Pharmaron Beijing Co., Ltd.*

康龍化成（北京）新藥技術股份有限公司

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

(Stock Code: 3759)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

FINANCIAL SUMMARY AND HIGHLIGHTS

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

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

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

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

The board of directors of Pharmaron Beijing Co., Ltd. is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2019 with the comparative figures in the corresponding period in 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
REVENUE	*5*	**3,757,160**	2,908,123
Cost of sales		**(2,425,459)**	(1,960,073)
Gross profit		**1,331,701**	948,050
Other income and gains	*6*	**70,153**	53,759
Other expenses	*6*	**(11,761)**	(6,767)
Selling and distribution expenses		**(72,989)**	(54,647)
Administrative expenses		**(526,408)**	(420,456)
Research and development costs		**(62,872)**	(31,611)
Impairment losses on financial and contract assets, net of reversal		**(5,495)**	(8,886)
Finance costs	*7*	**(82,476)**	(82,366)
Share of losses of associates		**(7,303)**	(1,132)
Profit before tax	*8*	**632,550**	395,944
Income tax expense	*9*	**(101,878)**	(60,101)
Profit for the year		**530,672**	335,843
Attributable to:			
Owners of the parent		**547,190**	336,042
Non-controlling interests		**(16,518)**	(199)
		530,672	335,843
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
For profit for the year	*11*	**RMB0.8284**	RMB0.5689
Diluted			
For profit for the year	*11*	**RMB0.8282**	RMB0.5689

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,973,354**	2,677,138
Right-of-use assets		**498,989**	498,921
Investment properties		**46,013**	44,428
Goodwill		**203,286**	139,917
Other intangible assets		**35,352**	13,900
Investments in associates		**131,246**	28,868
Equity investments at fair value through profit or loss		**59,054**	24,267
Deferred tax assets		**6,372**	8,446
Other non-current assets		**36,921**	90,087
Total non-current assets		**3,990,587**	3,525,972
CURRENT ASSETS			
Inventories		**97,050**	70,148
Contract costs		**60,347**	50,313
Trade receivables	*12*	**857,069**	603,993
Contract assets		**89,105**	51,078
Prepayments, other receivables and other assets		**197,576**	179,451
Financial assets at fair value through profit or loss		**169,762**	–
Derivative financial instruments		**13,689**	413
Pledged deposits		**17,634**	13,476
Cash and cash equivalents		**4,442,218**	307,235
Total current assets		**5,944,450**	1,276,107
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**300,654**	534,968
Trade payables	*13*	**117,978**	108,220
Other payables and accruals		**486,702**	403,955
Contract liabilities		**271,547**	187,156
Lease liabilities		**64,150**	60,336
Tax payable		**28,649**	13,413
Total current liabilities		**1,269,680**	1,308,048

	2019 *RMB'000*	2018 *RMB'000*
NET CURRENT ASSETS/LIABILITIES	**4,674,770**	(31,941)
TOTAL ASSETS LESS CURRENT LIABILITIES	**8,665,357**	3,494,031
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**543,791**	898,999
Deferred tax liabilities	**40,782**	22,306
Deferred income	**111,606**	100,989
Lease liabilities	**131,160**	145,166
Total non-current liabilities	**827,339**	1,167,460
NET ASSETS	**7,838,018**	2,326,571
EQUITY		
Share capital	**794,387**	590,664
Treasury shares	**(72,781)**	–
Reserves	**7,045,457**	1,722,916
Equity attributable to owners of the parent	**7,767,063**	2,313,580
Non-controlling interests	**70,955**	12,991
Total equity	**7,838,018**	2,326,571

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

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

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

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

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

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

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

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

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

– The laboratory services segment includes laboratory chemistry, drug metabolism and pharmacokinetics ("DMPK")/absorption, distribution, metabolism and excretion ("ADME"), *in vitro* biology and *in vivo* pharmacology services, safety assessment and discovery biologics services

– The CMC services segment includes process development and manufacturing, material science/pre-formulation, formulation development and manufacturing and analytical development

– The clinical development services segment includes clinical research services, site management services, regulatory bioanalysis and radiolabelled science services

– The "Others" segment

Segment revenue and results

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

	Laboratory services *RMB'000*	CMC services *RMB'000*	Clinical development services *RMB'000*	Others *RMB'000*	Total *RMB'000*
Year ended December 31, 2019					
Segment revenue	**2,379,509**	**901,576**	**456,265**	**19,810**	**3,757,160**
Segment results	**956,085**	**249,690**	**113,919**	**12,007**	**1,331,701**
Unallocated amounts:					
Other income and gains					**70,153**
Other expenses					**(11,761)**
Selling and distribution expenses					**(72,989)**
Administrative expenses					**(526,408)**
Research and development costs					**(62,872)**
Impairment losses on financial and contract assets, net of reversal					**(5,495)**
Finance costs					**(82,476)**
Share of losses of associates					**(7,303)**
Group's profit before tax					**632,550**
Year ended December 31, 2018					
Segment revenue	1,895,755	645,824	347,504	19,040	2,908,123
Segment results	709,554	139,833	88,609	10,054	948,050
Unallocated amounts:					
Other income and gains					53,759
Other expenses					(6,767)
Selling and distribution expenses					(54,647)
Administrative expenses					(420,456)
Research and development costs					(31,611)
Impairment losses on financial and contract assets, net of reversal					(8,886)
Finance costs					(82,366)
Share of losses of associates					(1,132)
Group's profit before tax					395,944

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

Geographical information

(a) Revenue

	2019	2018
	RMB'000	*RMB'000*
North America	**2,208,691**	1,809,676
Europe	**869,541**	631,714
Asia (except Mainland China)	**149,937**	141,526
Mainland China	**478,402**	297,831
Others	**50,589**	27,376
	3,757,160	2,908,123

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

(b) Non-current assets

	2019	2018
	RMB'000	*RMB'000*
China	**3,200,346**	2,915,461
North America	**319,903**	276,974
Europe	**404,912**	300,824
	3,925,161	3,493,259

The non-current asset information above is based on the locations of the assets and excludes equity investments at fair value through profit or loss and deferred tax assets.

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during each reporting period, no major customer information is presented in accordance with IFRS 8 *Operating Segments*.

5. REVENUE

An analysis of revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers	**3,737,350**	2,889,083
Revenue from other sources	**19,810**	19,040
	3,757,160	2,908,123

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments	**2019**	2018
	RMB'000	*RMB'000*
Type of services		
Laboratory services	**2,379,509**	1,895,755
CMC services	**901,576**	645,824
Clinical development services	**456,265**	347,504
Total revenue from contracts with customers	**3,737,350**	2,889,083
Timing of revenue recognition		
Services transferred at a point of time	**2,028,539**	1,406,558
Services transferred over time	**1,708,811**	1,482,525
Total revenue from contracts with customers	**3,737,350**	2,889,083

(b) Performance obligations

The Group has different contractual arrangements with different customers under two different charge methods: Full-Time-Equivalent ("FTE") or Fee-For-Service ("FFS") model.

All services under the FTE model, revenue is recognised over time at the amount to which the Group has the right to invoice for services performed. Therefore, under practical expedients allowed by IFRS 15, the Group does not disclose the value of unsatisfied performance obligations under the FTE model.

Similarly, certain services under the FFS model, revenue is recognised over time and contracts are generally within an original expected length of one year or less. Therefore, the practical expedients are also applied.

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2019	2018
	RMB'000	*RMB'000*
Other income		
Interest income	**9,614**	368
Government grants and subsidies related to		
– Assets	**9,427**	4,419
– Income	**25,576**	18,233
	44,617	23,020
Other gains		
Foreign exchange gains, net	**1,882**	30,099
Gains on fair value change of equity investment at fair value through profit or loss	**10,179**	246
Gains on disposal of an associate	**124**	–
Gains on financial assets at fair value through profit or loss	**2,033**	–
Gains on fair value re-measurement of existing equity in business combination not under common control	**10,363**	–
Others	**955**	394
	25,536	30,739
	70,153	53,759
Other expenses		
Losses on disposal of property, plant and equipment	**(667)**	(539)
Losses on disposal of right-of-use assets	**–**	(1,511)
Losses on derivative financial instruments	**(8,663)**	(2,134)
Others	**(2,431)**	(2,583)
	(11,761)	(6,767)

7. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest expenses on bank and other borrowings	**75,856**	79,951
Interest expenses on lease liabilities	**9,318**	11,142
Total interest expense on financial liabilities not at fair value through profit or loss	**85,174**	91,093
Less: Interest capitalised	**(2,698)**	(8,727)
	82,476	82,366

8. PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**307,199**	255,192
Depreciation of right-of-use assets	**61,910**	58,027
Depreciation of investment property	**812**	812
Amortisation of other intangible assets	**4,661**	1,889
Staff costs (including directors' and chief executive's remuneration):		
Salaries and other benefits	**1,192,315**	955,881
Pension scheme contributions, social welfare and other welfare	**368,206**	304,459
Share-based compensation expenses	**11,524**	–
Gains on fair value re-measurement of existing equity in business combination not under common control	**(10,363)**	–
Gains on fair value change of equity investment at fair value through profit or loss	**(10,179)**	(246)
Impairment losses on inventories, net of reversal	**1,021**	1,100
Impairment loss on financial and contract assets, net of reversal	**5,495**	8,886
Losses on derivative financial instruments	**8,663**	2,134
Auditor's remuneration	**3,480**	1,415

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

9. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current tax	**85,479**	47,820
Deferred tax	**16,399**	12,281
	101,878	60,101

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

The Company was accredited as a "High and New Technology Enterprise" in 2014 which was subsequently renewed in 2017 and as an "Advanced Technology Enterprise" in 2015 which was subsequently renewed in 2019, and therefore the Company was entitled to a preferential EIT rate of 15% for each reporting period. "High and New Technology Enterprise" and "Advanced Technology Enterprise" qualifications are subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron Xi'an Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2014 which was subsequently renewed in 2017, and therefore Pharmaron Xi'an Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron (Beijing) TSP Service Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2015 and renewed in 2019, and therefore Pharmaron (Beijing) TSP Service Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron Ningbo Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2017 which was renewed in 2019, and therefore Pharmaron Ningbo Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC annually.

Pharmaron (Ningbo) Technology Development Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2019, and therefore Pharmaron (Ningbo) Technology Development Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2019. This qualification is subject to review by the relevant tax authority in the PRC annually.

Pharmaron Shanghai Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2019, and therefore Pharmaron Shanghai Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2019. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

The group entities incorporated in the U.S. are subject to the federal corporate tax at a rate of 21% and the state income tax at a rate ranging from 5% to 10 % as at December 31, 2018 and 2019.

The group entities incorporated in the United Kingdom are subject to tax at a rate of 19% for the years ended December 31, 2018 and 2019.

The group entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits for the years ended December 31, 2018 and 2019.

10. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Proposed final – RMB0.15 (2018: RMB0.11) per ordinary share	**119,158**	72,192

On May 15, 2019, the Company's Shareholders approved the 2018 Profit Distribution Plan at an annual general meeting, pursuant to which a dividend of RMB1.10 (inclusive of tax) for every 10 shares of the Company in an aggregate amount of RMB72,192,000 was subsequently paid in July 2019 to shareholders of the Company on the record date.

The proposed final dividend for the year ended December 31, 2019 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 660,535,750 (2018: 590,663,575) in issue during the year, as adjusted to reflect the rights issue during the year.

For the year ended December 31, 2019, the calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of shares assumed to be in issue after taking into account the effect of restricted A shares issued by the Company.

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

	2019	2018
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent	**547,190**	336,042

	2019	2018
Number of shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**660,535,750**	590,663,575
Weighted average number of ordinary shares in issue during the year, used in the diluted earnings per share calculation	**660,675,444**	590,663,575

12. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables – third parties	**876,344**	617,751
Allowance for impairment	**(19,275)**	(13,758)
	857,069	603,993

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to various diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The balances of trade receivables are non-interest-bearing.

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

	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**855,276**	599,331
1 year to 2 years	**14,547**	15,330
More than 2 years	**6,521**	3,090
	876,344	617,751

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**13,758**	4,772
Impairment losses, net	**5,447**	8,807
Exchange realignment	**70**	179
	19,275	13,758

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:

	Expected credit loss rate	**2019 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**

	Expected credit loss rate	2018 Gross carrying amount *RMB'000*	Expected credit losses *RMB'000*
Within 1 year	0.55%	599,331	3,320
1 to 2 years	47.93%	15,330	7,348
Over 2 years	100.00%	3,090	3,090
		617,751	13,758

13. TRADE PAYABLES

Trade payables are non-interest-bearing and normally settled on terms of one to three months.

An ageing analysis of the trade payables as at the end of each reporting period, based on the invoice date, is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 1 year	**114,897**	106,041
Over 1 year	**3,081**	2,179
	117,978	108,220

Included in the trade payables was an amount due to a related party of RMB4,000 as at December 31, 2019 (2018: Nil), which is repayable within 30 days, which represents credit terms similar to those offered by the related party to their major customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Principal Business

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

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

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

Financial Review

The Company provides fully-integrated drug research, development and manufacturing services for innovative pharmaceutical products throughout the research and development cycle. Our principal businesses can be categorized into three service segments: laboratory services, CMC services and clinical development services. During the Reporting Period, the Company recorded revenue of RMB3,757.2 million, representing an increase of 29.2% over the same period of last year, profit attributable to owners of the listed company of RMB547.2 million, representing an increase of 62.8% over the same period of last year, and net cash flows generated from operating activities of RMB938.6 million, representing an increase of 18.7% over the same period of last year. Rapid growth was seen in business results and steady development was achieved in each business segment.

Revenue

1. Laboratory services

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

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

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

2. CMC services

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

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

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

3. Clinical development services

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

During the Reporting Period, the Company completed the acquisition of Nanjing Sirui Biotechnology Co., Ltd. ("**CR Medicon**") in May 2019 as part of its planned expansion in the domestic clinical development service market. Together with its existing capability in clinical services, the Company expanded its clinical development service offerings for innovative drugs and medical devices, including registration and application, medical affairs, clinical operation, data management and biostatistics, pharmacovigilance, bioanalysis and other businesses. In June 2019, the Company completed the strategic investment in Beijing LinkStart Biotechnology Co., Ltd. ("**LinkStart**") which provides third-party independent clinical research site management services and has a nationwide business operation. With the development of domestic innovative drug market, the Company is committed to make further contribution in the domestic clinical development area in the future.

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

Gross Profit and Gross Profit Margin

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

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

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

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

Other Income and Gains

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

Selling and distribution expenses

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

Administrative Expenses

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

Research and development costs

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

Finance Costs

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

Income Tax Expense

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

Profit in the Reporting Period

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

Non-IFRSs adjusted net profit for the year attributable to the owners of the parent

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

The Company believes that the non-IFRSs adjusted net profit for the year attributable to the owners of the parent is useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these non-IFRSs adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of the non-IFRSs adjusted net profit for the year attributable to the owners of the parent is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRSs. Shareholders and potential investors should not view the non-IFRSs adjusted net profit for the year attributable to the owners of the parent on a stand-alone basis or as a substitute for results under the IFRSs, or as being comparable to results reported or forecasted by other companies.

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

Cash Flows

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

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

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

Liquidity and Financial Resources

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

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

Borrowings and Gearing Ratio

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

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

Pledge of Assets

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

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

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

Contingent Liabilities

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

Miscellaneous

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

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

CORE COMPETITIVENESS ANALYSIS

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

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

   The Company has a well-established pharmaceutical R&D service platform for the discovery stage of small molecule innovative drugs, based on which the Company has expanded its expertise to various stages of drug development and manufacturing. The Company is in a leading position in drug discovery, preclinical and early clinical-stage research, and is committed to expanding its capabilities downstream to late clinical-stage development and commercial manufacturing. In the process of expanding R&D services, the Company has successfully evolved from a pure laboratory chemistry service provider to an end-to-end

pharmaceutical R&D service platform with operations in China, the U.S. and the U.K. The Company has established comprehensive expertise in different R&D process, so as to assist customers in accelerating their R&D programs and cater to a full spectrum of customers' needs. The Company has established a good reputation in the global pharmaceutical R&D service industry and a strong partnership with top pharmaceutical and biotech companies. Through the comprehensive early-stage drug R&D services we provide to customers, we have accumulated profound understanding of the unique scientific challenges facing their new pharmaceutical R&D projects, which better positions the Company to press ahead with such projects in the late development stage. The Company's profound industry knowledge, strong execution capability and end-to-end solutions will shorten the drug discovery and development cycle and reduce the associated risks, thereby creating value for customers.

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

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

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

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

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

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

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

(3) Total solutions for the IND enabling services

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

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

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

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

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

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

The Company is well positioned to capture the growth opportunities in the global pharmaceutical R&D service market arising from the industry landscape evolvement. As it is a trend for pharmaceutical companies and biotech start-ups to enter into deeper collaborations with their preferred service providers to achieve higher efficiency for their R&D projects, pharmaceutical R&D service providers with end-to-end service offerings and good track record like the Company are generally partners of choice to these companies. The number

of biotech start-ups and their R&D expenditures increase rapidly. These biotech start-ups rely heavily on the comprehensive R&D support provided by fully-integrated platforms to supplement their internal R&D resources, which achieves greater cost effectiveness and time efficiency than establishing comprehensive internal R&D capabilities. Through long-term collaboration with partners and customers, the Company will contribute to transforming the drug discovery and development industry in a more efficient way and continuously benefit from the growing demand for pharmaceutical R&D outsourcing services.

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

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

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

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

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

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

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

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

Outlook for 2020

Discussion and Analysis of Future Development

1. Industry competition and development

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

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

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

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

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

(3) Market conditions of pharmaceutical development and manufacturing services

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

(4) Market conditions of clinical development services

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

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

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

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

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

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

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

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

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

(3) Further strengthen capabilities for biologics

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

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

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

(5) Broaden customer base and deepen collaborations with customers

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

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

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

3. Potential risks

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

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

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

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

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

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

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

(3) Risks regarding intellectual property protection

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

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

(4) Risks regarding policies and regulation

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

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

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

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

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

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

(6) Risks regarding exchange rates

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

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

(7) Risks regarding market competition

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

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

(8) Risks regarding technological innovation

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

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

(9) Risks regarding service quality

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

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

OTHER INFORMATION

Annual Dividend

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

The aforesaid proposed 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, 2019 will be paid in 60 days after AGM to the shareholders. Details regarding the closure of the register of members of the Company and declaration and payment of dividends will be announced separately.

Use of Proceeds from the IPO

The net proceeds raised by the Company from the IPO are approximately RMB4,522.7 million (after deduction of the underwriting commissions in respect of the offering and other estimated expenses). As at the date of this announcement, the net proceeds from the IPO had not yet been utilized and all of the net proceeds has been deposited into short-term deposits in bank accounts maintained by the Group. In 2020, the Company will start utilizing the net proceeds from the IPO and for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated November 14, 2019.

Employee Remuneration and Relations

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

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

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

Material Events after the Reporting Period

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

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

Evaluation on the impact of the 2019 Novel Coronavirus

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

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

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

Acquisition of additional 20% interest in LinkStart

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

Subscription of Shares of AccuGen Group

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

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct for Directors' securities transactions. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standards as set out in the Model Code since the listing of the Company on November 28, 2019 up to the date of this annual results announcement.

Compliance with the Corporate Governance Code

Since the listing of the Company on November 28, 2019 and during the Reporting Period, the Company has complied with all the code provisions set forth in the Corporate Governance Code, with the exception that the roles of the chairman of the Board and the general manager of our Company have not been segregated as required by code provision A.2.1 of the Corporate Governance Code. In view of Dr. LOU Boliang's experience, personal profile and his roles in our Company 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 Dr. LOU assumes the roles of the chairman of the Board as well as the chief executive officer of our Company. The Board shall review the structure from time to time to ensure that the structure facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation.

Audit Committee

The Company established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three members, namely, Ms. SHEN Rong, Ms. LI Lihua and Ms. CHEN Guoqin, who are all independent non-executive Directors of the Company. Ms. SHEN is the chairwoman of the Audit Committee, who possesses suitable professional qualifications.

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

Scope of Work of Ernst & Young

The figures above in respect of this annual results announcement for the year ended December 31, 2019 have been agreed with the Company's auditor, Ernst & Young, certified public accountants ("**Ernst & Young**"), to be consistent with the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

Annual General Meeting

During the 27th meeting of the 1st session of the Board, the Board has (i) approved the convening of the AGM; and (ii) authorized the chairman of the Board to approve the documents to be issued for the AGM, and to determine other matters relating to the AGM, including but not limited to the time and place of the AGM. The notice and circular for the AGM will be dispatched in due course.

Publication of the Annual Results and Annual Report

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.pharmaron.com). The Group's 2019 annual report will be dispatched to shareholders and will be published on the aforementioned websites in due course.

APPRECIATION

Lastly, I would like to thank all the staff and the management team for their hard work during the Reporting Period. I would also like to express heartfelt gratitude to all of our users and business partners on behalf of the Group, and wish for their continuous support in the future. We will keep working closely with our shareholders and employees to steer the Group to a more modernized and sophisticated level of operation, through which we aspire to turn to a new chapter in the Group's development.

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, 2019
"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
"CMC"	chemistry, manufacturing and controls
"CMO"	Contract Manufacturing Organization
"CNS"	central nervous system
"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
"CRO"	Contract Research Organization
"DMPK/ADME"	drug metabolism and pharmacokinetics/Absorption, Distribution, Metabolism and Excretion

"Directors"	directors of the Company
"FDA"	the Food and Drug Administration of the U.S.
"FIH"	first-in-human
"GLP"	Good Laboratory Practice
"GMP"	Good Manufacturing Practice
"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
"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
"R&D"	research and development
"Reporting Period"	the year ended December 31, 2019
"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
"%"	per cent.

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

Beijing, People's Republic of China, March 30, 2020

As at the date of this announcement, the Board of Directors of the Company comprises Dr. LOU Boliang, Mr. LOU Xiaoqiang and Ms. ZHENG Bei as executive Directors, Mr. CHEN Pingjin, Mr. HU Baifeng, Mr. LI Jiaqing and Mr. ZHOU Hongbin as non-executive Directors, and Mr. DAI Lixin, Ms. LI Lihua, Ms. CHEN Guoqin, Ms. SHEN Rong and Mr. TSANG Kwan Hung Benson as independent non-executive Directors.