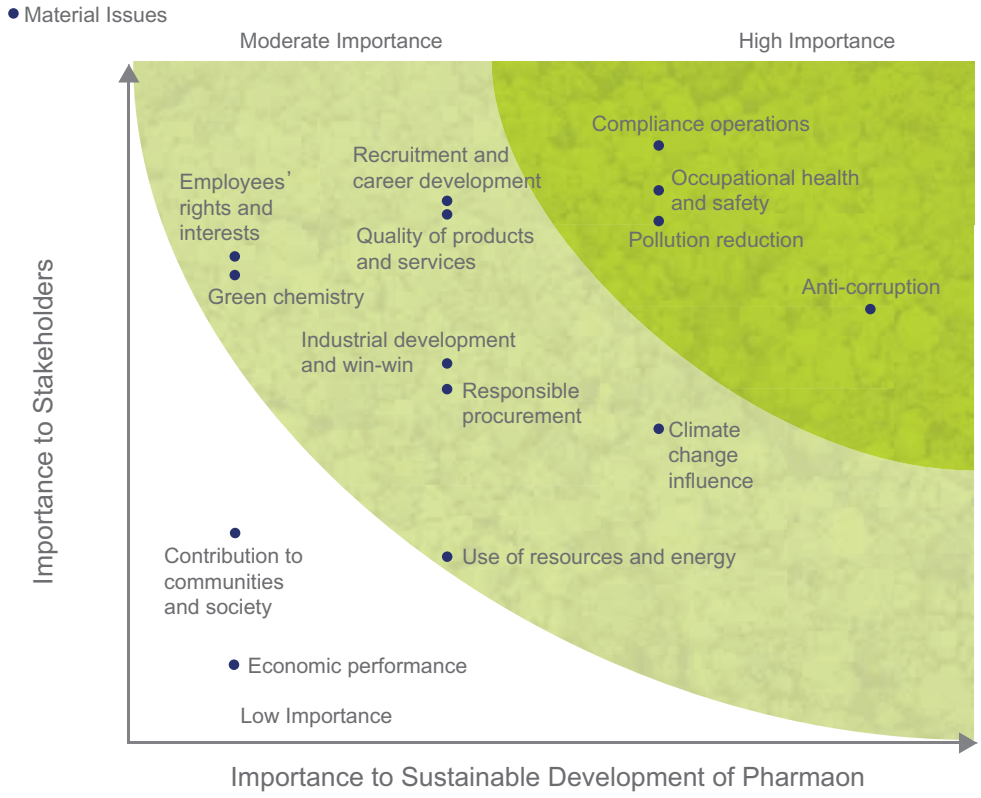
- Corporate management suggestions
- Suggestions from internal and external professionals
- Multimedia information analysis
- Benchmarking studies
- ESG standards and guidelines

Screening standards

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

In 2020, the Group's major sustainable development issues include: compliance management, occupational health and safety, pollution reduction and anti-corruption.

Materiality matrix of Pharmaron in 2020



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

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

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

1.4. Operations with Integrity

Pharmaron attaches great importance to the construction of clean government, resolutely opposes any form of corruption and pursues a clean and honest corporate culture. The group strictly abides by the *Criminal Law of the People's Republic of China,* the *Anti-Money Laundering Law of the People's Republic of China*, the *Anti-Unfair Competition Law of the People's Republic of China*, the *Interim Provisions on Prohibition of Commercial Bribery*, and the *Foreign Corrupt Practices Act of 1977*(by US) and other laws and regulations. On the basis of its compliance with laws and regulations and consideration of actual operation, the Company has formulated the internal policies and management measures, such as *Anti-Fraud*, *Whistle-blowing* and *Complaining Measures* and the *Code of Ethical Conduct*. These policies strengthened the integrity of the Company's executives and other employees, regulated their occupational behaviors and prevented the occurrence of corruption and fraud.

Pharmaron established a special committee adopting an independent and effective investigation and handling mechanism as the Company's last line of defense against commercial corruption and to severely punish violations. We also established effective anti-corruption and fraud reporting and investigation procedures. By improving its compliance hotline, email and other reporting systems, the Company constantly unblocked the supervision and reporting channels, and was committed to protect whistleblowers.

In order to enhance employees' awareness of integrity and self-discipline and regulate employees' daily behaviors, the Group places a high emphasis on anti-corruption education by promoting a comprehensive and systematic training mechanism and actively carrying out various anti-corruption education activities. At the same time, the Company evaluates the results of anti-corruption training and records the training duration and test results as an important part of employee performance appraisal. In 2020, the Company organized a total of 12 anti-corruption training sessions, attended by 1,863 person-times with the pass rate of 100%. This effectively raised the anti-corruption awareness of employees and strengthened the Company's anti-corruption training efforts.

Number of anti-corruption training sessions classified by employee type

Number of anti-corruption trainees classified by employee type

In addition, in order to improve the compliance awareness of our business partners and ensure that the Company and its business partners cooperate in a legal and compliant manner, we require business partners to sign the *Agreement with Pharmaron Beijing Co., Ltd.* on *Integrity and Compliance*, and publicize relevant policies to them every year. The Procurement department will explain to suppliers the Company's regulations on honest practice in a timely manner and encourage and supervise suppliers to comply with the social responsibility requirements of the Company and the state.

In 2020, the Company did not have any lawsuits caused by corruption or fraud.

2. SUSTAINABLE OPERATIONS

The Group strictly controls product quality and safety, actively promotes technological innovation and research and development (R&D), and is committed to offering efficient and high-quality R&D services. We always insist on creating a fair and transparent business environment, implement sustainable development in all aspects of its operations, and strive to achieve long-term development.

2.1. Product Liability

As a pharmaceutical company, we always put product quality and safety first. The Group strictly complies with the *Pharmaceutical Administration Law of the People's Republic of China, China Good Manufacturing Practice of Medical Products* (revised in 2010), and other laws and regulations, as well as the *Industrial Guidelines on Data Integrity and Compliance on cGMP*, the *GXP Data Integrity Guidelines and Definitions*, and the *WHO Guidance on Good Data and Record Management*. In accordance with Vol. 4 of the *Rules Governing Medicinal Products in the European Union*, the *21 CFR Part 210 Current Good Manufacturing Practice (CGMP) in Manufacturing, Processing, Packing, Or Holding of Drugs*, the *ICH Q7 Good Manufacturing Practice (GMP) Guidance for Active Pharmaceutical Ingredients,* the *ICH Q8 Pharmaceutical Development,* the *ICH Q9 Quality Risk Management*, and the *ICH Q10 Pharmaceutical Quality System* and other guidelines, the Company keeps its technical requirements in line with international standards to improve its product technology. On this basis, the Group formulated internal system documents such as the *GPHA-QP V01 Pharmaron Quality Policy,* the *GPHAQM V01 Quality Manual and* the *PHAQA-008 Recall* to constantly improve its quality management system and standardize its technical standards.

In order to ensure product quality and improve core competitiveness, the Quality Control department of the Group conducts quality control on six fronts – production, analysis, material management, engineering, equipment and facility management, and quality assurance system, and integrates technical requirements through SOP into major links such as R&D, experiment, and production to further implement product responsibility and exert effective quality control.

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

- In 2020, the Quality Assurance department of the Company completed the quality assurance management and project support of 50 GMP APIs and 37 GMP preparations, and in compliance with the requirements of GMP, received 22 on-site audits by domestic and foreign customers. The problems found were tracked and rectified according to the plan, thereby winning positive feedback from customers.

- In 2020, the Quality Assurance department of Pharmaron Tianjin completed the quality assurance management and project support of 25 GMP projects, received 12 audits (onsite and remote) by domestic and foreign customers in compliance with GMP requirements. The audit results were all positively recognized by customers.

- In 2020, LinkStart received and passed 4 customer audits, 18 project audits and internal audits, completed 54 revisions to quality management procedures and related records, and had 368 interviews with new employees about quality assurance issues.

- In 2020, CR Medicon's Quality Assurance department completed 24 GLP inspections (77 times), 27 process inspections, and 2 rounds of institutional inspections.

While continuously improving the effectiveness of the quality management and review systems, the Group requires all employees to deliver high-quality products in accordance with the quality policy and to ensure that materials and services meet high-quality standards. We also raise high quality requirements to suppliers, partners and contractors and strictly supervise their completion of the quality requirements in order to effectively improve the safety and quality of product delivery.

In 2020, the Group had no accidents or incidents related to delivery quality and safety.

2.2. Innovation and R&D

Technological innovation is the core competency of an enterprise and the driving force of its sustainable development. Pharmaron is always committed to technological innovation and R&D. Focusing on intellectual property protection, industry exchanges on R&D, and cultivation of an innovative culture, the Company strives to stimulate its innovative potential and encourage employees to think out of the box and act ahead of the curve.

As a pharmaceutical R&D enterprise, scientific and technological innovations have a profound impact on the development of Pharmaron, so the Company has always valued highly the protection of intellectual property rights (IPR). In accordance with the *Patent Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China* and other laws and regulations, the Group has established systems such as the *Pharmaron Information Security and Secrecy System*, the *Collection of Confidentiality Management System Manuals*, as well as the SOP for confidential information management in order to provide the institutional guarantee for information security and IPR protection. At the same time, the Group has established the Intellectual Property Management Committee responsible for information security and maintenance of related R&D results. In addition, IT system management, hardware registration management and file backup management are implemented internally and the *Agreement on Employees' Proprietary Information Confidentiality and Invention* signed with employees to provide multiple guarantees for the protection of innovative achievements.

Table: Summary of Pharmaron Scientific Researches and Patents in 2020

Index	Unit	2019	2020
Number of patents granted to us	piece	9	28
Number of patents granted to clients with our help	piece	45	19

In order to keep abreast of the industry's new technologies and trends and promote industry exchanges and development, Pharmaron has always supported the Company's scientists to actively participate in various scientific conferences and academic activities. In 2020, we participated in the DIA China 2020 and the Clinical Pharmacology Conference of Zhejiang Pharmacological Society, and sponsored the 5th CMAC (Chinese Medical Affairs Conference). Our R&D departments in China and the USA jointly built a global drug registration platform and introduced the *Measures for the Supervision and Administration of Drug Production* and the *Measures for the Administration of Drug Registration* at internal seminars every Friday.

Case: LinkStart carried out a number of innovation and R&D projects in 2020 and achieved remarkable results

In 2020, LinkStart enlarged the clinical operation team by 58% from the beginning of the year, saw the number of project cooperation centers exceed 3,000, and undertook nearly 60 clinical trials on Class 1 innovative drugs, among which the team size and coverage in urban areas were ranked in the top four in the country.

At the same time, LinkStart actively participated in academic conferences and external cooperation, such as the second academic conference of the Medical Devices Specialty Committee of the Jiangxi Pharmaceutical Clinical Trial and Research Society, the Clinical Pharmacology Conference of the Zhejiang Pharmacological Society, the online training for the promotion and implementation of the new version of the *Practices for Quality Management of Drug Clinical Trials* organized together with the Chinese Hospital Association and DIA. We participated in the 2020 Annual Conference of the Anhui Provincial GCP Special Committee cum the training session on the new version of the *Practices for Quality Management of Drug Clinical Trials* and the fifth Clinical Trial Technology and Specification Symposium cum the 2020 training session on clinical research methods and ethical protection.

In addition, LinkStart actively published academic papers in 2020 including one in the "Chinese Journal of New Drugs" and two related to the covid-19 pandemic in the "Anti-tumor Pharmacy".

At the same time, the Company actively carried out relevant training activities to help employees cultivate innovative thinking. We regularly carry out academic reporting activities on different topics online and offline and have established internal academic journals to ensure that employees' scientific research work is at the forefront. In addition, each R&D team constantly improves its R&D capabilities by carrying out R&D activities in-house and externally such as poster presentations, publishing papers, conference speeches, etc., which maintains the team's core R&D capabilities, demonstrates the Company's capabilities in scientific and technological innovation and contributes to industry exchanges. The Company discovery stage laboratory services have carried out 58 investigational new drug (IND) or new drug (NDA) clinical trial applications for domestic pharmaceutical and biotechnology companies. With the strengthening of both capability and capacity of the pharmaceutical process development and manufacturing services, the Company worked on 739 APIs or intermediates in 2020, including 487 preclinical stage, 202 Phase I-II clinical stage, 47 Phase III clinical stage and 3 in commercial stage. In 2020, the Company has over 9,800 R&D, production technology and clinical services staff, invested RMB105.35 million in R&D.

2.3. Customer Service

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

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

In order to further improve customer satisfaction and understand customer needs, the Group has developed the SOP for responding to customer complaints. Upon receiving a customer complaint about finished products or services, the manager makes a record in the system for follow-up, while working with the Quality Management department to investigate the complaint and propose corrective and preventive measures. If the customer questions the delivery quality or response speed of the project team, the Company will promptly communicate with the project leader to understand the cause of the problem and urge relevant personnel to follow up until it is properly dealt with.

In 2020, the subsidiary companies of the Group within the territory received no complaints from customers.

2.4. Supply Chain Management

In order to further the efficient supplier management system and standardize the procurement process, we strictly complies with the *Law of the People's Republic of China on Tenders and Bids* and the *Regulations on the Implementation of Tenders and Bids of the People's Republic of China,* and established internal systems such as *Procurement Management System* to clarify the management of suppliers.

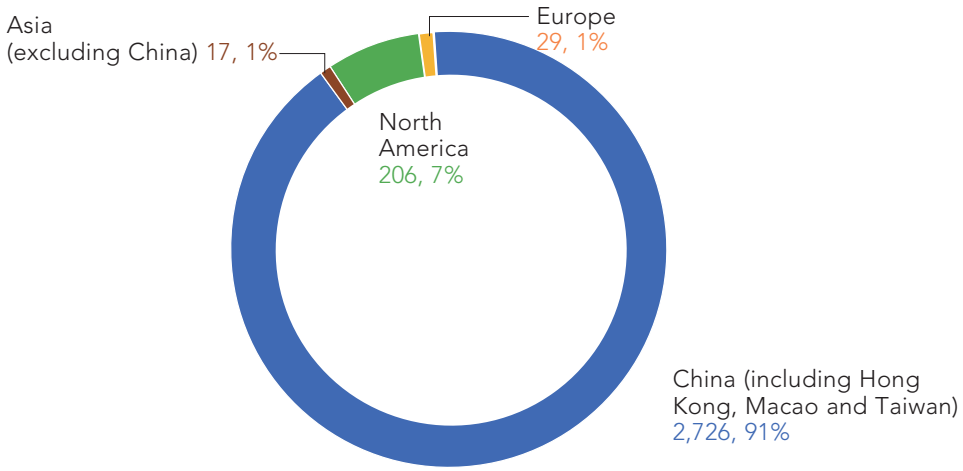
As a pharmaceutical R&D service provider, we mainly purchase chemical reagents, solvents, biological reagents, laboratory animals and equipment from suppliers. In the link of supplier access, for raw material suppliers, we require them to complete the *Supplier Questionnaire* to comprehensively review the supplier's performance in terms of corporate management, quality and safety; for laboratory animal suppliers, we require them to submit a quality monitoring report issued by testing agencies designated by the country; feed and litter suppliers are required to submit a monitoring report issued by third-party testing agencies and the report shall be reviewed by animal breeding professionals; for instrument or equipment suppliers, the Company will give priority to energy-efficient equipment or instrument and emphasize green procurement.

In addition, the Group pays a great deal of attention to the performance of suppliers in terms of environmental and social responsibility. The Company has formulated the *Supplier Questionnaire on Environmental Protection* to investigate the supplier's performance in environmental management, which includes the supplier's environmental management policy, organization, whether it has passed relevant management system certifications, whether it has adopted energy-saving and emission-reduction measures, etc., and scores and evaluates its performance based on the response. The Company uses the *Supplier Supply Chain Safety Assessment Form*, the *Supplier Social Responsibility Review and Assessment Form* and other standard documents to review suppliers' performance of social responsibility, focusing on labor rights and benefits, business ethics, occupational health and safety, and social responsibility management system and other issues for evaluation and encourages them to improve the level of social responsibility management.

After the suppliers are admitted, the Group requires the suppliers to sign the *Supplier Code of Conduct* and the *Agreement with Pharmaron Beijing Co., Ltd. on Integrity and Compliance* which include a number of social responsibility provisions concerning anticorruption, human rights protection, anti-discrimination, prohibition of child labor and forced labor. The Group has always been committed to sharing social responsibilities with suppliers, to create a fair competitive atmosphere and optimize the business environment.

At the same time, the Group regularly conducts annual investigations of important suppliers to evaluate their social, environmental and governance performance, and conducts annual on-site reviews depending on the level of risk. In 2020, the Company conducted 492 supplier audits, and all the evaluated suppliers had no quality and safety hazards, environmental pollution, or adverse social reputation incidents.

The distribution of our suppliers in 2020 was as follows:



Number of suppliers by geographic location

In 2020, the Group started to build and improve the order cloud platform, which can connect the Company's system and important suppliers' systems point-to-point. Supplier accounts can be opened on the cloud platform where suppliers can export orders, arrange shipments, and enter logistics information. So far, the Company has opened platform accounts for 77 suppliers, and the number of online orders throughout the year accounted for 44% of the total, which greatly improved procurement efficiency.

3. ENVIRONMENTAL PROTECTION

Adhering to green and low-carbon operations, the Company actively responds to the national goals of carbon emissions peaking before 2030 and carbon neutrality before 2060 by protecting the ecological environment of the places where it has presence and reduces the environmental impact in the production process. The Company earnestly practices green operations, promotes energy conservation, and guarantees animal welfare, fulfilling corporate social responsibility with concrete efforts in environmental protection.

3.1. Green Operations

Adhering to the philosophy of green operations, the Group has established and continuously revised its environmental management system. In daily operations we are strictly self-disciplined to reduce resource consumption, build environmentally friendly production methods, and implement green operations.

3.1.1 Environmental Management

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

In the process of production and operation, potential environmental risks include floor corrosion, sewage overflow, waste leakage during transfer, and soil erosion caused by engineering construction, etc. The Company has formulated systems such as the *Environmental Management Procedures,* the *Proposed Operation Guide for Clean Production Rationalization* and the *Management Procedures for Soil and Groundwater Protection* to uniformly regulate our operations and management as to plants' rebuilding and expansion, chemical transportation and on-site sewage systems. We have also strengthened inter-departmental cooperation and clarified personnel duties to avoid pollution to nearby soil and groundwater, and advanced clean and green production operations.

In 2020, the Group's investment in environmental protection reached RMB8,784,500. During the reporting period, Pharmaron Beijing, Pharmaron Tianjin and Pharmaron Xi'an, based on the scale of business, completed the application for the pollutant discharge permit as required; Pharmaron Beijing, Pharmaron Tianjin, and Pharmaron Xi'an paid the environmental tax on time in accordance with relevant regulations; generally, the Company had no environmental accidents, and operated in compliance with the environmental administrative license obtained in accordance with the law.

As of December 31, 2020, details concerning the Pollution Discharge Permits applied by the subsidiaries of the Group were as follows:

Subsidiary Co., Ltd	Validity period of the Pollutant Discharge Permit
Pharmaron Beijing Co., Ltd.	From October 14, 2019 to October 13, 2022
Pharmaron (Tianjin) Process Development and Manufacturing Co., Ltd.	From December 28, 2020 to December 27, 2025
Pharmaron Xi'an Co., Ltd.	From December 14, 2020 to December 13, 2023

3.1.2 Management of Air Pollutants

Pursuant to the regulations and requirements of the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution*, we use the treatment facilities that meet the requirements to treat the air pollutants generated during the production and operation process, while adopting scientific methods such as spraying and activated carbon adsorption. In addition, according to the *Exhaust Gas Control Procedures* and the *Exhaust Gas Self-monitoring Operation Guide*, we conduct patrol inspections and regular monitoring of various types of emissions and commission qualified third parties to conduct the testing and reporting to ensure that the exhaust gas discharge meets the standards. In 2020, the Company launched exhaust gas treatment facility renovation projects to improve the exhaust gas treatment efficiency by optimizing the number of outlets and adopting more efficient treatment processes. Air pollutants in Pharmaron mainly include boiler exhaust gas such as NO_X, CO and SO_2 and laboratory exhaust gas including methanol, toluene, non-methane hydrocarbon, ethyl acetate, etc.

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

Index		Unit	2019	2020
Air pollutants	**Total exhaust emissions**	**standard cubic meter**	**183,998,737.51**	**41,654,314.75**
(Boiler gas)	NOx emissions	ton	3.60	1.85
	CO emissions	ton	0.20	0.20
	SO2 emissions	ton	0.18	0.19
Air pollutants	**Total exhaust emissions**	**standard cubic meter**	**15,231,363,586.00**	**13,865,078,488.00**
(Laboratory exhaust gas)	Methanol	ton	1.48	1.98
	Toluene	ton	0.10	0.04
	Acetaldehyde	ton	0.00	0.00
	Sulphuric acid mist	ton	1.40	1.20
	Hydrogen chloride	ton	0.76	0.16
	Ammonia	ton	0.04	0.41
	Ethyl acetate	ton	0.43	0.67
	Ketones	ton	0.14	0.02
	Non-methane hydrocarbons	ton	8.99	24.33
	Phenolic compounds	ton	0.01	0.03
	Alkanes	ton	0.01	0.00
	Other	ton	2.00	1.92

3.1.3 Wastewater Management

According to the provisions of the *Sewage Treatment Station Operation Guide,* the *Operation Guide for Waste Organic Solvent Collection and Transfer and the Operation Guide for Waste Organic Solvent Collection and Transfer*, the production wastewater is treated by the wastewater treatment station according to the requirements of the local government where each site is located, and then discharged together with domestic sewage into the municipal sewage pipe network. The process wastewater, cleaning wastewater and organic waste liquid from production are temporarily stored in storage place and eventually transported to the third-party liquid waste treatment company for disposal.

In 2020, the Company continued to implement the "Incentives for Reduction of Solvent Use" project to reduce the use of solvents from the source, which effectively reduced the emission of pollutants.

The amount of wastewater generated in Pharmaron was as follows:

Index	Unit	2019	2020
Total wastewater discharged	ton	586,557.27	641,003.60
COD emissions	ton	67.40	50.69
BOD emissions	ton	13.89	10.40
Total phosphorus	ton	1.22	0.80
Ammonia nitrogen	ton	6.44	3.04
Animal and vegetable oils	ton	0.30	0.32
Petro	ton	0.15	0.02
Total chromium	ton	1.00	0.00
Anionic surfactant	ton	0.21	0.02
Suspended matter emissions	ton	12.65	14.88
Others	ton	1.00	0.00

3.1.4 Solid Waste Management

We treat solid waste disposal during daily management with reference to the *Chemical Laboratory Waste Management Operation Guide,* the *Waste Management Procedures*, the *Medical Waste Management Operation Guide*, and the *Operation Guide for Solid Waste Sorting and Temporary Storage of Hazardous Waste* among other system documents. Our daily operations and activities involve chemical experiments, animal experiments, drug research and development and production. The waste generated includes domestic waste, general industrial waste, waste sharps, hazardous waste, medical waste and radioactive waste. We have established and continuously improved system documents and operational processes to clarify waste disposal specifications.

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

The amount of solid waste generated in Pharmaron as following:

Index	Unit	2019	2020
Waste chemical reagents	ton	75.69	69.64
Waste organic solvents	ton	4,239.76	6,125.96
Chemical raw materials	ton	7.57	24.70
Cleaning waste liquid (container cleaning effluent, kettle washing liquid, etc.)	ton	181.08	1,008.50
Distillation residue	ton	14.90	26.10
Waste mineral oil	ton	31.69	2.97
Waste materials from adsorption, filtration, and catalysation (activated carbon, silica gel, palladium carbon, etc.)	ton	123.06	153.24
Masks and gloves (contaminated with chemicals)	ton	129.58	227.60
Containers (including empty bottles, empty barrels, petri dishes)	ton	326.82	527.20
Other laboratory waste (waste equipment, instruments and parts, etc.)	ton	11.36	33.60
Waste office supplies (waste lamps, toner cartridges, etc.)	ton	2.45	2.35
Sludge (from water treatment)	ton	52.64	23.14
Animal carcasses, animal faeces	ton	18.46	28.42
Other waste	ton	249.79	179.18
Total hazardous waste generation	ton	5,464.85	8,432.59
Hazardous waste generation density	tons/RMB10,000 of revenue	0.015	0.016
Kitchen garbage generation	ton	3.80	0
Office waste generation	ton	1,905.46	3,114.84
Total non-hazardous waste generation	ton	1,909.26	3,114.84
Non-hazardous waste generation density	tons/RMB10,000 of revenue	0.005	0.006

3.2. Energy Conservation

Electricity, natural gas, steam, and vehicle fuel are the Company's main sources of energy consumption during operations. In accordance with the *Energy Conservation Law of the People's Republic of China*, we implement the daily energy management responsibility system and the energy consumption inspection system and have formulated such documents as the *Energy Statistics Management Procedures,* the *Division of Energy Management Responsibilities*, and the *Clean Production Operation Guide*. We carefully identify and analyze energy-saving and consumption-reduction opportunities in production and operations.

We have set a five-year sustainable development goal with 2016 as the baseline to achieve a 25% reduction in water consumption per 10,000 yuan of output value and 20% of energy consumption per 10,000 yuan of output value in 2020. As of 2020, this goal had been achieved. Measures taken included: dynamically managing boiler combustion frequency, reducing resource usage, formulating condensate recycling plans, carrying out water recycling, etc.

The Group advocates green office, striving to maximize the use of resources and minimize energy consumption in daily operations by encouraging all employees to participate in activities that improve environmental and health performance. We arrange special personnel to conduct patrol inspections of the buildings regarding the use of resources such as electricity, water and printers in accordance with the *SOP for Building Inspection and Maintenance* and reduce unnecessary energy waste during holidays. If necessary business trips are covered by vehicle mileage, the Company gives priority to using electric vehicles, plans driving routes in advance, and rationally arranges vehicle models according to the number of users to reduce unnecessary fuel consumption. The Company promotes green office culture and trains new and veteran employees on such topics as energy saving, paper saving, and secondary use of packaging materials to raise their sense of avoiding waste of resources.

The energy consumption in Pharmaron show as follows:

Index	Unit	2019	2020
On-grid electricity use	kWh	113,006,661.80	113,061,179.79
Natural gas consumption	m^3	21,758,672.80	18,470,331.19
Steam use	ton	45,587.34	67,693.00
Gasoline consumption	litre	192,936.63	36,156.75
Diesel consumption	litre	7,681.00	16,492.00
Comprehensive energy consumption	tons of standard coal	48,905.25	47,265.72
Comprehensive energy consumption density	tons of standard coal or RMB10,000 of revenue	0.13	0.09
Total municipal water supply	ton	838,502.00	820,715.48
Water use density	tons of standard coal or RMB10,000 of revenue	2.23	1.60

The GHG Emissions in Pharmaron show as follows:

Index		Unit	2019	2020
GHG emissions	Scope 1	ton	48,007.05	9,788.89
	Scope 2	ton	91,828.25	80,742.38
	GHG emissions (scope 1 and 2)	ton	139,835.30	90,531.27
	GHG emissions density (scope 1 and 2)	ton/RMB10,000 of revenue	0.37	0.18

The Group also manufactures pharmaceutical preparations. Such processes as filling, sealing and packaging preparations involve the use of packaging materials, such as sterile bags, polyethylene bags, polyethylene bottles, polyethylene barrels, etc. for sealing and inner packaging, cardboard drums and cartons for outer packaging and transportation. The volume of packaging used in 2020 totalled to 44.32 tons.

3.3. Animal Welfare

The Company strictly observes the *Regulations on the Management of Laboratory Animals*, the *Guidelines for the Ethical Review of Laboratory Animal Welfare* and the *Guide for the Care and Use of Laboratory Animals* among other regulatory requirement. We have also developed the Standards for Animal Management and conducted professional training for all employees involved in animal experiments. We require all veterinarians and staff involved in animal management and monitoring activities to be certified. In 2020, the Company, Pharmaron Ningbo and Pharmaron TSP ensured the perfection of animal care in compliance with the relevant certification requirements for animal welfare that have been obtained, i.e., the Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC) Accreditation from AAALAC International and the certification from the US National Institute of Health Office of Laboratory Animal Welfare.

All animal experiments in the Company must be reviewed by the Animal Ethics Committee, which reviews the necessity of the use of laboratory animals from an academic perspective using procedures consistent with those in the US and Europe. At the same time, all facilities engaged in animal experiments have drafted and strictly implemented the SOP for the welfare and ethics of laboratory animals and the daily management of laboratory animals, ensuring that the laboratory animals enjoy the "five freedoms": freedom from hunger and thirst, freedom from discomfort, freedom from pain, injury and disease, freedom to express normal behavior and freedom from fear and distress. Our professionally trained animal husbandry team comprises professionally certified veterinarians and experienced employees. In 2020, the Company continued to improve animal welfare toys and facilities, improve the living area and diet level, and regularly carry out animal use management review and facility inspections to ensure that all projects met animal use and management regulations.

4. COMMITMENT TO EMPLOYEE DEVELOPMENT

We manage employees in compliance with laws and regulations. In addition to ensuring employees' occupational health, safety and mental health, we focus on providing employees with high-quality training resources, international vision and fair platform for promotion. We strive to be an excellent employer in the industry.

4.1. Recruitment

The Company complies with laws and regulations such as the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China*, the *Social Insurance Law of the People's Republic of China*, the *Provisional Provisions on Wage Payment*, and the *Regulations on Annual Paid Leave of Employees, Right to Work Act 1996 in England*. the Company has established the *Labour and Human Rights Management System* to regulate corporate management and employment; we oppose discrimination and unfair treatment due to gender, race, disability, ethnicity and religion; we provide equal opportunities for promotion; and protect employees' rights and interests.

The Company abides by the *United Nations Convention on the Rights of the Child, the Law on the Protection of Minors in the Republic of China*, and the *Prohibition on the Use of Child Labour, The Children Act 2004 and Safeguarding Vulnerable Groups Act 2006*, among other conventions and regulations concerning the protection of minors, and prohibiting the use of child labor. We strictly record and review employee information in the recruitment process. Encountering applicants under the age of 16, we will contact the responsible government agency, escort them back home free of charge and encourage them to return to school.

We oppose any form of forced labor, give employees freedom of association to establish trade unions, and open up channels for employees to collectively express their rights and interests; employees can report forced labor incidents through complaint channels to protect their rights in a timely manner. In 2020, Pharmaron had a total of 11,012 employees; labor contract signing rate reached 100% and social security coverage rate also reached 100%.

Index		Unit	2020
Number of employees by employment type	Contract workers	person	11,012
	Temporary/dispatch workers	person	67
Number of employees by gender	Male	person	5,550
	Female	person	5,462
Number of employees by age	Under age of 30	person	7,196
	Age of 30-50	person	3,690
	Over age of 50	person	126
Number of employees by level	Core management level	person	68
	Middle management level and technical backbones	person	1,925
	Basic management level and technicians	person	9,019
Number of employees by geographic location	Mainland China	person	10,147
	Overseas and Hong Kong, Macao and Taiwan	person	865
Number of employees by education background	High School diploma and below	person	790
	College	person	1,080
	Bachelor degree	person	5,580
	Master degree and above	person	3,562

4.2. Health and Safety

As the Company's operations deal with a large amount of biochemical products and special equipment, we pay special attention to the occupational health and safety of our employees.

In strict accordance with the *Safety Production Law of the People's Republic of China*, the *Law of the People's Republic of China* on the *Prevention and Control of Occupational Diseases*, the *National Occupational Health Standards Management Measures*, the *Provisions on the Scope of Occupational Diseases,* the *Measures for the Treatment of Occupational Disease Patients*, the *Measures for the Management of Declarations of Occupational Hazards in Workplaces*, the *Provisions on the Management of Occupational Health Check-ups of Employers*, and the *Provisions on the Scope of Taboos for Female Employees and other laws or regulations,* the Company has refined and formulated internal occupational health and safety management regulations based on business characteristics. Among them, occupational health related regulations include the *Occupational Health Management Procedures*, the *Occupational Disease Hazard Monitoring and Evaluation Management Procedures*, etc.; safety related regulations include the *Occupational Health and Safety Regulations*, the *Special Equipment Safety Management System*, the *Chemical Safety Management System*, the *Management Procedures for Occupational Disease Hazard Monitoring and Evaluation*, the *Management System of Psychotropic Drugs and Narcotic Drugs*, the *Management System of Accident Reporting, Investigation and Handling*, and the *Biosafety Management System* with the scope of management involving laboratories, key equipment and other areas. In 2020, the Company updated 3 work instructions and 16 SOPs, adding up to 52 work instructions and 54 SOPs, which formed a comprehensive safety operation framework.

4.2.1 Safety Management and Occupational Disease Prevention

The Company has established a safety production committee and a *Safety Production Committee Management System*. First of all, the general manager of the Company is the main person in charge of safety, and the Committee has formulated a safety management system to clarify procedures such as training, drilling, and potential risk screening. Secondly, the EHS director oversees safety production and organizing specific activities, and the EHS team represented by the on-site management team and the fire safety team is responsible for the safety management of each module with the safety management function implemented by the safety production management personnel. Finally, the safety production manager and part-time safety officers cooperate to strengthen the effective operation of the overall safety system.

The Company has established a fire safety team comprised of former firefighters and a miniature fire station to improve its capabilities of emergency response, self-prevention and self-rescue. The Company regularly conducts employee safety trainings and emergency response trainings to respond to various emergencies, in order to enhance employees' risk awareness and self-rescue ability. In addition, the Company pays attention to providing employees with safety protection products and enhancing their awareness of protection by increasing safety propaganda, as well as improving records of dangerous goods and assigning personnel to manage them.

The Company organizes occupational health examinations before, during and after employment, annual occupational hazard factor inspections, and daily, special, and comprehensive inspections concerning safety, environmental and occupational health; during production safety months and major holidays, we will organize inspections by the Safety Production Committee's personnel. We promptly make efforts in educating new employees about work accidents and emergency handling, such as laboratory animal injuries and other work-related injuries,; we proactively arrange company vehicles to send persons concerned to the hospital for medical treatment and follow up until the settlement of work-related injury claims. In addition, the Company has strengthened safety inspections and investigated hidden danger, as well as carried out various drills such as hazardous waste leakage emergency drills, personnel evacuation, emergency response to radiation source leakage, electric shock emergency drills, and fire accident drills, added up to a count of 33. In 2020, there were no work-related deaths and 514 working days were lost due to work-related injuries in the Company.

We have started the compliance process on occupational health by formulating safety checklists to clarify the frequency and requirements of inspections. At the same time, in accordance with the provisions of the *Occupational Diseases Prevention Law of the People's Republic of China*, the Company conducts inspections of occupational disease hazards in the Company's test areas every year, conducts relevant occupational health checkups for employees participating in experimental work, and distributes special personal protective equipment to relevant areas. The above measures have effectively controlled and prevented the occurrence of various occupational hazard accidents, avoiding and reducing unnecessary economic losses. In 2020, the Company processed the application for decommissioning of radioactive material warehouses to avoid radiation hazards.

4.2.2 Fight against the Pandemics

The Covid-19 pandemic has posed a severe challenge to the Company's occupational health protection work. Since the outbreak of the pandemic in 2020, we have established an "anti-pandemic prevention and control" team and a pandemic prevention and control system before the Spring Festival, and adopted the following measures to quickly carry out pandemic prevention and control: 1) An employee information platform was quickly built to track the health of each employee, and information and measures related to prevention and control were released on the platform in a timely manner. 2) Each office location designated a responsible person for communication with local governments to ensure smooth information flow regarding the pandemic; 3) Protective materials (masks, protective clothing, disinfectant, etc.) were prepared for employees; dormitories required for employee quarantine; and disinfection in advance in various places were provided; 4) Routine and special measures for pandemic prevention and control were adopted such as issuing pandemic prevention manuals, setting up isolation spots, measuring body temperatures before entering the park, health screening, management and control of outsiders, and reporting in case of leaving the work place, which laid the foundation for the smooth development of long-term pandemic prevention after resumption of work. During the reporting year, we conducted nucleic acid tests on all employees many times. The Company's subsidiary companies also developed response measures as follows in accordance with local pandemic prevention and control requirements.

Pharmaron Beijing	Routine and special measures for pandemic prevention and control: 1) Two rounds of nucleic acid tests were performed on all employees, 3,702 and 4,892 people were tested respectively; 2) Others included issuing pandemic prevention manuals, setting up isolation spots, taking body temperatures before entering the park, health screening by QR code, management and control of outsiders, and registration before leaving Beijing, etc.
TSP	Routine and special measures for pandemic prevention and control: 1) The COVID-19 Leading Group and the pandemic monitoring team promptly arranged the pandemic prevention work and carried out two company-wide nucleic acid tests. 2) The Company's entire building was disinfected; 3) The Company purchased anti-pandemic supplies in advance and distributed them to employees, and conducted inspections on the body temperature and health QR code of incoming and outgoing personnel; 4) All personnel returning to Beijing were registered.

Xi'an	Routine and special measures for pandemic prevention and control: 1) The "Manual on Employee Protection from Covid-19" was drafted before resumption of work; 2) Disinfectant materials were prepared in accordance with the deployment of the Company's pandemic prevention working group; 3) Staff's body temperature monitoring and "health code" management were organized on a daily basis; 4) We received local government's information on pandemic prevention and gave them feedback; 5) We received inspections by local government's anti-pandemic departments and provided relevant materials; 6) Staff's questions about pandemic prevention and control were properly answered; 7) During the pandemic, employee flow was controlled during holidays.
Shanghai	Routine and special measures for pandemic prevention and control: 1) Nucleic acid testing was performed on all employees in accordance with the requirements of the Group before resuming work; 2) Nucleic acid testing was performed on personnel in risk areas after a new outbreak in Shanghai, resulting in a total of 138 people been sampled and tested; 3) After resuming work, personnel were disinfected before entering the site; all goods and articles were disinfected; and the work site was disinfected daily; 4) The pandemic prevention and control requirements of Shanghai, Zhangjiang Park and property management companies were collected; 5) Anti-pandemic materials were distributed, including disposable medical masks distributed daily and N95 masks for specific and out-of-office personnel; 6) Body temperature monitoring became a routine including daily body temperature monitoring once before entering the company and once in the afternoon.

Early clinical center	Routine and special measures for pandemic prevention and control: 1) A COVID-19 Working Group was established at the end of February 2020; 2) Preventive education was given to all employees and their travel was restricted; 3) Resources and convenience were provided for working from home; 4) A COVID-19 testing plan was drafted with additional safety measures taken.

4.2.3 Safety Culture Building

The Company is committed to creating a safety culture that everyone values. We promote safety knowledge, improve safety awareness, and accept safety proposals through monthly safety briefings. The Company created the "Safety Production Month" campaign and put forward the slogan of "Eliminate Hidden Dangers and Build a Strong Line of Defense". Our safety culture was strengthened through the organization of such activities as WeChat quizzes on safety knowledge, creative short video contests on safety, solicitation of safety proposals, selection of top ten part-time safety officers, evacuation drills, "Pharmaron Cup" safety knowledge contest, collection of safety production slogans, and "Publicity Week" on the *Occupational Disease Prevention and Control Law*.

Case: Pharmaron launched the 2020 "Safety Production Month"

From August to September 2020, Pharmaron carried out the annual "Safety Production Month". Under the leadership of the project team comprising members of the Safety Production Committee, EHS department employees and union members, announcements and activity plans were issued, requiring all departments to carry out activities based on their work practices in order to improve employees' safety awareness, safety skills and safety knowledge. During the event, the Company carried out various activities such as emergency drills, selection of outstanding safety officers, evacuation drills for all employees, solicitation of rationalization proposals for clean production, and safety and health evaluation, which laid a good foundation for safe production.

4.3. Employee Training

The Company aims to create the corporate culture of "Pharmaron Learning" and emphasize talent development. In accordance with the *Training Management System*, we provide employees with systematic training. Training covers employees from new employees to management. Training contents include general education and professional skills, providing diversified options for employees with different aspirations and interests. In 2020, the Company held 270 employee training sessions with a coverage rate of 100%.

Index		Unit	2020
Percentage of trained employees by gender	Male	%	100%
	Female	%	100%
Percentage of trained employees by level	Core management level	%	100%
	Middle management level and technical backbones	%	100%
	Basic management level and technicians	%	100%
Average training hours by gender	Male	hour	14.86
	Female	hour	17.32
Average training hours by level	Core management level	hour	5.57
	Middle management level and technical backbones	hour	19.02
	Basic management level and technicians	hour	15.90

In order to meet higher-level of employee training and development, we provide excellent employees with opportunities to continuous learning and communication, and set up the "Staff Training and Development Funding Plan" to provide financial support for employees' external learning and advancement to help them acquire higher levels of knowledge and skills. We also cooperate with the local government to support the exchange and cultivation of talents.

The Company founded a corporate university, "Pharmaron College", to provide employees with opportunities to further their professional knowledge and skills without leaving the job. Students who have completed the knowledge and skills learning and successfully graduated from Pharmaron College will obtain diplomas and enjoy the same salary and benefits as those at the same academic level within the enterprise. In 2020, Pharmaron College ran one Ph.D. Chemistry class and one Master of Chemistry with a total of 41 students, enrolled 20 new master students, and cultivated 17 qualified graduates.

Employees assigned	Number	Unit	Learning purpose
Outstanding scientific research managers	1	person	Online master program of the University of Manchester, UK
Middle and senior managers	3	person	EMBA at China Europe International Business School (CEIBS)

The Company has built and improved the employee performance appraisal system to rationally evaluate and promote outstanding employees. In 2020, 720 outstanding employees were selected through performance appraisal.

4.4. Employee Care

The Company provides a variety of employee benefits, including shuttle services, transitional housing, overtime subsidies, etc., to address the most practical needs of employees. The Company has set up gyms, activity rooms, maternity rooms and other facilities to provide convenience for employees to achieve work-life balance and other needs. In addition, the Company organizes clubs such as football clubs, basketball clubs, badminton clubs, and Go clubs, and facilitates these activities. We also regularly organize spring outings, autumn outings and team building activities to advocate a harmonious life among employees and enhance their happiness. In 2020, the Company held a total of 412 employee activities.

Case: Pharmaron Beijing BDA organized an outdoor team building activity

On November 7, 2020, Pharmaron Beijing BDA organized a team building activity for 300 employees at Mutianyu Great Wall. In the course of the event, we organized activities such as "Great Wall Treasure Hunt" and "Photogenic Talent Selection", which effectively relieved the stress of employees and strengthened their friendship and teamwork spirit. The event was affirmed by employees.

Case: Christmas Lucky Draw Activity by Pharmaron Ningbo

On December 25, 2020, in order to enhance the happiness of employees and let them feel the happy atmosphere of the festival, the trade union of Pharmaron Ningbo organized a Christmas lottery for all employees. The prizes were set in four grades and distributed to all participating employees.

Case: "A Warm Way Back Home" Event by the trade union of Hangzhou Bay New Zone

On December 24, 2020, in order to effectively help migrant workers return to their hometowns during the 2021 Spring Festival and to enhance the sense of gain and happiness of employees in the new district, the New Zone Trade Union organized an event "Warm Way Back Home", offering train and bus ticket ordering service and free shuffle service for these employees to the stations.

The Company was very concerned about the employees in hard-hit areas and quarantined due to the pandemic. We got in touch with them as soon as possible and assisted them to solve practical difficulties. In response to the initiative of writing "A Letter to Colleagues in Hubei", Pharmaron Shanghai issued a letter entitled "This is A Letter to Colleagues in Hubei", expressing care and love for employees in the hard-hit areas and allowing employees therein to feel the warmth of home.

Case: Pharmaron Shanghai released "A Letter to Our Colleagues in Hubei"

The letter is short but the love is deep. Here is what I want to say to you.

I know you're now in Hubei but still care about Pharmaron. How have you been recently?

We are doing very well with life and at work. Our schedule is full and busy, but we miss you very much, and we are worried about you who are far away in Hubei and who are silently enduring to guard us.

Do you know what's going on here?

The well-organized work station you used to organize on weekdays has been covered with dust; when the cleaning lady is cleaning, she always remembers to water your potted plants; and when colleagues talk about you in their spare time, they miss you even more;

The brief parting adds warmth to the time we once shared, and those friendly and familiar smiling faces look forward to your return.

When we meet again, we will be still like old friends, making fun of the weight you've gained during quarantine, talking about the children fumbling with online classes; or just simply smiling at each other.

There are many things I want to tell you, but what we worry about and care about most is always your safety.

The cold winter is over, and the warm spring is coming. We will head towards Hubei with a smile and wait for you to come back!

Yours,
Pharmaron Shanghai team

Case: Helping employees in difficulties

In 2020, the Company acknowledged that an employee was suffering from leukemia. After getting more details, we offered a compassionate stipend of 50,000 yuan in the name of the Company, and organized donations for this employee, raising nearly 388,000 yuan, which greatly eased the funding pressure for the treatment.

5. GIVING BACK TO THE SOCIETY

The Company enthusiastically participates in charitable undertakings, providing human resources and material support, and actively takes its corporate social responsibility. In 2020, the Company donated RMB4.7 million to the society.

5.1 Public Service

The Company actively involves itself in charitable undertakings, and has established long-term contacts with outstanding public service organizations and associations. At the same time, we encourage employees to participate in voluntary services in their spare time in order to cultivate a sense of charity and mission and jointly contribute to public good. In 2020, the Company continued its membership with the SEE Conservation and the SEE Foundation, and actively responded to their activities to jointly promote environmental protection.


阿拉善SEE生态协会
SEE CONSERVATION

会员证书

2020年6月2日

5.2. Charitable Donations

The Company actively participates in external donations and calls on employees to actively contribute their love and strength to public welfare or disaster-stricken areas. Affected by the pandemic this year, we made a number of donations in response to the pandemic. In 2020, Pharmaron Labor Union donated to the China Charity Federation and Wuhan Red Cross to the fight against the pandemic. In addition, Mr. LOU Xiaoqiang, the co-founder of Pharmaron and Dr. LOU Boliang, Chairman of the Group, respectively donated RMB1 million and RMB500,000 to the China Charity Federation in their personal names to support the fight against the pandemic. In addition, Pharmaron branches and subsidiaries around the country actively participated in donations for the pandemic, which was recognized by the local government.


证　书

康龙化成(北京)新药技术股份有限公司：

感谢贵公司2503名员工向中华慈善总会捐款捌拾壹万

柒仟捌佰元人民币，为抗击新冠肺炎疫情作出贡献。

特颁此证，以表感谢！

中华慈善总会

二〇二〇年三月


证　书

康龙化成(北京)新药技术股份有限公司工会：

感谢贵公司向中华慈善总会捐款壹拾万贰仟贰佰

元，为抗击新冠肺炎疫情作出贡献。

特颁此证，以表感谢！

中华慈善总会

二〇二〇年三月


荣 誉 证 书

康龙化成（北京）新药技术股份有限公司

感谢贵单位对武汉市红十字人道事业的关心、支持和信任。您的爱心将会为那些困境中的人们带来希望的曙光。

特授此证，予以纪念！

Case: Pharmaron Ningbo makes donations to fight the pandemic

Pharmaron Ningbo donated masks, disinfectants, and protective clothing to the Development Zone and surrounding communities during the pandemic period for prevention and control. The Management Committee issued a certificate to show their appreciation to our efforts.

捐赠证书

康龙化成（宁波）科技发展有限公司：

贵公司向宁波杭州湾新区开发建设管理委员会捐赠192个N9511罩，所捐物资将全部用于防控新型冠状病毒感染的肺炎疫情。

特发此证以表感谢！

中共宁波市委宁波杭州湾新区开发建设工作委员会
宁波杭州湾新区开发建设管理委员会
2020年2月

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

OPINION

We have audited the consolidated financial statements of Pharmaron Beijing Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 125 to 217, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables and contract assets	
At December 31, 2020, the net carrying amounts of trade receivable and contract assets were RMB1,076,614,000 and RMB133,764,000 respectively, net of accumulated impairment losses of RMB34,106,000 and RMB2,470,000 respectively. The management of the Group calculated the expected credit loss for trade receivables and contract assets by applying simplified approach under IFRS 9. The provision matrix considered migration rate, historical loss ratio and forward-looking adjustments. The assumptions applied in determining the expected credit loss required significant management judgement and estimates. Therefore, we identified the impairment of trade receivables as a key audit matter. The related disclosures are included in notes 25 and 26 to the consolidated financial statements.	Our procedures in relation to the impairment of trade receivables and contract assets included: (1) Evaluating and testing the internal controls over impairment test of trade receivables and contract assets; (2) Assessing the appropriateness of the credit loss provision methodology; (3) Evaluating the appropriateness of the inputs that management used in the provision matrix, such as migration rate, historical loss ratio and forward-looking adjustments, and then recalculating the expected loss; (4) Testing the accuracy of ageing on a sample basis over the billing and collection cycle; (5) Performing confirmation procedure and inspecting cash receipts from customers subsequent to the financial year end on a sample basis; and (6) Evaluating the adequacy of the disclosures.
Impairment of goodwill acquired in business combinations	
At December 31, 2020 the carrying amount of goodwill was RMB1,166,172,000. The management of the Group performed impairment test at least on an annual basis and adjusted the carrying amount of based on the test result. The assumptions applied in the impairment test required significant management estimates, including revenue growth rate, gross profit margin and discount rate. There are significant uncertainties in these estimates, which are affected by management's judgement on the future market and economic environment, and the recoverable amount of goodwill can be affected by the adoption of different estimates and assumptions. Therefore, we identified the impairment of goodwill as a key audit matter. The related disclosure is included in note 17 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill acquired in business combinations included: (1) Evaluating the key internal controls over impairment test of goodwill; (2) Evaluating the basis of goodwill allocation to cash-generating units ("CGU") and evaluating the rationality; (3) Evaluating the reasonableness of the valuation model with the assistance of our internal valuation specialists; (4) Evaluating the appropriateness of key assumptions and estimates including revenue growth rate and gross margin rate with historical data and supporting evidence; (5) Evaluating the appropriateness of discount rate by comparing to the similar companies in the same industry; and (6) Evaluating the adequacy of the disclosure.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

March 26, 2021

Consolidated Statement of Profit or Loss

(Year ended December 31, 2020)

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	**5,133,597**	3,757,160
Cost of sales		**(3,217,484)**	(2,425,459)
Gross profit		**1,916,113**	1,331,701
Other income and gains	6	**493,006**	70,153
Other expenses	6	**(143,814)**	(11,761)
Selling and distribution expenses		**(92,643)**	(72,989)
Administrative expenses		**(684,705)**	(526,408)
Research and development costs		**(105,345)**	(62,872)
Impairment losses on financial and contract assets, net of reversal	8	**(14,823)**	(5,495)
Finance costs	7	**(23,854)**	(82,476)
Share of losses of associates	19	**(24,565)**	(7,303)
Profit before tax	8	**1,319,370**	632,550
Income tax expense	11	**(172,378)**	(101,878)
Profit for the year		**1,146,992**	530,672
Attributable to:			
Owners of the parent		**1,172,383**	547,190
Non-controlling interests		**(25,391)**	(16,518)
		1,146,992	530,672
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
For profit for the year	13	**RMB1.4825**	RMB0.8284
Diluted			
For profit for the year	13	**RMB1.4781**	RMB0.8282

Consolidated Statement of Comprehensive Income

(Year ended December 31, 2020)

	2020 RMB'000	2019 RMB'000
Profit for the year	**1,146,992**	530,672
OTHER COMPREHENSIVE INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(40,578)**	11,847
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(40,578)**	11,847
Other comprehensive (loss)/income for the year, net of tax	**(40,578)**	11,847
Total comprehensive income for the year	**1,106,414**	542,519
Attributable to:		
Owners of the parent	**1,131,835**	558,937
Non-controlling interests	**(25,421)**	(16,418)
	1,106,414	542,519

Consolidated Statement of Financial Position

(December 31, 2020)

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,841,445**	2,973,354
Right-of-use assets	15	**567,630**	498,989
Investment properties	16	**43,889**	46,013
Goodwill	17	**1,166,172**	203,286
Other intangible assets	18	**189,976**	35,352
Investments in associates	19	**280,474**	131,246
Equity investments at fair value through profit or loss	20	**121,230**	59,054
Deferred tax assets	21	**8,436**	6,372
Other non-current assets	22	**149,162**	36,921
Total non-current assets		**6,368,414**	3,990,587
CURRENT ASSETS			
Inventories	23	**128,757**	97,050
Contract costs	24	**152,860**	60,347
Trade receivables	25	**1,076,614**	857,069
Contract assets	26	**133,764**	89,105
Prepayments, other receivables and other assets	27	**196,020**	197,576
Financial assets at fair value through profit or loss	28	**825,312**	169,762
Derivative financial instruments	29	**84,698**	13,689
Pledged deposits	30	**7,263**	17,634
Cash and cash equivalents	30	**2,935,090**	4,442,218
Total current assets		**5,540,378**	5,944,450
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**386,146**	300,654
Trade payables	32	**191,497**	117,978
Other payables and accruals	33	**819,313**	486,702
Contract liabilities	34	**473,289**	271,547
Lease liabilities	35	**83,925**	64,150
Tax payable		**27,620**	28,649
Total current liabilities		**1,981,790**	1,269,680
NET CURRENT ASSETS		**3,558,588**	4,674,770
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,927,002**	8,665,357

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**394,811**	543,791
Deferred tax liabilities	21	**106,906**	40,782
Financial liabilities at fair value through profit or loss	36	**146,810**	–
Deferred income	37	**158,128**	111,606
Lease liabilities	35	**186,608**	131,160
Total non-current liabilities		**993,263**	827,339
NET ASSETS		**8,933,739**	7,838,018
EQUITY			
Share capital	38	**794,387**	794,387
Treasury shares		**(45,475)**	(72,781)
Reserves	40	**8,121,407**	7,045,457
Equity attributable to owners of the parent		**8,870,319**	7,767,063
Non-controlling interests		**63,420**	70,955
Total equity		**8,933,739**	7,838,018

The consolidated financial statements on pages 125 to 217 were approved and authorised for issue by the board of directors on March 26, 2021 and are signed on its behalf by:

Boliang Lou
Director

Xiaoqiang Lou
Director

Consolidated Statement of Changes in Equity

(Year ended December 31, 2020)

	Attributable to owners of the parent										
	Share capital (note 38) RMB'000	Treasury shares RMB'000	Share premium* (note 40) RMB'000	Share-based payment reserve* (note 39) RMB'000	Capital reserve * (note 40) RMB'000	Statutory reserve* (note 40) RMB'000	Exchange fluctuation reserve * (note 40) RMB'000	Retained profits * RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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 year	–	–	–	–	–	–	–	547,190	547,190	(16,518)	530,672
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	11,747	–	11,747	100	11,847
Total comprehensive income for the year	–	–	–	–	–	–	11,747	547,190	558,937	(16,418)	542,519
Transferred from retained profits	–	–	–	–	–	45,873	–	(45,873)	–	–	–
Issuance of A shares upon listing on Shenzhen Stock Exchange	65,630	–	367,224	–	–	–	–	–	432,854	–	432,854
Issuance of H shares upon listing on Hong Kong Stock Exchange	134,016	–	4,388,677	–	–	–	–	–	4,522,693	–	4,522,693
Issuance of restricted A shares under the A Share Incentive Scheme	4,077	(72,781)	68,704	–	–	–	–	–	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	74,049	74,049
Dividends declared (note 12)	–	–	–	–	–	–	–	(72,192)	(72,192)	–	(72,192)
Recognition of share-based payments	–	–	–	11,191	–	–	–	–	11,191	333	11,524
As at December 31, 2019	794,387	(72,781)	5,872,090	33,198	59,602	116,024	2,324	962,219	7,767,063	70,955	7,838,018
Profit for the year	–	–	–	–	–	–	–	1,172,383	1,172,383	(25,391)	1,146,992
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(40,548)	–	(40,548)	(30)	(40,578)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	(40,548)	1,172,383	1,131,835	(25,421)	1,106,414
Transferred from retained profits	–	–	–	–	–	86,441	–	(86,441)	–	–	–
Capital injection from non-controlling shareholders	–	–	3,263	–	–	–	–	–	3,263	2,610	5,873
Restricted A shares Tranche one vested	–	26,715	24,795	(24,795)	–	–	–	–	26,715	–	26,715
Acquisition of a subsidiary (note 41)	–	–	–	–	–	–	–	–	–	12,808	12,808
Dividends declared (note 12)	–	591	–	–	–	–	–	(119,138)	(118,547)	–	(118,547)
Recognition of share-based payments	–	–	–	59,990	–	–	–	–	59,990	2,468	62,458
As at December 31, 2020	794,387	(45,475)	5,900,148	68,393	59,602	202,465	(38,224)	1,929,023	8,870,319	63,420	8,933,739

* These reserve accounts comprise the consolidated reserves of RMB8,121,407,000 (2019: RMB7,045,457,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Year ended December 31, 2020)

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Profit before tax		**1,319,370**	632,550
Adjustments for:			
– Depreciation of property, plant and equipment	8	**348,662**	307,199
– Depreciation of right-of-use assets	8	**77,566**	61,910
– Depreciation of investment properties	8	**817**	812
– Amortisation of other intangible assets	8	**10,971**	4,661
– Impairment losses on inventories, net of reversal	8	**4,622**	1,021
– Impairment losses on financial and contract assets, net of reversal	8	**14,823**	5,495
– Interest income from time deposits with original maturity of more than three months when acquired		**(21,337)**	–
– Gains/losses on derivative financial instruments	6	**(140,797)**	8,663
– Gains on financial assets at fair value through profit or loss	6	**(55,496)**	(2,033)
– Gains on disposal of an equity investment at fair value through profit or loss		**(78,039)**	–
– Gains on fair value change of equity investments at fair value through profit or loss	6	**(75,460)**	(10,179)
– Losses on disposal of items of property, plant and equipment	6	**7,326**	667
– Gains on termination of lease contracts	6	**(46)**	–
– Gains on disposal of an associate	6	**–**	(124)
– Finance costs	7	**23,854**	82,476
– Foreign exchange loss		**85,666**	–
– Share of losses of associates	19	**24,565**	7,303
– Gains on fair value re-measurement of existing equity in business combination not under common control	6	**(23,123)**	(10,363)
– Share-based compensation expenses	8	**62,458**	11,524
		1,586,402	1,101,582
Increase in inventories		**(27,534)**	(27,923)
Increase in contract costs		**(92,513)**	(10,034)
Increase in trade receivables		**(136,383)**	(255,584)
Decrease/(Increase) in prepayments, other receivables and other assets		**32,719**	(2,929)
Decrease/(Increase) in contract assets		**6,478**	(30,828)
(Increase)/decrease in other non-current assets		**(3,702)**	11,214
Increase in trade payables		**61,718**	8,070
Increase in accruals and other payables		**209,995**	135,218
Increase in deferred income		**46,552**	10,573
Increase in contract liabilities		**113,110**	69,690
Cash flows generated from operations		**1,796,842**	1,009,049
Income tax paid		**(148,232)**	(70,464)
Net cash flows generated from operating activities		**1,648,610**	938,585

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from investing activities			
Purchases of property, plant and equipment		**(1,308,441)**	(733,091)
Proceeds from disposal of property, plant and equipment		**412**	1,436
Proceeds from disposal of financial assets at fair value through profit or loss		**1,188,588**	479,343
Proceeds from disposal of equity investments at fair value through profit or loss		**96,843**	–
Additions of other intangible assets		**(7,397)**	(8,568)
Proceeds from disposal of an associate		**–**	2,000
Purchase of right-of-use assets – land use rights		**–**	(12,947)
Proceeds from disposal of right-of-use assets		**2,800**	2,000
Purchase of equity investments at fair value through profit or loss		**(17,323)**	(24,225)
Settlement of a derivative financial instrument		**69,788**	(21,939)
Purchase of financial assets at fair value through profit or loss		**(1,754,022)**	(535,715)
Acquisition of subsidiaries	41	**(791,521)**	(59,497)
Capital injection in associates		**(291,375)**	(134,000)
Purchase of time deposits with original maturity of more than three months when acquired		**(953,000)**	–
Proceeds from disposal of time deposits with original maturity of more than three months when acquired		**393,597**	–
Net cash flows used in investing activities		**(3,371,051)**	(1,045,203)
Cash flows from financing activities			
Interest on bank loans and other borrowings paid		**(16,799)**	(70,999)
Proceeds from bank loans and other borrowings		**732,503**	726,512
Repayments of bank loans and other borrowings		**(779,278)**	(1,318,635)
Payments of lease liabilities		**(90,725)**	(73,320)
Payments of issue expenses		**(13,149)**	(38,099)
Capital injection from non-controlling shareholders		**5,873**	–
Proceeds from issuance of A shares		**–**	458,486
Proceeds from issuance of restricted A shares		**–**	72,781
Proceeds from issuance of H shares		**–**	4,561,346
Payment of dividends		**(118,603)**	(72,192)
Net cash generated (used in)/from financing activities		**(280,178)**	4,245,880
Net (decrease)/increase in cash and cash equivalents		**(2,002,619)**	4,139,262
Cash and cash equivalents at beginning of year		**4,442,218**	307,235
Effect of foreign exchange rate changes, net		**(85,666)**	(4,279)
Cash and cash equivalents at end of year	30	**2,353,933**	4,442,218
Analysis of balance of cash and cash equivalents			
Cash and cash equivalents		**2,935,090**	4,442,218
Less: Time deposits with original maturity of more than three months		**(581,157)**	–
Cash and cash equivalents as stated in the statements of cash flows		**2,353,933**	4,442,218

1. CORPORATE INFORMATION

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

The Company is a leading fully-integrated pharmaceutical R&D services 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 organised in three major categories: laboratory services, chemistry, manufacturing and controls ("CMC") (small molecule CDMO) services and clinical development services.

Information about subsidiaries

As at December 31, 2020, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Pharmaron (Beijing) TSP Services Co., Ltd. ("康龍化成(北京)生物技術有限公司")	PRC/Mainland China January 11, 2006	RMB138,514,186	100%	N/A	Laboratory services
Pharmaron (Tianjin) Process Development and Manufacturing Co., Ltd. ("康龍化成(天津)藥物製備技術有限公司")	PRC/Mainland China July 16, 2008	RMB620,000,000	100%	N/A	CMC (small molecule CDMO) services
Pharmaron Xi'an Co., Ltd. ("康龍化成(西安)新藥技術有限公司")	PRC/Mainland China May 11, 2010	USD10,000,000	100%	N/A	Laboratory services
Pharmaron Ningbo Co., Ltd. ("康龍化成(寧波)新藥技術有限公司")	PRC/Mainland China January 9, 2015	RMB100,000,000	100%	N/A	Laboratory services and CMC (small molecule CDMO) services
Pharmaron CRI (Ningbo) Co., Ltd. ("康龍化成手性醫藥技術(寧波)有限公司")	PRC/Mainland China August 18, 2016	RMB1,000,000	N/A	100%	Laboratory services
Pharmaron Shaoxing Co., Ltd. ("康龍化成(紹興)藥業有限公司")	PRC/Mainland China January 3, 2017	RMB400,000,000	100%	N/A	Under construction
Pharmaron (Ningbo) Technology Development Co., Ltd. (formerly known as Ningbo KTB Technology Development Co., Ltd.) ("康龍化成(寧波)科技發展有限公司")	PRC/Mainland China January 12, 2015	RMB1,100,000,000	88.64%	11.36%	Laboratory services and CMC (small molecule CDMO) services
Pharmaron Shanghai Co., Ltd. ("康龍化成(上海)新藥技術有限公司")	PRC/Mainland China February 11, 2018	RMB20,000,000	100%	N/A	Laboratory services
Ningbo Pharmaron Biologics Co., Ltd. ("寧波康龍生物技術有限公司")	PRC/Mainland China August 31, 2018	RMB500,000,000	90%	10%	Under construction

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

As at December 31, 2020, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below: (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Pharmaron (Ningbo) Biologics Co., Ltd. ("康龍化成(寧波)生物醫藥有限公司")	PRC/Mainland China October 9, 2020	RMB700,000,000	85%	N/A	Laboratory services
Beijing Link Start Biotechnology Co., Ltd. ("北京聯斯達醫藥科技發展有限公司")	PRC/Mainland China July 19, 2012	RMB20,000,000	68%	N/A	Clinical development services
Beijing Sailebei Medical Technology Co., Ltd. ("北京賽樂貝醫藥科技有限公司")	PRC/Mainland China October 21, 2011	RMB2,000,000	N/A	68%	Clinical development services
Beijing Kangsida Health Management Co., Ltd. ("北京康斯達健康管理有限公司")	PRC/Mainland China April 15, 2014	RMB5,000,000	N/A	68%	Clinical development services
Hainan Shenzhou Deshu Medical Technology Co., Ltd. ("海南神州德數醫療科技有限公司")	PRC/Mainland China March 19, 2020	RMB5,000,000	N/A	54.4%	Clinical development services
RAMED (Beijing) Medical Technology Co., Ltd. ("法謇(北京)醫療科技有限公司")	PRC/Mainland China June 4, 2010	RMB1,307,190	N/A	68%	Clinical development services
Shanghai RAMED Medical Technology Co., Ltd. ("上海法謇醫療科技有限公司")	PRC/Mainland China July 21, 2015	RMB500,000	N/A	68%	Clinical development services
Nanjing Sirui Biotechnology Co., Ltd. ("Nanjing Sirui") ("南京思睿生物科技有限公司")	PRC/Mainland China February 7, 2018	USD13,500,000	55.56%	N/A	Investment holding
Nanjing Ximaidi Medical Technology Co., Ltd. ("南京希麥迪醫藥科技有限公司")	PRC/Mainland China January 20, 2017	RMB80,000,000	N/A	55.56%	Clinical development services
Beijing Xirui Biotechnology Co., Ltd. ("北京希睿醫藥科技有限公司")	PRC/Mainland China September 30, 2018	RMB5,000,000	N/A	55.56%	Clinical development services
Shanghai Ruixi Biotechnology Co., Ltd. ("上海睿希醫藥科技有限公司")	PRC/Mainland China October 13, 2020	RMB5,000,000	N/A	55.56%	Clinical development services
CR Medicon Research, Inc.	the United States of America ("USA") February 9, 2019	10,000 shares	N/A	55.56%	Clinical development services
Pharmaron US, Inc.	USA August 12, 2015	100 shares	100%	N/A	Investment holding
Pharmaron, Inc.	USA December 22, 2006	100 shares	N/A	100%	Business development
Pharmaron (Hong Kong) International Limited	PRC/Hong Kong December 31, 2015	10,000 shares	100%	N/A	Investment holding
Pharmaron (Hong Kong) Investments Limited	PRC/Hong Kong February 11, 2016	10,000 shares	N/A	100%	Investment holding
Pharmaron Biologics (Hong Kong) Limited	PRC/Hong Kong June 11, 2018	50,000 shares	N/A	100%	Investment holding

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

As at December 31, 2020, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below: (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Pharmaron UK Limited (formerly known as Quotient Bioresearch Group Limited)	United Kingdom October 30, 2013	54,136,364 shares	N/A	100%	Laboratory, CMC (small molecule CDMO) and clinical development services
Quotient Bioresearch (Radiochemicals) Limited	United Kingdom April 9, 2009	1 share	N/A	100%	Clinical development services
Pharmaron ABS, Inc. (formerly known as Xceleron, Inc.)	USA October 31, 2001	1,500 shares	N/A	100%	Clinical development services
Pharmaron CPC, Inc. (formerly known as SNBL Clinical Pharmacology Center, Inc.)	USA October 7, 2004	100,000 shares	N/A	80%	Clinical development services
Pharmaron Japan LLC	Japan November 2, 2020	JPY10,000,000	N/A	100%	Investment holding
Pharmaron (UK) Investments Limited	United Kingdom October 1, 2020	17,000 shares	N/A	100%	Investment holding
Pharmaron Biologics (UK) Holdings Limited	United Kingdom December 2, 2020	10,000 shares	N/A	100%	Investment holding
Pharmaron (US) Lab Testing, Inc.	USA October 2, 2020	10,000 shares	N/A	100%	Investment holding
Absorption Systems LLC	USA July 31, 2017	N/A	N/A	100%	Laboratory services
Absorption Systems California, LLC	USA July 28, 2017	N/A	N/A	100%	Laboratory services
Absorption Systems Boston, LLC	USA September 20, 2017	N/A	N/A	100%	Laboratory services

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

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

2.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

b. rights arising from other contractual arrangements; and

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

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*

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 hedging relationships.

(d) 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 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 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any impact on the financial position and performance of the group.

(e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39,IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3, 5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 1	*Disclosure of Accounting Policies*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[3]
Annual Improvements to IFRS 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2]

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

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

[2] Effective for annual periods beginning on or after January 1, 2022

[3] Effective for annual periods beginning on or after January 1, 2023

[4] No mandatory effective date yet determined but available for adoption

[5] As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

The Group is in the process of making an assessment of the impact of these new and revised IFRS upon initial application. So far, the Group considers that, these new and revised IFRSs are unlikely to have significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

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

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

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

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

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

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

Impairment of non-financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

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

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

Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

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

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

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

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

Other intangible assets (other than goodwill)

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

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

Category	Estimated useful life	Estimated residual value
Software (i)	3-10 years	0%
Patents (ii)	10-20 years	0%
Client relationship (iii)	9-10 years	0%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development costs

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

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

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

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

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

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

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

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

Group as a lessor

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessor (continued)

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instrument)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

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

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

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

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

Derecognition of financial assets

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

General approach

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

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

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

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

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

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

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

Simplified approach

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, financial liabilities as contingent consideration of an acquirer in a business combination to which IFRS 3 applies and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

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

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges

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

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

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

Current versus non-current classification

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

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

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

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

Treasury shares

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

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

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

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

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

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

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

Revenue from other sources

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

Other income

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

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

Contract assets

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

Contract liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract costs

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

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

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

(c) the costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Share-based payments

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

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Retirement benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Employee benefits to all eligible employees of the overseas subsidiaries are made in accordance with the rules set forth in the collective labour agreement, and recorded as an expense in the period they are due as a charge to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the timing of satisfaction of performance obligations

The Group has different contractual arrangements with different customers. In determining the timing of satisfaction of performance obligations, management reviews the contract terms of each individual contract.

For certain types of revenue under the FFS model, the directors of the Company have determined that performance obligations are satisfied over time. Significant judgement is required in determining whether the terms of the Group's contracts with customers in relation to certain types of revenue under the FFS model create an enforceable right to payment for the Group.

Determining the method for measuring progress towards complete satisfaction of performance obligations

Depending on which better depicts the transfer of value to the customer, the directors of the Company make judgement to measure the progress of the projects using either the input method or the output method.

Determining significant influence over entities in which the Group holds less than 20% equity interests

The Group's certain investments in associates are accounted for under the equity method of accounting if the Group has significant influence over these entities by way of representation on the board of directors and participation in the policy-making process, despite the fact that the Group's direct or indirect equity interests in these associates were lower than 20%.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets relating to recognised tax losses at December 31, 2020 was RMB5,818,000 (2019: RMB4,762,000). The amount of unrecognised tax losses at December 31, 2020, was RMB746,709,000 (2019: RMB704,227,000). Further details are contained in note 21 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2020 was RMB1,166,172,000 (2019: RMB203,286,000). Further details are given in note 17.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is computed based on the Black-Scholes formula. Details of share-based payments are contained in notes 39.

The share-based compensation expense is measured based on the fair value of the share incentives as calculated under the Black-Scholes pricing model. The Group is responsible for determining the fair value of the restricted shares granted to employees. The key assumptions used to determine the fair value of the share unit incentives at the grant date and the re-measurement dates include share price on the measurement date, expected volatility and risk-free interest rate. Changes in these assumptions could significantly affect the fair value of share incentives and hence the amount of compensation expenses the Group recognises in our consolidated financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimates of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables and contract assets (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 25 and 26.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group estimates fair value by using a valuation technique. Valuation techniques include using recent prices in arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the extent practicable, valuation technique makes the maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other intangible assets with indefinite life are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

- The laboratory services segment includes laboratory chemistry and bioscience (including DMPK/ADME, *in vitro* biology and *in vivo* pharmacology, safety assessment, discovery biologics and U.S. laboratory services) services
- The CMC (small molecule CDMO) services segment includes process development and manufacturing, materials science/pre-formulation, formulation development and manufacturing, and analytical development services
- The clinical development services segment includes clinical research services, site management services, regulatory bioanalysis and radiolabelled science services
- The "Others" segment

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

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

	Laboratory services RMB'000	CMC (small molecule CDMO) services RMB'000	Clinical development services RMB'000	Others RMB'000	Total RMB'000
Year ended December 31, 2020					
Segment revenue	**3,262,714**	**1,221,985**	**629,350**	**19,548**	**5,133,597**
Segment results	**1,389,079**	**397,979**	**118,209**	**10,846**	**1,916,113**
Unallocated amounts:					
Other income and gains					**493,006**
Other expenses					**(143,814)**
Selling and distribution expenses					**(92,643)**
Administrative expenses					**(684,705)**
Research and development costs					**(105,345)**
Impairment losses on financial and contract assets, net of reversal					**(14,823)**
Finance costs					**(23,854)**
Share of losses of associates					**(24,565)**
Group's profit before tax					**1,319,370**
Year ended December 31, 2019					
Segment revenue	2,379,509	901,576	456,265	19,810	3,757,160
Segment results	956,085	249,690	113,919	12,007	1,331,701
Unallocated amounts:					
Other income and gains					70,153
Other expenses					(11,761)
Selling and distribution expenses					(72,989)
Administrative expenses					(526,408)
Research and development costs					(62,872)
Impairment losses on financial and contract assets, net of reversal					(5,495)
Finance costs					(82,476)
Share of losses of associates					(7,303)
Group's profit before tax					632,550

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

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

Geographical information

(a) Revenue

	2020 RMB'000	2019 RMB'000
North America	**3,271,385**	2,208,691
Europe	**979,762**	869,541
Asia (except Mainland China)	**142,924**	149,937
Mainland China	**700,218**	478,402
Others	**39,308**	50,589
	5,133,597	3,757,160

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

(b) Non-current assets

	2020 RMB'000	2019 RMB'000
China	**4,529,104**	3,200,346
North America	**1,278,656**	319,903
Europe	**430,988**	404,912
	6,238,748	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.

Information about major customers

No revenue from sales to a single customer amounted to 10% or more of the Group's revenue during each reporting period.

5. REVENUE

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	**5,114,049**	3,737,350
Revenue from other sources		
Revenue from investment property operating lease:	**19,548**	19,810
	5,133,597	3,757,160

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments	2020 RMB'000	2019 RMB'000
Types of services		
Laboratory services	**3,262,714**	2,379,509
CMC (small molecule CDMO) services	**1,221,985**	901,576
Clinical development services	**629,350**	456,265
Total revenue from contracts with customers	**5,114,049**	3,737,350
Timing of revenue recognition		
Services transferred at a point of time	**2,731,623**	2,028,539
Services transferred over time	**2,382,426**	1,708,811
Total revenue from contracts with customers	**5,114,049**	3,737,350

(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, for certain services under the FFS model, revenue is recognised over time and contracts are generally within an original expected length of one year or less. Therefore, the practical expedients are also applied.

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2020 RMB'000	2019 RMB'000
Other income		
Interest income	**74,064**	9,614
Government grants and subsidies related to		
– Assets (i)	**11,232**	9,427
– Income (ii)	**34,303**	25,576
	119,599	44,617
Other gains		
Foreign exchange gains, net	**–**	1,882
Gains on fair value change of equity investment at fair value through profit or loss	**75,460**	10,179
Gains on disposal of equity investment at fair value through profit or loss	**78,039**	–
Gains on disposal of an associate	**–**	124
Gains on termination of lease contracts	**46**	–
Gains on financial assets at fair value through profit or loss	**55,496**	2,033
Gains on derivative financial instruments	**140,797**	–
Gains on fair value re-measurement of existing equity in business combination not under common control (note 41)	**23,123**	10,363
Others	**446**	955
	373,407	25,536
	493,006	70,153
Other expenses		
Foreign exchange loss, net	**(131,226)**	–
Losses on disposal of property, plant and equipment	**(7,326)**	(667)
Losses on derivative financial instruments	**–**	(8,663)
Others	**(5,262)**	(2,431)
	(143,814)	(11,761)

(i) The Group has received certain government grants related to assets to invest in laboratory equipment and plant. The grants related to assets were recognised in profit and loss over the useful lives of relevant assets. Details of these grants related to assets are set out in note 37.

(ii) The government grants and subsidies related to income have been received to compensate for the Group's research and development expenditures. Some of the grants related to income have future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognised in the statement of profit or loss on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Other government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest expenses on bank and other borrowings	**17,024**	75,856
Interest expenses on lease liabilities	**11,486**	9,318
Total interest expense on financial liabilities not at fair value through profit or loss	**28,510**	85,174
Less: Interest capitalised	**(4,656)**	(2,698)
	23,854	82,476

8. PROFIT BEFORE TAX

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

	2020 RMB'000	2019 RMB'000
Depreciation of property, plant and equipment	**348,662**	307,199
Depreciation of right-of-use assets	**77,566**	61,910
Depreciation of investment property	**817**	812
Amortisation of other intangible assets	**10,971**	4,661
Staff costs (including directors' and chief executive's remuneration):		
Salaries and other benefits	**1,796,881**	1,192,315
Pension scheme contributions, social welfare and other welfare	**391,658**	368,206
Share-based compensation expenses	**62,458**	11,524
Gains on fair value re-measurement of existing equity in business combination not under common control	**(23,123)**	(10,363)
Gains on fair value change of equity investments at fair value through profit or loss	**(75,460)**	(10,179)
Gains on disposal of equity investment at fair value through profit or loss	**(78,039)**	–
Impairment losses on inventories, net of reversal	**4,622**	1,021
Impairment losses on financial and contract assets, net of reversal	**14,823**	5,495
Foreign exchange loss/(gains), net	**131,226**	(1,882)
(Gains)/losses on derivative financial instruments	**(140,797)**	8,663
Auditor's remuneration	**4,300**	3,480

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

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the emoluments paid or payable to the directors and the chief executive of the Company for the services provided to the Group during each reporting period are as follows:

2020	Fees RMB'000	Salaries RMB'000	Performance related bonuses RMB'000	Social welfare benefits RMB'000	Total RMB'000
Chief executive and executive director:					
Dr. Boliang LOU	–	2,100	2,000	72	4,172
Executive directors:					
Mr. Xiaoqiang LOU	–	1,800	3,000	72	4,872
Ms. Bei ZHENG	–	1,600	2,000	72	3,672
Non-executive directors:					
Mr. Pingjin CHEN	–	–	–	–	–
Mr. Baifeng HU	–	–	–	–	–
Mr. Jiaqing LI	–	–	–	–	–
Mr. Hongbin ZHOU	–	–	–	–	–
Independent non-executive directors:					
Mr. Lixin DAI	200	–	–	–	200
Ms. Guoqin CHEN	200	–	–	–	200
Mr. Jian YU (i)	85	–	–	–	85
Ms. Lihua LI (ii)	118	–	–	–	118
Ms. Rong SHEN (ii)	118	–	–	–	118
Mr. TSANG Kwan Hung Benson	200	–	–	–	200
	921	5,500	7,000	216	13,637

(i) Mr. Jian YU was appointed as a director of the Company on July 23, 2020.

(ii) Ms. Lihua LI and Ms Rong SHEN resigned on July 23, 2020.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

Details of the emoluments paid or payable to the directors and the chief executive of the Company for the services provided to the Group during each reporting period are as follows: (continued)

2019	Fees RMB'000	Salaries RMB'000	Performance related bonuses RMB'000	Social welfare benefits RMB'000	Total RMB'000
Chief executive and executive director:					
Dr. Boliang LOU	–	2,000	960	90	3,050
Executive directors:					
Mr. Xiaoqiang LOU	–	1,700	960	90	2,750
Ms. Bei ZHENG	–	1,500	960	90	2,550
Non-executive directors:					
Mr. Pingjin CHEN	–	–	–	–	–
Mr. Baifeng HU	–	–	–	–	–
Mr. Jiaqing LI	–	–	–	–	–
Mr. Hongbin ZHOU	–	–	–	–	–
Independent non-executive directors:					
Mr. Lixin DAI	150	–	–	–	150
Ms. Lihua LI (ii)	150	–	–	–	150
Ms. Rong SHEN (ii)	150	–	–	–	150
Ms. Guoqin CHEN	150	–	–	–	150
Mr. TSANG Kwan Hung Benson (iii)	13	–	–	–	13
	613	5,200	2,880	270	8,963

(iii) Mr. TSANG Kwan Hung Benson was appointed as a director of the Company on August 15, 2019, which was effective from November 28, 2019.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during each reporting period.

10. FIVE HIGHEST PAID EMPLOYEES

The five individuals with the highest emoluments in the Group during the year included three (2019: two) directors disclosed above, details of whose remuneration are set out as above in note 9. Details of the remuneration of the remaining highest paid employees who are neither a director nor chief executive of the Company for the reporting periods are as follows:

	2020 RMB'000	2019 RMB'000
Salaries	3,600	5,262
Performance related bonuses	5,000	2,954
Social welfare benefits	144	302
	8,744	8,518

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
Nil to RMB1,000,000	–	–
RMB1,000,001 to RMB2,000,000	–	–
RMB2,000,001 to RMB3,000,000	–	2
RMB3,000,001 to RMB4,000,000	1	1
RMB4,000,001 to RMB5,000,000	1	–
	2	3

11. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax	143,934	85,479
Deferred tax	28,444	16,399
	172,378	101,878

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

The Company was accredited as a "High and New Technology Enterprise" in 2017 which was subsequently renewed in 2020 and as an "Advanced Technology Enterprise" in 2015 which was subsequently renewed in 2020, and therefore the Company was entitled to a preferential EIT rate of 15% for each reporting period. These qualifications are subject to review by the relevant tax authority in the PRC for every three years.

11. INCOME TAX EXPENSE (CONTINUED)

Pharmaron Xi'an Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2018 and the qualification was subsequently renewed in 2020, and therefore Pharmaron Xi'an Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC for every two years.

Pharmaron (Beijing) TSP Service Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2015 and the qualification was renewed in 2020 and as an "High and New Technology Enterprise" in 2020, and therefore Pharmaron (Beijing) TSP Service Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. These qualifications are subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron (Ningbo) Technology Development Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2019 and the qualification was renewed in 2020, and therefore Pharmaron (Ningbo) Technology Development Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC annually.

Pharmaron Shanghai Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2019, and therefore Pharmaron Shanghai Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron (Tianjin) Process Development and Manufacturing Co., Ltd. was accredited as an "High and New Technology Enterprise" in 2020, and therefore Pharmaron (Tianjin) Process Development and Manufacturing Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2020. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Beijing Link Start Biotechnology Co., Ltd. was accredited as an "High and New Technology Enterprise" in 2020, and therefore Beijing Link Start Biotechnology Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2020. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

RAMED (Beijing) Medical Technology Co., Ltd. was accredited as an "High and New Technology Enterprise" in 2020, and therefore RAMED (Beijing) Medical Technology Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2020. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

The group entities incorporated in the USA were subject to the federal corporate tax at a rate of 21% and the state income tax at a rate ranging from 5% to 10 % as at December 31, 2019 and 2020.

The group entities incorporated in the United Kingdom were subject to tax at a rate of 19% for the years ended December 31, 2019 and 2020.

The group entities incorporated in Hong Kong were subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits for the years ended December 31, 2019 and 2020.

The Group's tax provision in respect of other jurisdictions has been calculated at the applicable tax rates in accordance with the prevailing practices of the jurisdictions in which the Group operates.

11. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the reporting period can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Profit before tax	**1,319,370**	632,550
Tax at tax rates of 15%	**197,906**	94,883
Effect of different tax rate of subsidiaries	**3,628**	3,927
Overprovision in respect of prior years	**(670)**	(64)
Losses attributable to associates	**3,781**	1,102
Income not subject to tax	**(28,795)**	(3,234)
Non-deductible expenses	**180**	278
Additional deductible allowance for research and development ("R&D") expenses	**(5,120)**	(2,240)
Effect of tax rate changes	**1**	(2,252)
Utilisation of tax losses and other deductible temporary differences previously not recognised as deferred tax assets	**(17,498)**	(3,438)
Unrecognised deductible temporary differences and tax losses	**18,965**	12,916
	172,378	101,878

12. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Proposed final – RMB0.30 (2019: RMB0.15) per ordinary share	**238,316**	119,158

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 declared to the holders of restricted A shares that would be paid no earlier than the unlocking date, the rest of the dividend was paid in July 2020.

The proposed final dividend for the year ended December 31, 2020 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 790,435,853 (2019: 660,535,750) in issue during the year, as adjusted to reflect the rights issue during the year.

The weighted average number of ordinary shares used in the calculation is based on the number of ordinary shares used in the basic earnings per share calculation adjusted for the dilutive effect of share options and restricted A shares issued by the Company. For the year ended December 31, 2020, the calculation of the diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the dilutive impact of the share options issued by the Group's subsidiaries, where applicable.

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

	2020 RMB'000	2019 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	**1,172,383**	547,190
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**(591)**	–
Earnings for the purpose of calculating basic earnings per share	**1,171,792**	547,190
Effective of diluted potential ordinary shares:		
Add: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**591**	–
Earnings for the purpose of calculating diluted earnings per share	**1,172,383**	547,190

	2020	2019
Number of shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**790,435,853**	660,535,750
Effect of diluted potential ordinary shares:		
Effective of restricted shares units and share awards issued by the Company	**2,752,261**	139,694
Weighted average number of ordinary shares in issue during the year, used in the diluted earnings per share calculation	**793,188,114**	660,675,444

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Land RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2020								
At December 31, 2019 and at January 1, 2020:								
Cost	1,602,789	1,622,331	14,590	129,063	458,392	65,778	217,273	4,110,216
Accumulated depreciation and impairment	(142,145)	(670,744)	(4,848)	(65,568)	(253,557)	–	–	(1,136,862)
Net carrying amount	1,460,644	951,587	9,742	63,495	204,835	65,778	217,273	2,973,354
At January 1, 2020, net of accumulated depreciation	1,460,644	951,587	9,742	63,495	204,835	65,778	217,273	2,973,354
Additions	6,423	318,553	198	29,759	84,644	–	755,769	1,195,346
Acquisition of subsidiaries (Note 41)	–	28,909	194	2,479	9,792	–	160	41,534
Disposals	–	(1,143)	(51)	(64)	–	–	–	(1,258)
Depreciation provided during the year	(64,857)	(194,379)	(1,569)	(25,002)	(62,855)	–	–	(348,662)
Transfer to fixed assets	71,286	75,004	587	5,157	–	–	(152,034)	–
Exchange realignment	(7,030)	(4,455)	(5)	(2,774)	(2,144)	(1,868)	(593)	(18,869)
At December 31, 2020, net of accumulated depreciation	1,466,466	1,174,076	9,096	73,050	234,272	63,910	820,575	3,841,445
At December 31, 2020:								
Cost	1,672,639	2,019,596	15,311	160,989	550,800	63,910	820,575	5,303,820
Accumulated depreciation and impairment	(206,173)	(845,520)	(6,215)	(87,939)	(316,528)	–	–	(1,462,375)
Net carrying amount	1,466,466	1,174,076	9,096	73,050	234,272	63,910	820,575	3,841,445

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Land RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2019								
At December 31, 2018 and at January 1, 2019:								
Cost	1,554,492	1,305,153	13,227	107,844	442,860	62,371	34,886	3,520,833
Accumulated depreciation and impairment	(80,749)	(514,942)	(3,613)	(46,323)	(198,068)	–	–	(843,695)
Net carrying amount	1,473,743	790,211	9,614	61,521	244,792	62,371	34,886	2,677,138
At January 1, 2019, net of accumulated depreciation	1,473,743	790,211	9,614	61,521	244,792	62,371	34,886	2,677,138
Additions	–	191,180	654	15,103	12,368	–	345,601	564,906
Acquisition of subsidiaries	–	19,459	221	2,588	2,880	–	–	25,148
Disposals	–	(1,563)	(290)	(455)	–	–	–	(2,308)
Depreciation provided during the year	(61,009)	(167,613)	(1,540)	(20,119)	(56,918)	–	–	(307,199)
Transfer to fixed assets	44,807	115,205	1,081	3,531	–	–	(164,624)	–
Exchange realignment	3,103	4,708	2	1,326	1,713	3,407	1,410	15,669
At December 31, 2019, net of accumulated depreciation	1,460,644	951,587	9,742	63,495	204,835	65,778	217,273	2,973,354
At December 31, 2019:								
Cost	1,602,789	1,622,331	14,590	129,063	458,392	65,778	217,273	4,110,216
Accumulated depreciation and impairment	(142,145)	(670,744)	(4,848)	(65,568)	(253,557)	–	–	(1,136,862)
Net carrying amount	1,460,644	951,587	9,742	63,495	204,835	65,778	217,273	2,973,354

None of the Group's fixed assets were held under sale and leaseback arrangements included in the total amount of laboratory equipment at December 31, 2020 (2019: RMB36,740,000).

At December 31, 2020, certain of the Group's buildings, land and equipment with a net carrying amount of approximately RMB405,629,000 (2019: RMB1,333,198,000) were pledged to secure general banking facilities and other borrowings granted to the Group (note 31).

15. RIGHT-OF-USE ASSETS

	Office premises RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Land use rights RMB'000	Total RMB'000
December 31, 2020						
At December 31, 2019 and at January 1, 2020:						
Cost	274,834	26,627	123	2,973	336,475	641,032
Accumulated depreciation and impairment	(103,521)	(21,104)	(43)	(343)	(17,032)	(142,043)
Net carrying amount	171,313	5,523	80	2,630	319,443	498,989
At January 1, 2020, net of accumulated depreciation	171,313	5,523	80	2,630	319,443	498,989
Additions	109,081	306	10	434	–	109,831
Disposal	(476)	–	–	–	–	(476)
Acquisition of subsidiaries (note 41)	41,935	–	–	–	–	41,935
Depreciation provided during the period	(68,354)	(1,471)	(48)	(440)	(7,253)	(77,566)
Exchange realignment	(4,818)	(166)	(2)	(97)	–	(5,083)
At December 31, 2020, net of accumulated depreciation	248,681	4,192	40	2,527	312,190	567,630
At December 31, 2020:						
Cost	418,514	26,628	130	3,284	336,475	785,031
Accumulated depreciation and impairment	(169,833)	(22,436)	(90)	(757)	(24,285)	(217,401)
Net carrying amount	248,681	4,192	40	2,527	312,190	567,630

15. RIGHT-OF-USE ASSETS (CONTINUED)

	Office premises RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Land use rights RMB'000	Total RMB'000
December 31, 2019						
At December 31, 2018 and at January 1, 2019:						
Cost	232,051	26,126	–	–	323,528	581,705
Accumulated depreciation and impairment	(53,422)	(19,432)	–	–	(9,930)	(82,784)
Net carrying amount	178,629	6,694	–	–	313,598	498,921
At January 1, 2019, net of accumulated depreciation	178,629	6,694	–	–	313,598	498,921
Additions	37,667	–	119	2,893	12,947	53,626
Acquisition of subsidiaries	5,800	–	–	–	–	5,800
Depreciation provided during the period	(52,952)	(1,480)	(41)	(335)	(7,102)	(61,910)
Exchange realignment	2,169	309	2	72	–	2,552
At December 31, 2019, net of accumulated depreciation	171,313	5,523	80	2,630	319,443	498,989
At December 31, 2019:						
Cost	274,834	26,627	123	2,973	336,475	641,032
Accumulated depreciation and impairment	(103,521)	(21,104)	(43)	(343)	(17,032)	(142,043)
Net carrying amount	171,313	5,523	80	2,630	319,443	498,989

As at December 31, 2020, certain of the Group's land use rights with a net carrying amount of approximately RMB180,531,000 (2019: RMB81,651,000) were pledged to secure general banking facilities granted to the Group (note 31).

16. INVESTMENT PROPERTIES

	2020 RMB'000	2019 RMB'000
Cost	**47,092**	48,469
Accumulated depreciation and impairment	**(3,203)**	(2,456)
Net carrying amount	**43,889**	46,013
Opening carrying amount, net of accumulated depreciation	**46,013**	44,428
Depreciation provided during the year	**(817)**	(812)
Exchange realignment	**(1,307)**	2,397
	43,889	46,013

As at December 31, 2020, the fair value of the investment properties was estimated to be approximately RMB50,299,000 (2019: RMB51,769,000). The valuation was determined using the direct comparison method. The direct comparison method is applied based on the market prices of comparable properties with similar sizes, characteristics and locations.

17. GOODWILL

	2020 RMB'000	2019 RMB'000
Cost	**1,166,172**	203,286
Accumulated impairment	**–**	–
Net carrying amount	**1,166,172**	203,286
Opening carrying amount, net of accumulated impairment	**203,286**	139,917
Acquisition of subsidiaries (note 41)	**984,040**	61,172
Exchange realignment	**(21,154)**	2,197
	1,166,172	203,286

17. GOODWILL (CONTINUED)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- CPC business cash-generating unit;
- Pharmaron ABS business cash-generating unit;
- Pharmaron (Ningbo) Technology Development business cash-generating unit;
- Nanjing Sirui business cash-generating unit;
- Beijing LinkStart business cash-generating unit;
- Absorption business cash-generating unit; and
- RAMED (Beijing) Medical Technology business cash-generating unit.

CPC business cash-generating unit

The recoverable amount of the CPC business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15.1% (2019: 15.3%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Pharmaron ABS business cash-generating unit

The recoverable amount of the Pharmaron ABS business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15.5% (2019: 15.6%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Pharmaron (Ningbo) Technology Development business cash-generating unit

The recoverable amount of the Pharmaron (Ningbo) Technology Development business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 17.6% (2019: 17.5%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

17. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Nanjing Sirui business cash-generating unit

The recoverable amount of the Nanjing Sirui business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 18.7% (2019: 18.6%) and cash flows beyond the five-year period were extrapolated using a growth of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Beijing LinkStart business cash-generating unit

The recoverable amount of the Beijing LinkStart business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering an eight-year period approved by senior management. The discount rate applied to the cash flow projections was 18.9% and cash flows beyond the eight-year period were extrapolated using a growth of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Absorption business cash-generating unit

The recoverable amount of the Absorption business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a six-year period approved by senior management. The discount rate applied to the cash flow projections was 16.5% and cash flows beyond the six-year period were extrapolated using a growth of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

RAMED (Beijing) Medical Technology business cash-generating unit

The recoverable amount of the RAMED (Beijing) Medical Technology business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 17.7% and cash flows beyond the five-year period were extrapolated using a growth of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

17. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

RAMED (Beijing) Medical Technology business cash-generating unit (continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2020 RMB'000	2019 RMB'000
CPC business	**100,789**	107,761
Pharmaron ABS business	**26,012**	27,811
Pharmaron (Ningbo) Technology Development business	**6,542**	6,542
Nanjing Sirui business	**61,172**	61,172
Beijing LinkStart business	**158,931**	–
Absorption business	**776,297**	–
RAMED (Beijing) Medical Technology business	**36,429**	–
	1,166,172	203,286

Assumptions were used in the value in use calculation of the CPC business, Pharmaron ABS business, Pharmaron (Ningbo) Technology Development business, Nanjing Sirui business, Beijing LinkStart business, Absorption business, RAMED (Beijing) Medical Technology business cash-generating units for December 31, 2020 and 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on the market development of the CPC business, Pharmaron ABS business, Pharmaron (Ningbo) Technology Development business, Nanjing Sirui business, Beijing LinkStart business, Absorption business, RAMED (Beijing) Medical Technology business cash-generating units and discount rates are consistent with external information sources.

The management of the Group assessed that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CPC business, Pharmaron ABS business, Pharmaron (Ningbo) Technology Development business, Nanjing Sirui business, Beijing LinkStart business, Absorption business, RAMED (Beijing) Medical Technology business cash-generating units to exceed their respective recoverable amounts as at December 31, 2020.

18. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents RMB'000	Client relationship RMB'000	Total RMB'000
December 31, 2020				
Cost at January 1, 2020, net of accumulated amortisation	**19,614**	**483**	**15,255**	**35,352**
Additions	**7,086**	**311**	**–**	**7,397**
Acquisition of subsidiaries (note 41)	**1,020**	**5,493**	**153,683**	**160,196**
Amortisation provided during the year	**(4,885)**	**(180)**	**(5,906)**	**(10,971)**
Exchange realignment	**(407)**	**(85)**	**(1,506)**	**(1,998)**
At December 31, 2020	**22,428**	**6,022**	**161,526**	**189,976**

	Software RMB'000	Patents RMB'000	Client relationship RMB'000	Total RMB'000
December 31, 2019				
Cost at January 1, 2019, net of accumulated amortisation	13,471	429	–	13,900
Additions	8,476	92	–	8,568
Acquisition of subsidiaries	1,260	–	16,200	17,460
Amortisation provided during the year	(3,679)	(37)	(945)	(4,661)
Exchange realignment	86	(1)	–	85
At December 31, 2019	19,614	483	15,255	35,352

19. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Share of net assets	**273,905**	28,757
Goodwill on acquisition	**6,569**	102,489
	280,474	131,246

In June 2019, the Group acquired a 48.00% equity interest in LinkStart at a cash consideration of RMB120,000,000. LinkStart is a limited liability company incorporated under the laws of the PRC and is accounted for using the equity method. As at December 31, 2019, the carrying amount of investment in LinkStart was RMB119,318,000.

19. INVESTMENTS IN ASSOCIATES (CONTINUED)

In June 2020, the Group subscribed for the increased registered capital of LinkStart at a consideration of RMB60,000,000 in exchange for 20% of its equity interests. Therefore LinkStart has become a subsidiary and is no longer an associate of the Group.

As of December 31, 2020, details of each of the Group's associates are as follows:

Name of entity	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activity
Shanghai Kejun Pharmaceutical Technology Co., Ltd. ("Shanghai Kejun")	Ordinary shares	PRC/Mainland China	9.09%	Biopharmaceutical
Kangjun Investment Management (Beijing) Co., Ltd. ("Kangjun")	Ordinary shares	PRC/Mainland China	30.00%	Investment management
Beijing Kangjun Ningyuan Equity Investment Partnership Enterprise (Limited Partnership) ("Kangjun Ningyuan")	Ordinary shares	PRC/Mainland China	21.28%	Investment management
AccuGen Group	Ordinary shares	Cayman Islands	50.00%	Genetic and cell research

In April 2019, the Group acquired a 9.09% equity interest in Shanghai Kejun at a cash consideration of RMB1,125,000. Shanghai Kejun is a limited liability company incorporated under the laws of the PRC and is accounted for using the equity method.

In August 2019, the Group acquired a 30.00% equity interest in Kangjun at a cash consideration of RMB3,000,000. Kangjun is a limited liability company incorporated under the laws of the PRC and is accounted for using the equity method.

In January 2020, the Company (as the limited partner) and Kangjun Investment Management (Beijing) Co., Ltd. (as the general partner, also a connected person of the Group under Chapter 14A of the Listing Rules) entered into a limited partnership agreement in relation to the establishment of and investment in Kangjun Ningyuan. Kangjun Ningyuan is a limited partnership incorporated under the laws of the PRC and is accounted for using the equity method.

In April 2020, the Group acquired a 50.00% equity interest in AccuGen Group at a cash consideration of USD30,390,000, equivalent to RMB214,375,000. AccuGen Group is an exempted limited company incorporated in the Cayman Islands and is accounted for using the equity method.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2020 RMB'000	2019 RMB'000
Share of the associates' total comprehensive loss for the year	**(24,565)**	(7,303)
Aggregate carrying amount of the Group's investments in the associates	**280,474**	131,246

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Listed equity investments, at fair value	96,609	–
Unlisted equity investments, at fair value	24,621	59,054
	121,230	59,054

The above listed equity investments represent investments in Zentalis Pharmaceuticals, LLC ("Zentalis") (formerly known as Zeno Pharmaceuticals, Inc.). Zentalis was listed on April 3, 2020 on Nasdaq, the fair value was based on its quoted price as of December 31, 2020. The Group disposed of certain shares of Zentalis during the year ended December 31, 2020.

21. DEFERRED TAX

The movements in deferred tax assets are as follows:

	2020				
	Losses available for offsetting against future taxable profits RMB'000	Impairment provision for assets RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At January 1, 2020	4,762	3,007	17,213	5,412	30,394
Deferred tax credited/(charged) to profit or loss during the year	1,056	2,296	(1,048)	7,973	10,277
Deferred tax assets at December 31, 2020	5,818	5,303	16,165	13,385	40,671

	2019				
	Losses available for offsetting against future taxable profits RMB'000	Impairment provision for assets RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At January 1, 2019	4,520	2,490	3,907	4,880	15,797
Deferred tax credited to profit or loss during the year	242	517	13,306	532	14,597
Deferred tax assets at December 31, 2019	4,762	3,007	17,213	5,412	30,394

21. DEFERRED TAX (CONTINUED)

The movements in deferred tax liabilities are as follows:

	2020			
	Fair value gain arising from acquisition of subsidiaries RMB'000	Accelerated tax depreciation RMB'000	Fair value gain arising from financial instruments RMB'000	Total RMB'000
At January 1, 2020	10,647	52,103	2,054	64,804
Deferred tax charged/(credited) to profit or loss during the year	(1,971)	23,382	17,310	38,721
Acquisition of subsidiaries (note 41)	36,154	–	–	36,154
Exchange realignment	(538)	–	–	(538)
Deferred tax liabilities at December 31, 2020	44,292	75,485	19,364	139,141

	2019			
	Fair value gain arising from acquisition of subsidiaries RMB'000	Accelerated tax depreciation RMB'000	Fair value gain arising from derivative financial instruments RMB'000	Total RMB'000
At January 1, 2019	10,289	19,368	–	29,657
Deferred tax charged/(credited) to profit or loss during the year	(3,793)	32,735	2,054	30,996
Acquisition of subsidiaries	4,298	–	–	4,298
Exchange realignment	(147)	–	–	(147)
Deferred tax liabilities at December 31, 2019	10,647	52,103	2,054	64,804

For presentation purposes, as at December 31, 2020, certain deferred tax assets and liabilities with an amount of RMB32,235,000 (2019: RMB24,022,000) have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	8,436	6,372
Net deferred tax liabilities recognised in the consolidated statement of financial position	106,906	40,782

21. DEFERRED TAX (CONTINUED)

In accordance with PRC laws and regulations, tax losses could be carried forward for five years to offset against future taxable profits. According to the Notice 2018 No.76 of the Ministry of Finance, from January 1, 2018, the enterprises that have the qualifications of High and New Technology Enterprise will be able to make up for the losses that have not been completed in the previous five years before the qualification year. Therefore, certain PRC companies' longest tax loss carried-over period is extended from 5 years to 10 years. For the Group's subsidiaries in the United States of America ("U.S.") and United Kingdom ("U.K."), losses can be carried-over indefinitely. Deferred tax assets relating to unutilised tax losses are recognised to the extent that it is probable that sufficient taxable profit will be available to allow such deferred tax assets to be utilised.

The Group had unrecognised temporary differences and unused tax losses available for offsetting against future profits in respect of certain subsidiaries in U.S. and U.K. of RMB746,709,000 and RMB704,227,000 as at December 31, 2020 and 2019, respectively, and the deferred tax assets have not been recognised. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

22. OTHER NON-CURRENT ASSETS

	2020 RMB'000	2019 RMB'000
Prepayment for purchase of property, plant and equipment	**128,682**	14,034
Deposits	**20,372**	22,297
Others	**108**	590
	149,162	36,921

As at December 31, 2020 and 2019, the financial assets included in other non-current assets of the Group were considered to be of low credit risk and thus the Group has assessed that the ECLs for deposits are immaterial under the 12-month expected credit loss method.

23. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials and consumables	**128,757**	97,050

As at December 31, 2020, the inventories were net of a write-down of approximately RMB10,600,000 (2019: RMB5,978,000).

24. CONTRACT COSTS

	2020 RMB'000	2019 RMB'000
Costs to fulfil contracts	152,860	60,347

25. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables – third parties	1,110,720	876,344
Allowance for impairment	(34,106)	(19,275)
	1,076,614	857,069

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to various diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The balances of trade receivables are non-interest-bearing.

Included in the trade receivables was an amount due from related parties of RMB7,339,000 as at December 31, 2020 (2019: Nil), which was repayable on credit terms similar to those offered to the major customers of the Group.

An ageing analysis of gross carrying amount of the trade receivables as at the end of each reporting period, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	1,072,221	855,276
1 year to 2 years	22,216	14,547
More than 2 years	16,283	6,521
	1,110,720	876,344

25. TRADE RECEIVABLES (CONTINUED)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	19,275	13,758
Impairment losses, net	15,056	5,447
Exchange realignment	(225)	70
	34,106	19,275

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables.

An impairment analysis is performed at the end of each reporting period using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each reporting period about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	2020		
	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Within 1 year	0.65%	1,072,221	7,018
1 to 2 years	48.64%	22,216	10,805
Over 2 years	100.00%	16,283	16,283
		1,110,720	34,106

	2019		
	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Within 1 year	0.65%	855,276	5,585
1 to 2 years	49.28%	14,547	7,169
Over 2 years	100.00%	6,521	6,521
		876,344	19,275

26. CONTRACT ASSETS

	2020 RMB'000	2019 RMB'000
Contract assets	136,234	91,857
Allowance for impairment	(2,470)	(2,752)
	133,764	89,105

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

Included in the contract assets was an amount due from related parties of RMB62,000 as at December 31, 2020 (2019: Nil), which was repayable on credit terms similar to those offered to the major customers of the Group.

The expected timing of recovery or settlement is generally within one year.

The movements in the loss allowance for impairment of contract assets are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	2,752	1,392
Impairment losses, net	(233)	1,346
Exchange realignment	(49)	14
	2,470	2,752

The Group has applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all contract assets. To measure the ECLs, contract assets have been grouped based on shared credit risk characteristics and the days past due. The ECLs below also incorporate forward-looking information. The impairment as of the end of each reporting period was determined as follows:

	2020	2019
Expected credit loss	1.81%	3.00%
Gross carrying amount (RMB'000)	136,234	91,857
Impairment (RMB'000)	(2,470)	(2,752)

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Prepayments	**9,991**	4,645
Deposits and other receivables	**17,414**	48,433
Prepaid expenses	**36,162**	28,373
Tax recoverable	**128,963**	115,904
Others	**3,490**	221
	196,020	197,576

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

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group entered into a series of wealth management products with banks and other financial institutions. The investments are principal-guaranteed by the relevant financial institutions. The expected rates of return ranged from 1.74% to 4.20% per annum for the year, which were determined by reference to the returns of the underlying investment portfolio.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 RMB'000	2019 RMB'000
Current assets		
Foreign currency forward contracts and collars	**84,698**	13,689

The Group entered into several foreign exchange forward contracts and collar contracts ("collars") with banks in order to manage the Group's foreign currency exposure in relation to USD against RMB. The foreign currency forward contracts and collars are not designated for hedge purposes and are measured at fair value through profit or loss.

For the year ended December 31, 2020, gains of RMB140,797,000 under forward foreign exchange contracts were recognised in other income (2019: losses of RMB8,663,000 were recognied in other expenses).

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	**2,935,090**	4,442,218
Pledged deposits	**7,263**	17,634
	2,942,353	4,459,852

	2020 RMB'000	2019 RMB'000
Cash and cash equivalents and pledged deposits Denominated in		
– RMB	**1,792,495**	639,803
– USD	**1,101,031**	204,061
– GBP	**33,719**	39,469
– HKD	**7,877**	3,573,703
– Others	**7,231**	2,816
	2,942,353	4,459,852

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Pledged deposits earn interest at interest rates stipulated by the respective financial institutions. Pledged deposits represent the amounts pledged to issue letters of credit and deposits for environmental protection.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured (a)	3.970~4.650	2021	4,703	3.000~5.390	2020	170,884
Bank loans – unsecured	1.000~4.275	2021	381,443	4.750~4.785	2020	108,608
Other borrowing – secured (b)	–	–	–	4.500~5.300	2020	21,162
			386,146			300,654
Non-current						
Bank loans – secured (a)	3.970~4.650	2027~2030	300,703	4.275~5.390	2021~2025	542,027
Bank loans – unsecured	1.000~4.275	2022~2024	94,108	–	–	–
Other borrowing – secured (b)	–	–	–	5.300	2021	1,764
			394,811			543,791
			780,957			844,445

Analysis into:

	2020 RMB'000	2019 RMB'000
Bank loans and other borrowings repayable:		
Within one year	386,146	300,654
In the second year	27,149	80,579
In the third to fifth years, inclusive	192,759	340,065
Beyond five years	174,903	123,147
	780,957	844,445

(a) As at December 31, 2020, the bank loans with an amount of RMB305,406,000 (2019: RMB250,067,000) were 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 December 31, 2020, nil of the bank loans (2019: RMB357,500,000) were secured by the mortgage of the Group's long-term assets owned by the Group and guaranteed by the Company's certain directors and related parties.

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

As at December 31, 2020, the mortgaged property, plant and equipment had a net carrying amount of approximately RMB405,629,000 (2019: RMB1,333,198,000). The mortgaged right-of-use assets had a net carrying amount of approximately RMB180,531,000 (2019: RMB81,651,000).

(b) As at December 31, 2020, nil of other borrowings (2019: RMB22,926,000) were secured by the mortgage of the Group's long-term assets (property, plant and equipment) owned by the Group (2019: amounting to approximately RMB36,740,000), and were also guaranteed by the Company's certain directors and related parties.

32. TRADE PAYABLES

Trade payables are non-interest-bearing and normally settled on terms of one to three months.

An ageing analysis of the trade payables as at the end of each reporting period, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	**187,369**	114,897
Over 1 year	**4,128**	3,081
	191,497	117,978

Included in the trade payables was an amount due to a related party of RMB804,000 as at December 31, 2020 (2019: RMB4,000), which was repayable within 30 days, which represents credit terms similar to those offered by the related party to their major customers.

33. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Staff payroll and welfare payables	**402,325**	244,592
Other tax payable	**24,214**	15,081
Payables for acquisition of plant and equipment	**212,436**	96,102
Accrued expenses	**72,969**	46,869
Obligations of purchasing the restricted shares under 2019 Pharmaron A share incentive scheme (note 39)	**45,454**	72,781
Dividend payable	**612**	–
Payables for acquisition of equity interests in subsidiaries	**34,063**	–
Others	**27,240**	11,277
	819,313	486,702

34. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Short-term advances of delivery of services	**473,289**	271,547

Included in the contract liabilities was an amount due to related parties of RMB4,889,000 as at December 31, 2020 (2019: Nil), which was repayable on credit terms similar to those offered by the related party to their major customers.

35. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Current		
Lease liabilities	**83,925**	64,150
Non-current		
Lease liabilities	**186,608**	131,160
	270,533	195,310

The movements of the lease liabilities during each reporting period are as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	**195,310**	205,502
Addition	**109,831**	40,679
Acquisition of subsidiaries (note 41)	**47,017**	5,483
Interest expense	**11,486**	9,318
Payments (including value added tax)	**(90,725)**	(73,320)
Termination of lease contracts	**(522)**	–
Charges on value added tax	**4,320**	3,491
Exchange realignment	**(6,184)**	4,157
Ending balance	**270,533**	195,310

36. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Contingent consideration – non current	**146,810**	–

In November 2020, the Group acquired 100% equity interests in Absorption Systems LLC ("AS"), Absorption Systems California, LLC ("ASC") and Absorption Systems Boston, LLC ("ASB"), at a cash consideration of USD119,621,000 (equivalent to RMB792,970,000) and an estimated contingent consideration of USD22,500,000 (equivalent to RMB149,153,000). The contingent consideration was measured at fair value based on discounted cash flow, adjusted by the probability of the achievement of certain revenue and gross margin target over a period of two years.

37. DEFERRED INCOME

	2020 RMB'000	2019 RMB'000
Government grants	158,128	111,606

	2020 RMB'000	2019 RMB'000
At the beginning of the year	111,606	100,989
Government grants received	57,784	20,000
Credited to profit or loss	(11,232)	(9,427)
Exchange realignment	(30)	44
At the end of the year	158,128	111,606

The Group received government grants for capital expenditure incurred for the acquisition of plant and equipment. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

38. SHARE CAPITAL

	2020 RMB'000	2019 RMB'000
Issued and fully paid:		
794,387,462 (2019: 794,387,462) ordinary shares	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 January 1, 2019	590,663,575	590,664
Issuance of A shares upon listing on the Shenzhen Stock Exchange	65,630,000	65,630
Issuance of H shares upon listing on the Hong Kong Stock Exchange	134,016,500	134,016
Issuance of restricted A shares under the A Share Incentive Scheme	4,077,387	4,077
At December 31, 2019, January 1, 2020 and December 31, 2020	794,387,462	794,387

39. SHARE OPTION SCHEME

2019 Pharmaron A Share Incentive Scheme

On August 15, 2019, the shareholders' meeting of the Company passed a resolution to issue up to 5,651,359 A Shares of the Company under the 2019 Pharmaron A Share Incentive Scheme consisting of Restricted A shares and share options. On October 24, 2019, 4,077,387 restricted A shares of the Company were approved for eligible employees to subscribe at the price of RMB17.85 per A Share and the grant date was October 30, 2019. As of November 5, 2019, 4,077,387 A Shares were subscribed by eligible employees and a consideration of RMB72,781,000 was received by the Company. These granted restricted A Shares have a contractual term of no more than four years and will be unlocked over a three-year period, with 40%, 30% and 30% of the awards unlocking on the first, second and third anniversary dates of the A Share registration date upon meeting certain annual performance conditions. Pursuant to the black-out period provisions of the 2019 Pharmaron A Share Incentive Scheme, employees shall not transfer the A Shares which fulfil the unlocking conditions to any third party in any form within six months from each unlocking anniversary date.

The following share units were outstanding under the Scheme during the year:

	2020		2019	
	Subscription price RMB per share	**Number of restricted A shares '000**	Subscription price RMB per share	Number of restricted A shares '000
At 1 January	**17.85**	**4,077**	–	–
Granted during the year	**–**	**–**	17.85	4,077
Forfeited during the year	**17.85**	**(136)**	–	–
Exercised during the year*	**17.85**	**(1,509)**	–	–
At 31 December	**17.85**	**2,432**	17.85	4,077

* Still subject to the black-out period of six months from the first unlocking anniversary date.

For the year ended December 31, 2020, the Group has recorded share-based compensation expenses of RMB58,696,000 (the year ended December 31, 2019: RMB11,524,000) in relation to the 2019 Pharmaron A Share Incentive Scheme.

39. SHARE OPTION SCHEME (CONTINUED)

The First H Share Award and Trust Scheme

The Company adopted a H share award and trust scheme (the "H Share Scheme"), comprised of the Employee Share Award Plan (the "ESAP") and the Share Bonus Plan, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the H Share Scheme include any individual, being a Director, senior management, key operating team member, employee, or consultant, who is a full-time PRC or non-PRC employee of any members of the Group. The awards under the ESAP shall be vested over a four-year period, with 25%, 25%, 25% and 25% of total options vesting on each anniversary date after the vesting commencement date upon meeting certain sales performance conditions. Awards under the Share Bonus Plan shall be vested in two equal tranches (i.e., 50% and 50% on each anniversary date after the vesting commence date upon meeting certain profit performance conditions). The H Share Scheme was approved in the 2020 third extraordinary general meeting ("EGM") of the Company on December 11, 2020 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Further details of the H Share Scheme are also set out in an announcement of the Company.

In order to operate the H Share Scheme, a trust was established pursuant to the trust deed between the Company and Computershare Hong Kong Trustees Limited (the "Trustee"), an independent third party. The source of the Award Shares under the H Share Scheme shall be H Shares to be acquired by the Trustee through on-market transactions at the prevailing market price. The maximum number of shares may be issued under the H Share Scheme in any case is 7,940,000 H Shares, representing approximately 0.99% of the Company's total share capital as at the approval date. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a connected person (as defined in the Listing Rules) of the Company are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of the Company, or to any of their associates (as defined in the Listing Rules), in excess of 0.1% of the shares of the Company in issue or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Neither the eligible participants nor the Trustee may exercise any voting rights attached to any H Shares held by the Trustee under the trust (including any Award Shares that have not yet vested). Any dividend underlying the non-vested Award Shares shall be retained by the Trustee, and transferred to the Selected Participant together with the Award Shares upon vesting. In the event that the Award Shares are to be forfeited, such underlying dividend shall be transferred back to the Company. Any Award Shares vested shall not be assignable or transferable for six months beginning the vesting date of that part of the Award Shares.

39. SHARE OPTION SCHEME (CONTINUED)

The First H Share Award and Trust Scheme (continued)

The following Award Shares were granted under the H Share Scheme-ESAP during the year:

	2020 Number of Award shares '000
At 1 January	–
Granted during the year	776
At 31 December	776

The fair value of the award shares under the ESAP as at the grant date was determined using the Black-Scholes model by factoring the black-out period into the option pricing model. The fair value and corresponding inputs into the model were as follows:

	ESAP
Grant date H Share price (HKD)	105.70
Expected volatility in the black-out period	53.00%
Expected life (years)	1.17-4.17
Risk-free interest rate	0.06%

For the year ended December 31, 2020, the Group has recorded share-based compensation expenses of RMB1,853,000 in relation to the H Share Scheme-ESAP. During the year ended December 31, 2020, the Group had not purchased any of its own shares through the trustee from the open market. No amount paid to acquire the shares and has been deducted from equity under H Share Scheme-ESAP.

Share Option Plan of Subsidiaries

Certain subsidiaries of the Group granted 969,000 share options to eligible employees to attract and motivate personnel and promote the success of the subsidiaries.

The Group recognised share-based compensation expenses of RMB1,909,000 during the year ended December 31, 2020.

40. RESERVES

(i) Statutory reserve

In accordance with the Company Law of the People's Republic of China, the companies in the PRC are required to allocate 10% of the statutory after tax profits to the statutory reserve until the cumulative total of the reserve reaches 50% of the companies registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the companies. The statutory reserve is not available for dividend distribution to shareholders of the PRC subsidiaries.

(ii) Capital reserve

The capital reserve of the Group represents the reserve arisen pursuant to the reorganisation of subsidiaries.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

41. BUSINESS COMBINATIONS

In June 2019, the Group acquired a 48.00% equity interest in LinkStart at a cash consideration of RMB120,000,000. LinkStart is a limited liability company incorporated under the laws of the PRC and is accounted for using the equity method. The Group was able to exercise significant influence over LinkStart.

In June 2020, the Group acquired an additional 20% equity interest of LinkStart at a cash consideration of RMB60,000,000. Therefore, LinkStart became a subsidiary and is no longer an associate of the Group.

41. BUSINESS COMBINATIONS (CONTINUED)

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

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	424
Other intangible assets	18	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	21	(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 an investment in an associate		(101,750)
Goodwill on acquisition	17	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)
Cash and cash equivalents acquired	9,150
Net outflow of cash and cash equivalents included in cash flows generated in investing activities	(50,850)

Since the acquisition, LinkStart contributed RMB85,192,000 to the Group's revenue and caused a profit of RMB5,732,000 to the consolidated profit of the Group for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB5,170,055,000 and RMB1,110,392,000, respectively.

41. BUSINESS COMBINATIONS (CONTINUED)

In November 2020, the Group acquired 100% equity interests in Absorption Systems LLC ("AS"), Absorption Systems California, LLC ("ASC") and Absorption Systems Boston, LLC ("ASB"), at a cash consideration of USD119,621,000 (equivalent to RMB792,970,000) and an estimated contingent consideration of USD22,500,000 (equivalent to RMB149,153,000). These companies ("Absorption Group") are engaged in the business of providing certain non-clinical in vitro and in vivo laboratory analytical, biological, and animal testing service solutions to support the discovery, development, and approval of therapeutics, for small molecule, large molecule, cell and gene therapies and medical device products.

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

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	40,914
Right-of-use assets	15	41,935
Other intangible assets	18	102,664
Investment in an associate		53
Inventories		8,795
Trade receivables		49,862
Prepayments, other receivables and other assets		6,078
Cash and cash equivalents		65,794
Trade payables		(11,507)
Contract liabilities		(29,685)
Accruals and other payables		(47,345)
Lease liabilities – short term	35	(10,228)
Lease liabilities – long tern	35	(36,789)
Deferred tax liabilities	21	(27,099)
Total identifiable net assets at fair value		153,442
Goodwill on acquisition	17	788,681
Satisfied by cash		792,970
Contingent consideration (note)		149,153
		942,123

Note: The contingent consideration was measured at its acquisition date fair value, which was dependent on the achievement of certain revenue and gross margin target over a period of two years.

41. BUSINESS COMBINATIONS (CONTINUED)

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

	RMB'000
Cash consideration	(942,123)
Contingent consideration included in financial liabilities at fair value through profit or loss	149,153
Cash and cash equivalents acquired	65,794
Net outflow of cash and cash equivalents included in cash flows generated in investing activities	(727,176)

Since the acquisition, Absorption Group contributed RMB46,581,000 to the Group's revenue and a profit of RMB12,867,000 to the consolidated profit of the Group for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB5,339,709,000 and RMB1,113,473,000, respectively.

In December 2020, the Group acquired a 100% equity interest is RAMED (Beijing) Medical Technology Co., Ltd. ("RAMED") at a cash consideration of RMB45,000,000.

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

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	196
Other intangible assets	18	6,510
Trade receivables		1,489
Contract assets		3,991
Prepayments, other receivables and other assets		144
Cash and cash equivalents		1,062
Trade payables		(191)
Contract liabilities		(2,092)
Accruals and other payables		(1,622)
Deferred tax liabilities	21	(915)
Total identifiable net assets at fair value		8,572
Goodwill on acquisition	17	36,428
Satisfied by cash		45,000

41. BUSINESS COMBINATIONS (CONTINUED)

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

	RMB'000
Cash consideration	(45,000)
Unpaid cash consideration included in other payables and accruals	30,443
Cash and cash equivalents acquired	1,062
Net outflow of cash and cash equivalents included in cash flows generated in investing activities	(13,495)

Since the acquisition date of RAMED was December 31, 2020, this acquisition did not have any impact on the performance of the Group.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB5,147,901,000 and RMB1,147,790,000, respectively.

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group entered into lease arrangements with a total capital value at the inception of the leases of RMB85,759,000 (2019: RMB40,679,000) as at December 31, 2020.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000
At January 1, 2020	844,445	195,310
Changes from financing cash flows	(46,550)	(90,725)
Addition	–	109,831
Acquisition of subsidiaries (note 41)	–	47,017
Decrease due to termination of lease contracts	–	(522)
Interest expense	–	11,486
Charges on value added tax	–	4,320
Foreign exchange movements	(16,938)	(6,184)
At December 31, 2020	780,957	270,533

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities (continued)

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000
At January 1, 2019	1,433,967	205,502
Changes from financing cash flows	(587,266)	(73,320)
Addition	–	40,679
Acquisition of subsidiaries	–	5,483
Interest expense	–	9,318
Charges on value added tax	–	3,491
Foreign exchange movements	(2,256)	4,157
At December 31, 2019	844,445	195,310

43. CONTINGENT LIABILITIES

As at the end of each reporting period, neither the Group nor the Company had any significant contingent liabilities.

44. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank loans and other borrowings, which are secured by the assets of the Group, are included in note 31 to the consolidated financial statements.

45. 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:

	2020 RMB'000	2019 RMB'000
Within one year	**1,000**	12,086
In the second year	**–**	1,029
	1,000	13,115

Pursuant to the terms of termination of the lease agreement entered into between Merck Sharp & Dohme Limited and Pharmaron UK Limited, Merck Sharp & Dohme Limited has decided to exercise its break right to terminate the lease on January 31, 2021, which resulted in the decrease of operating lease commitments.

45. COMMITMENTS (CONTINUED)

(b) Capital commitments

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**897,759**	565,981
Capital contributions payable to associates	**132,000**	–
	1,029,759	565,981

46. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

(a) Transactions with related parties:

	2020 RMB'000	2019 RMB'000
Entities controlled by the close family members of the directors		
Purchases of raw materials[(i)]	**8,488**	3,757
Entities in which the directors act as key management personnel		
Provision of pharmaceutical R&D service[(ii)]	**16,829**	–
Associate		
Provision of pharmaceutical R&D service[(ii)]	**94**	–

(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

(i) The Company's certain directors and related parties have guaranteed certain bank loans and other borrowings made to the Group of up to RMB485,770,000 as at December 31, 2019 and there was no guarantee provided by directors and related parties at the end of the reporting period, as further detailed in note 31 to the financial statements.

(ii) During the year, the Company and Kangjun Investment Management (Beijing) Co., Ltd. entered into a limited partnership agreement in relation to the establishment of and investment in Kangjun Ningyuan. Further details of the transaction are included in note 19 to the financial statements.

46. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	12,089	11,307
Performance-related bonus	12,550	5,350
	24,639	16,657

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

(d) Outstanding balances with related parties

Details of the Group's trade balances with its related parties as at the end of each reporting period are disclosed in notes 25, 26, 32 and 34 to the financial statements.

47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

As at December 31, 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	–	121,230	–	121,230
Financial assets at fair value through profit or loss	–	–	825,312	825,312
Trade receivables	1,076,614	–	–	1,076,614
Derivative financial instruments	–	–	84,698	84,698
Financial assets included in other non-current assets	20,480	–	–	20,480
Financial assets included in prepayments, other receivables and other assets	17,414	–	–	17,414
Pledged deposits	7,263	–	–	7,263
Cash and cash equivalents	2,935,090	–	–	2,935,090
	4,056,861	121,230	910,010	5,088,101

47. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	191,497	191,497
Financial liabilities included in other payables and accruals	–	392,162	392,162
Interest-bearing bank and other borrowings	–	780,957	780,957
Lease liabilities	–	270,533	270,533
Financial liabilities at fair value through profit or loss	146,810	–	146,810
	146,810	1,635,149	1,781,959

As at December 31, 2019		Financial assets at fair value through profit or loss		
Financial assets	Financial assets at amortised cost RMB'000	Equity investments at fair value through profit or loss RMB'000	Mandatorily designated as such RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	–	59,054	–	59,054
Financial assets at fair value through profit or loss	–	–	169,762	169,762
Trade receivables	857,069	–	–	857,069
Derivative financial instruments	–	–	13,689	13,689
Financial assets included in other non-current assets	22,887	–	–	22,887
Financial assets included in prepayments, other receivables and other assets	48,433	–	–	48,433
Pledged deposits	17,634	–	–	17,634
Cash and cash equivalents	4,442,218	–	–	4,442,218
	5,388,241	59,054	183,451	5,630,746

Financial liabilities	Financial liabilities at amortised cost RMB'000
Trade payables	117,978
Financial liabilities included in other payables and accruals	227,029
Interest-bearing bank and other borrowings	844,445
Lease liabilities	195,310
	1,384,762

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets, current interest-bearing bank and other borrowings, trade payables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the non-current portion of interest-bearing bank and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of each reporting period were assessed to be insignificant.

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value management of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

For the fair value of the unlisted equity investments at fair value through profit or loss, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

The Group invests in some wealth management products issued by banks. The Group has estimated the fair values 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.

48. 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 relationship of unobservable inputs to fair value as at December 31, 2020 and 2019:

	Valuation technique	Significant unobservable inputs (level 3)	Range	Relationship of unobservable inputs to fair value
Equity investments at fair value through profit or loss – unlisted	Valuation multiples	Average EV/R&D multiple of peers	3.0 – 8.3	The higher the multiple, the higher the fair value
Derivative financial instruments – collars	Option pricing model	Expected volatility	–	The higher the expected volatility, the higher the fair value
Contingent consideration	Discounted cash flow method	Probability-adjusted revenue/Discount rate	–	The higher probability-adjusted revenue, the higher fair value The lower discount rate, the higher 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 December 31, 2020				
Equity investments at fair value through profit or loss	96,609	–	24,621	121,230
Derivative financial instruments – foreign currency forward contracts	–	84,698	–	84,698
Derivative financial instruments – collars	–	–	–	–
Financial assets at fair value through profit or loss	–	825,312	–	825,312
	96,609	910,010	24,621	1,031,240
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

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

Fair value hierarchy (continued)

Assets measured at fair value (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

Equity investments at fair value through profit or loss – unlisted	2020 RMB'000	2019 RMB'000
At 1 January	**59,054**	24,267
Purchase	**17,323**	24,225
Transfer out (note)	**(50,159)**	–
Fair value gain	**–**	10,179
Exchange realignment	**(1,597)**	383
	24,621	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 its shares are restricted from sale for 6 months after listing date. Therefore, the Group changed its fair value hierarchy from the level 3 to the level 2, and further to the level 1 after the black-out period.

Derivative financial instruments – collars	2020 RMB'000	2019 RMB'000
At 1 January	**1,080**	–
Fair value (loss)/gain	**(1,080)**	1,080
	–	1,080

Liabilities 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 December 31, 2020				
Contingent consideration of an acquirer in a business combination	**–**	**–**	**146,810**	**146,810**

The Group did not have any financial liabilities measured at fair value as at 31 December 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (2019: Nil).

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise lease liabilities, interest-bearing bank and other borrowings, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

The Group's accounting policies in relation to derivatives are set out in note 2.3 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank loans and other borrowings with a floating interest rate.

The following table demonstrates the sensitivity to reasonably possible changes in interest rate, with all other variables held constant, of the Group's profit before tax (mainly the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000	(Decrease)/ increase in equity RMB'000
Year ended December 31, 2019	100/(100)	(5,664)/5,664	(4,775)/4,775
Year ended December 31, 2020	100/(100)	(7,193)/7,193	(6,563)/6,563

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units and financing activities in currencies other than the units' functional currencies.

In addition, the Group has currency exposures from its interest-bearing bank borrowings.

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant foreign currencies against the functional currency, of the Group's profit before tax and the Group's equity excluding the impact of retained earnings due to the changes of exchange fluctuation reserve. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in equity RMB'000
Year ended December 31, 2020		
if RMB weakens against USD	**88,486**	**75,213**
if RMB strengthens against USD	**(88,486)**	**(75,213)**

	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in equity RMB'000
Year ended December 31, 2019		
if RMB weakens against USD or HKD		
– USD	70,506	59,150
– HKD	178,278	151,537
if RMB strengthens against USD or HKD		
– USD	(70,506)	(59,150)
– HKD	(178,278)	(151,537)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each reporting period. The amounts presented are gross carrying amounts for financial assets.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at December 31, 2020	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	136,234	136,234
Trade receivables*	–	–	–	1,110,720	1,110,720
Financial assets included in prepayments, other receivables and other assets – Not yet past due	17,414	–	–	–	17,414
Financial assets included in other non-current assets – Not yet past due	20,480	–	–	–	20,480
Pledged deposits – Not yet past due	7,263	–	–	–	7,263
Cash and cash equivalents – Not yet past due	2,935,090	–	–	–	2,935,090
	2,980,247	–	–	1,246,954	4,227,201

As at December 31, 2019	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	91,857	91,857
Trade receivables*	–	–	–	876,344	876,344
Financial assets included in prepayments, other receivables and other assets – Not yet past due	48,433	–	–	–	48,433
Financial assets included in other non-current assets – Not yet past due	22,887	–	–	–	22,887
Pledged deposits – Not yet past due	17,634	–	–	–	17,634
Cash and cash equivalents – Not yet past due	4,442,218	–	–	–	4,442,218
	4,531,172	–	–	968,201	5,499,373

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 25 and 26 to the financial statements, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 25 to the financial statements.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations of cash flows.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

2020	Less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	411,926	276,287	180,327	868,540
Trade payables	191,497	–	–	191,497
Financial liabilities included in other payables and accruals	392,162	–	–	392,162
Financial liabilities at fair value through profit or loss	–	146,810	–	146,810
Lease liabilities	93,924	140,585	74,482	308,991
	1,089,509	563,682	254,809	1,908,000

2019	Less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	334,171	495,373	130,270	959,814
Trade payables	117,978	–	–	117,978
Financial liabilities included in other payables and accruals	227,029	–	–	227,029
Lease liabilities	71,157	99,519	49,271	219,947
	750,335	594,892	179,541	1,524,768

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from individual equity investments included equity investments at fair value through profit of loss (note 20) as at 31 December 2020. The Group's listed investments are listed on Nasdaq and are valued at quoted market prices at the end of the reporting period.

If the prices of the respective equity investments had been changed based on the 10% higher/lower, the profit for the year ended December 31, 2020 would have increased/decreased by RMB9,660,000(2019: Nil), as a result of the changes in fair value of financial assets at FVTPL.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2020 and 2019.

The Group monitors capital using a gearing ratio, which is total liabilities divided by total assets. The gearing ratios as at the end of the reporting periods were as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Total assets	**11,908,793**	9,935,037
Total liabilities	**2,975,053**	2,097,019
Gearing ratio	**24.98%**	21.11%

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	As at December 31,	
	2020	2019
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**1,405,470**	1,262,447
Right-of-use assets	**177,495**	129,249
Other intangible assets	**8,585**	6,839
Investments in associates	**88,336**	131,246
Investments in subsidiaries	**4,346,822**	1,314,690
Equity investments at fair value through profit or loss	**1,000**	–
Other non-current assets	**22,424**	15,293
Total non-current assets	**6,050,132**	2,859,764

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	As at December 31, 2020 RMB'000	2019 RMB'000
CURRENT ASSETS		
Inventories	**37,015**	25,536
Contract costs	**16,447**	6,295
Trade receivables	**866,340**	943,358
Prepayments, other receivables and other assets	**491,675**	858,095
Derivative financial instruments	**84,698**	13,689
Financial assets at fair value through profit or loss	**440,564**	69,762
Pledged deposits	**–**	226
Cash and cash equivalents	**1,857,342**	4,172,823
Total current assets	**3,794,081**	6,089,784
CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**42,738**	238,281
Trade payables	**125,514**	64,030
Other payables and accruals	**806,884**	393,322
Contract liabilities	**111,358**	77,785
Lease liabilities	**16,381**	7,628
Tax payable	**–**	14,690
Total current liabilities	**1,102,875**	795,736
NET CURRENT ASSETS	**2,691,206**	5,294,048
TOTAL ASSETS LESS CURRENT LIABILITIES	**8,741,338**	8,153,812
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**58,238**	26,293
Interest-bearing bank and other borrowings	**84,000**	397,264
Deferred income	**6,793**	8,984
Lease liabilities	**43,903**	5,991
Total non-current liabilities	**192,934**	438,532
NET ASSETS	**8,548,404**	7,715,280
EQUITY		
Share capital	**794,387**	794,387
Treasury shares	**(45,475)**	(72,781)
Reserves (Note)	**7,799,492**	6,993,674
Total equity	**8,548,404**	7,715,280

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Share award reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at January 1, 2019	590,664	–	1,047,485	22,007	70,151	631,358	2,361,665
Profit for the year	–	–	–	–	–	458,736	458,736
Total comprehensive income for the year	–	–	–	–	–	458,736	458,736
Transferred from retained profits	–	–	–	–	45,873	(45,873)	–
Issuance of A shares upon listing on the Shenzhen Stock Exchange	65,630	–	367,224	–	–	–	432,854
Issuance of H shares upon listing on the Hong Kong Stock Exchange	134,016	–	4,388,677	–	–	–	4,522,693
Issuance of restricted A shares under the A Share Incentive Scheme	4,077	(72,781)	68,704	–	–	–	–
Recognition of share-based payments	–	–	–	11,524	–	–	11,524
Dividends declared by the Company	–	–	–	–	–	(72,192)	(72,192)
As at December 31, 2019	794,387	(72,781)	5,872,090	33,531	116,024	972,029	7,715,280
Profit for the year	–	–	–	–	–	864,408	864,408
Total comprehensive income for the year	–	–	–	–	–	864,408	864,408
Restricted A Shares Tranche to share capital	–	26,715	25,594	(25,594)	–	–	26,715
Transferred from retained profits	–	–	–	–	86,441	(86,441)	–
Dividends declared by the Company	–	591	–	–	–	(119,138)	(118,547)
Recognition of share-based payments	–	–	–	60,548	–	–	60,548
As at December 31, 2020	794,387	(45,475)	5,897,684	68,485	202,465	1,630,858	8,548,404

51. EVENTS AFTER THE REPORTING PERIODS

Acquisitions of 100% interest in Allergan Biologics Limited ("ABL")

In February 2021, Pharmaron Biologics (UK) Holdings Limited (a wholly-owned subsidiary of the Company) entered into a sale and purchase Agreement with AGN Sundry LLC to acquire 100% equity interest of ABL, at an estimated cash consideration of USD120,000,000 (equivalent to RMB776,556,000). ABL (an indirect subsidiary of AbbVie Inc., a company listed on the New York Stock Exchange) is an in-house R&D center of AbbVie Inc. for biologics and other advanced therapeutics. It operates a manufacturing facility in Liverpool, U.K., which is one of the most advanced research and development and clinical manufacturing facilities in the area.

The acquisition is expected to be completed in the second quarter of 2021.

52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March, 26 2021.

Definitions

"AGM"	the annual general meeting of the Company to be held for the purpose of, among others, approving the audited financial statements for the year ended December 31, 2020
"AMS"	accelerator mass spectrometry
"API"	Active Pharmaceutical Ingredient
"A Share(s)"	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed for trading on the Shenzhen Stock Exchange and traded in RMB
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors of the Company
"^{14}C"	Carbon-14 (^{14}C), or radiocarbon, a radioactive isotope of carbon with an atomic nucleus containing 6 protons and 8 neutrons
"CAGR"	compound annual growth rate
"CGT"	cell and gene therapy
"CMC"	chemistry, manufacturing and controls
"CMO"	Contract Manufacturing Organization
"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
"CRC"	Clinical Research Coordinator
"CR Medicon"	Nanjing Ximaidi Medical Technology Co., Ltd. (南京希麥迪醫藥科技有限公司). a company incorporated in PRC on January 20 2017, which is held as of 100% by CR Medicon, our subsidiary
"CRO"	Contract Research Organization
"DMPK/ADME"	drug metabolism and pharmacokinetics/Absorption, Distribution, Metabolism and Excretion
"Directors"	directors of the Company
"EU"	European Union
"EUR"	Euro, the lawful currency of European Union

"FDA"	the Food and Drug Administration of the U.S.
"FIH"	first-in-human
"GBP"	Great Britain Pound, the lawful currency of the United Kingdom
"GLP"	Good Laboratory Practice
"GMP"	Good Manufacturing Practice
"H Share(s)"	overseas-listed foreign shares in the share capital of our Company, with a nominal value of RMB1.00 each, which are listed for trading on the Hong Kong Stock Exchange and traded in HK dollars
"IND applications"	Investigational new drug applications
"Group", "we", "our" or "us"	the Company and its subsidiaries
"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, one of our subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities of the Stock Exchange
"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
"OECD"	the Organization for Economic Cooperation and Development
"PRC"	the People's Republic of China
"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
"R&D"	research and development
"Reporting Period"	the year ended December 31, 2020
"RMB"	Renminbi, the lawful currency of the PRC
"SMO"	Site Management Organization
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.K."	the United Kingdom
"U.S."	the United States
"USD"	United States Dollar, the lawful currency of the United States
"%"	per cent.

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