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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

FINANCIAL SUMMARY AND HIGHLIGHTS

	Six months ended June 30,		
	2023	2022	Change
	RMB'000	*RMB'000*	*%*
Revenue	**5,640,118**	4,634,585	21.7
Gross profit	**2,037,441**	1,613,111	26.3
Profit attributable to owners of the parent	**786,093**	585,432	34.3
Non-IFRSs adjusted net profit attributable to owners of the parent	**931,852**	812,106	14.7
Net cash flows generated from operating activities	**1,280,205**	858,787	49.1

- During the Reporting Period, the Group recorded aggregate revenue of approximately RMB5,640.1 million, representing an increase of approximately RMB1,005.5 million, or 21.7%, as compared to the six months ended June 30, 2022.

- During the Reporting Period, the profit attributable to owners of the parent was approximately RMB786.1 million, representing an increase of approximately 34.3% as compared to the six months ended June 30, 2022.

- During the Reporting Period, the net cash flows generated from operating activities was approximately RMB1,280.2 million, representing an increase of approximately 49.1% as compared to the six months ended June 30, 2022.

- The Board resolved not to declare any interim dividend for the six months ended June 30, 2023.

The board of directors of Pharmaron Beijing Co., Ltd. is pleased to announce the unaudited interim results of the Group for the six months ended June 30, 2023 with the comparative figures in the corresponding period in 2022.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

	Notes	Six months ended June 30, 2023 **RMB'000** **(unaudited)**	2022 RMB'000 (unaudited)
REVENUE	*5*	**5,640,118**	4,634,585
Cost of sales		**(3,602,677)**	(3,021,474)
Gross profit		**2,037,441**	1,613,111
Other income and gains	*6*	**131,679**	220,661
Other expenses	*6*	**(17,438)**	(146,209)
Selling and distribution expenses		**(126,777)**	(108,110)
Administrative expenses		**(845,440)**	(661,073)
Research and development costs		**(182,179)**	(83,669)
Impairment losses on financial and contract assets		**(10,713)**	(6,339)
Finance costs		**(89,030)**	(81,235)
Share of profit/(losses) of associates		**10,982**	(4,439)
Profit before tax	*7*	**908,525**	742,698
Income tax expense	*8*	**(124,457)**	(177,398)
Profit for the period		**784,068**	565,300
Attributable to:			
Owners of the parent		**786,093**	585,432
Non-controlling interests		**(2,025)**	(20,132)
		784,068	565,300
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
For profit for the period	*10*	**0.4442**	0.3294
Diluted			
For profit for the period	*10*	**0.4436**	0.3293

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2023

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period	**784,068**	565,300
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	**183,687**	(27,846)
Fair value losses on:		
– hedging instruments designated in cash flow hedges	**(146,544)**	(10,307)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**37,143**	(38,153)
Other comprehensive income/(loss) for the period, net of tax	**37,143**	(38,153)
Total comprehensive income for the period	**821,211**	527,147
Attributable to:		
Owners of the parent	**824,109**	548,419
Non-controlling interests	**(2,898)**	(21,272)
	821,211	527,147

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2023

	Notes	**June 30, 2023** ***RMB'000*** **(unaudited)**	December 31, 2022 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**9,121,864**	8,021,814
Right-of-use assets		**1,241,214**	1,329,698
Goodwill		**2,814,376**	2,687,865
Other intangible assets		**225,354**	233,148
Investments in associates		**650,793**	629,972
Equity investments at fair value through profit or loss		**254,976**	239,048
Biological assets		**188,365**	178,016
Deferred tax assets		**138,065**	58,789
Other non-current assets		**324,066**	578,201
Total non-current assets		**14,959,073**	13,956,551
CURRENT ASSETS			
Inventories		**355,650**	361,572
Contract costs		**179,305**	182,610
Trade receivables	*11*	**2,138,257**	1,881,882
Contract assets		**394,299**	332,601
Biological assets		**504,394**	497,279
Prepayments, other receivables and other assets		**709,175**	1,037,216
Financial assets at fair value through profit or loss		**637,198**	694,472
Derivative financial instruments		**–**	50,890
Pledged deposits		**36,852**	49,255
Cash and cash equivalents		**2,475,879**	1,448,229
Total current assets		**7,431,009**	6,536,006
CURRENT LIABILITIES			
Interest-bearing bank borrowings		**534,562**	737,712
Trade payables	*12*	**416,502**	406,348
Other payables and accruals		**1,673,990**	1,596,275
Derivative financial instruments		**171,548**	30,035
Contract liabilities		**873,662**	832,140
Lease liabilities		**192,219**	164,034
Tax payable		**180,189**	145,889
Total current liabilities		**4,042,672**	3,912,433
NET CURRENT ASSETS		**3,388,337**	2,623,573
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,347,410**	16,580,124

	Notes	**June 30, 2023** ***RMB'000*** **(unaudited)**	December 31, 2022 *RMB'000* (audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**832,160**	713,342
Deferred tax liabilities		**266,326**	261,013
Financial liabilities at fair value through profit or loss		**111,129**	112,093
Deferred income		**286,224**	152,374
Convertible bonds-debt component		**3,872,522**	3,740,919
Lease liabilities		**672,146**	760,515
Total non-current liabilities		**6,040,507**	5,740,256
NET ASSETS		**12,306,903**	10,839,868
EQUITY			
Share capital	*13*	**1,786,732**	1,191,225
Treasury shares		**(463,453)**	(668,037)
Equity component of convertible bonds		**198,554**	198,554
Reserves		**10,013,495**	9,826,874
Equity attributable to owners of the parent		**11,535,328**	10,548,616
Non-controlling interests		**771,575**	291,252
Total equity		**12,306,903**	10,839,868

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended June 30, 2023 has been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2022 which have been prepared in accordance with International Financial Reporting Standards (IFRSs).

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2022, except for the adoption of the following new and revised IFRSs and newly adoption of certain IFRSs for the first time for the current period's financial information.

IFRS 17	*Insurance Contracts*
Amendments to IFRS 17	*Insurance Contracts*
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since January 1, 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

c) Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The adoption of amendments to IAS 12 did not have any impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the interim condensed consolidated statements of cash flows for the six months ended June 30, 2023 and 2022.

d) Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after January 1, 2023, but are not required to disclose such information for any interim periods ending on or before December 31, 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

4. OPERATING SEGMENT INFORMATION

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

- The laboratory services segment includes laboratory chemistry (including medicinal chemistry, synthetic chemistry, analytical and purification chemistry, and computer-aided drug design (CADD)) and bioscience services (including *in vitro* and *in vivo* DMPK/ADME, *in vitro* biology and *in vivo* pharmacology, safety assessment and U.S. laboratory services)

- The CMC (small molecule CDMO) services segment includes process development and manufacturing, materials science/pre-formulation, formulation development and manufacturing, and analytical development services

- The clinical development services segment includes overseas clinical development services (including radiolabelled science services and early stage clinical trial services) and domestic clinical development services (including clinical research services and site management services)

- The Biologics and CGT services segment includes biologics discovery, development and manufacturing services (CDMO), CGT lab and Gene therapy CDMO services

- The "Others" segment

Segment revenue and results

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

Six months ended June 30, 2023 (unaudited)	**Laboratory services** *RMB'000*	**CMC (small molecule CDMO) services** *RMB'000*	**Clinical development services** *RMB'000*	**Biologics and CGT services** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenue	**3,380,373**	**1,251,316**	**805,193**	**200,217**	**3,019**	**5,640,118**
Segment results	**1,514,382**	**403,004**	**136,733**	**(16,716)**	**38**	**2,037,441**
Unallocated amount:						
Other income and gains						**131,679**
Other expenses						**(17,438)**
Selling and distribution expenses						**(126,777)**
Administrative expenses						**(845,440)**
Research and development costs						**(182,179)**
Impairment losses on financial and contract assets						**(10,713)**
Finance costs						**(89,030)**
Share of profits of associates						**10,982**
Group's profit before tax						**908,525**

Six months ended June 30, 2022 (unaudited)	Laboratory services *RMB'000*	CMC (small molecule CDMO) services *RMB'000*	Clinical development services *RMB'000*	Biologics and CGT services *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue	2,778,070	1,084,625	584,537	177,548	9,805	4,634,585
Segment results	1,212,436	356,932	29,883	11,328	2,532	1,613,111
Unallocated amount:						
Other income and gains						220,661
Other expenses						(146,209)
Selling and distribution expenses						(108,110)
Administrative expenses						(661,073)
Research and development costs						(83,669)
Impairment reversal on financial and contract assets						(6,339)
Finance costs						(81,235)
Share of losses of associates						(4,439)
Group's profit before tax						742,698

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

Geographical information

(a) Revenue from external customers

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
North America	**3,675,469**	3,042,305
Mainland China	**970,977**	819,977
Europe	**859,776**	629,646
Asia (except Mainland China)	**114,851**	112,287
Others	**19,045**	30,370
	5,640,118	4,634,585

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

(b) Non-current assets

	June 30,	December 31,
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Mainland China	**10,095,882**	9,528,332
Europe	**2,469,858**	2,150,894
North America	**1,976,234**	1,811,597
Asia (except Mainland China)	**24,058**	28,599
	14,566,032	13,519,422

The non-current assets 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.

5. REVENUE

An analysis of revenue is as follows:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers	**5,640,118**	4,634,585
	5,640,118	4,634,585

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Type of services		
Laboratory services	**3,380,373**	2,778,070
CMC (small molecule CDMO) services	**1,251,316**	1,084,625
Clinical development services	**805,193**	584,537
Biologics and CGT services	**200,217**	177,548
Others	**3,019**	9,805
Total revenue from contracts with customers	**5,640,118**	4,634,585
Timing of revenue recognition		
Services transferred at a point of time	**2,958,151**	2,454,407
Services transferred over time	**2,681,967**	2,180,178
Total revenue from contracts with customers	**5,640,118**	4,634,585

(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

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Other income		
Interest income	**14,238**	23,302
Government grants and subsidies related to		
– Assets	**7,081**	5,932
– Income	**22,137**	9,627
	43,456	38,861
Other gains		
Foreign exchange gains, net	**8,426**	–
Gains on disposal of equity investment at fair value through profit or loss	**15,477**	–
Gains on fair value change of biological assets	**52,739**	180,190
Gains on financial assets at fair value through profit or loss	**8,005**	–
Gains on financial assets at amortised cost	**2,069**	492
Gains on fair value change of financial liabilities at fair value through profit or loss	**964**	–
Gains on disposal of right-of-use assets	**121**	–
Others	**422**	1,118
	88,223	181,800
	131,679	220,661
Other expenses		
Foreign exchange losses, net	**–**	(36,844)
Losses on disposal of biological assets	**(5,697)**	–
Losses on disposal of property, plant and equipment	**(87)**	(167)
Losses on financial assets at fair value through profit or loss	**–**	(8,179)
Losses on derivative financial instruments	**(70)**	(1,446)
Losses on fair value change of equity investments at fair value through profit or loss	**(9,286)**	(80,728)
Losses on fair value change of financial liabilities at fair value through profit or loss	**–**	(11,055)
Others	**(2,298)**	(7,790)
	(17,438)	(146,209)

7. PROFIT BEFORE TAX

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

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**366,288**	265,257
Depreciation of right-of-use assets	**98,172**	60,085
Amortization of other intangible assets	**17,229**	15,081
Staff cost* (including directors' and chief executive's remuneration):		
Salaries and other benefits	**2,029,553**	1,667,264
Pension scheme contribution, social welfare and other welfare**	**581,295**	442,111
Share-based compensation expenses	**125,336**	52,062
Gains on fair value change of biological assets	**(52,739)**	(180,190)
Gains on financial assets at amortised cost	**(2,069)**	(492)
(Gains)/Losses on financial assets at fair value through profit or loss	**(8,005)**	8,179
Gains on disposal of equity investment at fair value through profit or loss	**(15,477)**	–
Losses on fair value change of equity investment at fair value through profit or loss	**9,286**	80,728
Impairment losses on inventories, net of reversal	**2,776**	2,543
Impairment losses on financial and contract assets, net of reversal	**10,713**	6,339
Losses on derivative financial instruments	**70**	1,446
(Gains)/Losses on fair value change of financial liabilities at fair value through profit or loss	**(964)**	11,055
Auditor's remuneration	**2,425**	2,380

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

** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

8. INCOME TAX EXPENSE

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax	**174,880**	164,173
Deferred tax	**(50,423)**	13,225
	124,457	177,398

9. DIVIDENDS

On June 21, 2023, the Company's shareholders approved the 2022 Profit Distribution Plan at annual general meeting as follows: 1) a final dividend of RMB0.30 (inclusive of tax) per share in respect of the year ended December 31, 2022 was declared to both holders of A shares and H shares and aggregate dividend amounted to RMB357,346,000 (inclusive of tax). As at June 30, 2023, no amounts have been paid. 2) 5 new Shares for every 10 existing Shares to be issued out of reserve to all Shareholders.

The directors of the Company have determined that no dividend will be proposed or declared in respect of the current interim period (Six months ended June 30, 2022: Nil).

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

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

	Six months ended June 30,	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings:		
Profit attributable to ordinary equity holders of the parent	**786,093**	585,432
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**–**	(501)
Earnings for the purpose of calculating basic earnings per share	**786,093**	584,931
Effect of diluted potential ordinary shares:		
Add: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**–**	501
Earnings for the purpose of calculating diluted earnings per share	**786,093**	585,432

	Six months ended June 30,	
	2023	2022
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	**1,769,715,031**	1,775,619,948
Effect of diluted potential ordinary shares:		
Effective of restricted shares units and share awards issued by the Company	**2,320,281**	2,401,752
Weighted average number of ordinary shares in issue during the period, used in the diluted earnings per share calculation	**1,772,035,312**	1,778,021,700

The computation of basic and diluted earnings per share for the Relevant Periods is based on the weighted average number of shares assumed to have been issued after taking into account the retrospective adjustment of the Share Capital Conversion.

11. TRADE RECEIVABLES

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

	June 30, 2023 ***RMB'000*** **(unaudited)**	December 31, 2022 *RMB'000* (audited)
Within 1 year	**2,095,579**	1,868,133
1 year to 2 years	**42,678**	13,749
	2,138,257	1,881,882

Included in trade receivables are amounts due from a related party of RMB27,318,000 as at June 30, 2023 (December 31, 2022: RMB 7,471,000) which are repayable on credit terms similar to those offered to the major customers of the Group.

12. TRADE PAYABLES

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

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

	June 30, 2023 ***RMB'000*** **(unaudited)**	December 31, 2022 *RMB'000* (audited)
Within 1 year	**410,886**	398,448
Over 1 year	**5,616**	7,900
	416,502	406,348

13. SHARE CAPITAL

	June 30, 2023 ***RMB'000*** **(unaudited)**	December 31, 2022 *RMB'000* (audited)
Issued and fully paid:	**1,786,732**	1,191,225

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** *RMB'000*
At December 31, 2022 and 1 January 2023	**1,191,224,554**	1,191,225
Repurchase of Restricted A Shares	**(69,750)**	(70)
Transfer from Share premium	**595,577,402**	595,577
At June 30, 2023	**1,786,732,206**	1,786,732

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business Review

1. Principal Business

Pharmaron is a leading fully-integrated pharmaceutical R&D and manufacturing services platform and has 21 R&D centers and production based in China, the U.K. and the U.S.. The Company provides fully-integrated drug research, development and manufacturing services throughout the research and development cycle to improve R&D efficiency and costs of customers. The Company is continuously strengthening the integration of its service offerings both vertically and horizontally. Vertically, the Company is strengthening the seamless integration of the same discipline across different pharmaceutical R&D stages. Horizontally, the Company is strengthening the integration of different disciplines at the same pharmaceutical R&D stages, improving the science and technology of each discipline, expanding the service offerings, and promoting the interdisciplinary collaborations. In addition, the Company further enhanced the capabilities and integration of its emerging service platforms and had made significant progress. During the Reporting Period, Pharmaron Clinical achieved strong revenue growth and improved its operational efficiency. The Company continued to strengthen its Biologics and CGT service capabilities, and stayed committed to building Pharmaron into a global leader in end-to-end pharmaceutical R&D and manufacturing services across multiple therapeutic modalities.

B. Financial Review

1. Overall Operation Results

During the Reporting Period, the Company recorded revenue of RMB5,640.1 million, representing an increase of 21.7% over the same period of last year; the Company achieved gross profit of RMB 2,037.4 million and gross margin of 36.1%, representing an increase of 1.3 percentage points over the same period of last year; profit attributable to owners of the parent of RMB786.1 million, with an increase of 34.3% over the same period of last year; Non-IFRSs adjusted net profit attributable to owners of the parent of RMB931.9 million, representing an increase of 14.7% over the same period of last year. In first half of 2022, the gains from the fair value change of biological assets were much higher than that of the first half 2023. Excluding this impact, the Company's non-IFRS adjusted net profit attributable to owners of the Company increased by 28.7% over the same period of last year.

The Company continued to adhere to the "Customer Centric" corporate philosophy, leveraging its end-to-end and fully-integrated services platform and state-of-the-art R&D and production technologies to effectively meet the customers' needs across different R&D stages. During the Reporting Period, the Company served more than 2,140 global customers, among which those who used the services of multiple business segments of the Company contributed RMB3,902.0 million in revenue, accounting for 69.2% of its total revenue. During the Reporting Period, the Company introduced over 400 customers, contributing approximately RMB222.9 million in revenue. The original customer contributed approximately RMB5,417.2 million in revenue, with a year-on-year increase of 22.9%. By customer types, during the Reporting Period, the Company's revenue from the global top 20 pharmaceutical companies was approximately RMB850.3 million, with an increase of 27.7% compare to same period of last year, accounting for 15.1% of its total revenue; its revenue from other customers was approximately RMB4,789.9 million, with an increase of 20.7% compare to same period of last year, accounting for 84.9% of its total revenue.

By regions of which the customers are located, during the Reporting Period, the revenue from customers in North America was approximately RMB3,675.5 million, with an increase of 20.8% compare to same period of last year, accounting for 65.2% of its total revenue; the revenue from customers in EU (including the U.K.) was approximately RMB859.8 million, with an increase of 36.5% compare to same period of last year, accounting for 15.2% of its total revenue; the revenue from customers in China was approximately RMB971.0 million, with an increase of 18.4% compare to same period of last year, accounting for 17.2% of its total revenue; and the revenue from customers in other regions was approximately RMB133.9 million, accounting for 2.4% of revenue of its total revenue.

Despite the impact of global biotech funding environment and the temporary slowdown of the growth of customer demands, the Company's backlog sustained its strong growth momentum through continuous improvement of its service technologies, efficiencies and quality, and enhance its core competitiveness for a better market share. As of June 30, 2023, the Company's total backlog increased over 15% compared to that of December 31, 2022.

The Company continued to bring in high-level domestic and overseas talents and improvement in global production capacity, in order to fulfill the company's demand for its growing business and medium to long-term development. As of June 30, 2023, the total number of employees in the Company increased by 252 to 19,733 compared to December 31, 2022, including more than 1,600 oversea employees in the 11 operating facilities in the U.K. and the U.S.. Among that, there were 17,689 R&D, production technology and clinical service staff, accounting for 89.6% of total employees in the Company. During the Reporting Period, the Company's revenue outpaced the number of employees, and the revenue per capita further increased.

Building on the work accomplished in 2022, the Company places great importance on meeting the expectations of customers and investors regarding its sustainable development. The Company continuously enhances its sustainable competitiveness by following industry best practices and incorporating the recommendations from capital market index such as CDP Climate Questionnaire and MSCI ESG rating. In the latest Sustainalytics assessment, the Company was rated as "low-risk" in ESG issues. Additionally, to reaffirm ESG information management capability and disclosure standards, the Company's ESG information disclosure has been verified by SGS-CSTC Standards Technical Services Co., Ltd., an independent third party. Meanwhile, the company actively explores carbon reduction pathways in conjunction with the sustainability targets approved by the Board of Directors as well as the Science-Based Targets initiative (SBTi) with the support from energy experts. Furthermore, the Company constantly develops the environmental management system (EMS) according to ISO14001 and ISO45001 across its R&D centers and production sites. The Company was honored with "Excellence in Social Sustainability Award" at the 2023 Environmental, Social and Corporate Governance Awards hosted by Hong Kong Ming Pao Newspapers Limited, reflecting broad recognition for its accomplishments in ESG aspects.

2. Operation results of each business segment

(1) Laboratory services

During the Reporting Period, the laboratory services segment realized revenue of RMB3,380.4 million, with a growth of 21.7% compared to same period of last period; and a gross margin of 44.8%, with an increase of 1.2 percentage points over last year. The Company's revenue from laboratory chemistry services still maintained a solid growth of around 10% despite the impact of global biotech funding environment and the temporary slowdown of the growth of customer demands. The Company's bioscience business recorded a robust growth of more than 35% during the Reporting Period, as a result of enhanced technical capabilities of the bioscience service segments, the synergies between bioscience and laboratory chemistry, and transfer of external orders. In the first half of 2023, the proportion of bioscience services in the Company's laboratory services revenue exceeded 51%, steadily driving up the gross margin of the laboratory services segment.

As of June 30, 2023, the Company had 9,329 employees engaged in its laboratory services, up by 107 as compared with December 31, 2022. The Company has nearly 6,200 laboratory chemists and technicians in laboratory chemistry, being one of the world's leading laboratory chemistry groups in terms of size and expertise. The Company provided customers with more flexible and comprehensive laboratory services through seamless collaborations among laboratory service teams in China, the U.K. and the U.S., fulfilling the diverse needs in different R&D stages from customers, and helping customers rapidly advance R&D projects from preclinical R&D to clinical stage globally. During the Reporting Period, the Company continued to contribute to the global innovative drug R&D and participated in 650 drug discovery projects, increased by approximately 13% compared to the same period of last year, and gained greater customer recognition.

The Company continued expanding the laboratory facilities to meet the growing business demand. During the Reporting Period, the Company continued the construction of over 140,000m^2 of laboratory spaces and animal testing facilities at the Campus III in Ningbo, which is expected to be operational gradually in the second half of 2023 in order to further expand the Company's capacities for safety assessment, DMPK and pharmacology. In addition, construction proceeded on the over 105,000m^2 laboratory at the Xi'an Campus, which is expected to be commissioned in 2024, catering for the medium and long-term development of the laboratory services.

(2) CMC (small molecule CDMO) services

During the Reporting Period, the CMC (small molecule CDMO) services realized revenue of RMB1,251.3 million, with a growth of 15.4% over the same period of last year; and a gross margin of 32.2%, with a slight decrease of 0.7 percentage points as compared with the same period of last year. The Company's CMC (Small molecule CDMO) services continued to see a solid growth and its product pipeline continued to advance to the later stage despite the combined impact of global biotech funding environment and some canceled late-stage clinical supply orders from multinational customers as a result of deprioritized pipeline. The Company's facilities in Shaoxing, China, Coventry, the U.S., and Cramlington, the U.K., are currently in a ramp-up period of capacity utilization, and the gross profit margin is still gradually increasing. Shaoxing facility has commenced operation gradually in 2022, which were headwinds for the gross profit margin during the Reporting Period.

As of June 30, 2023, the Company had 3,957 employees engaged in CMC (small molecule CDMO) services, down by 21 as compared with December 31, 2022. With the seamless integration of the Company's fully-integrated R&D service platform and the synergies among different service segments, approximately 75% of CMC (small molecule CDMO) revenue came from the existing customers of drug discovery services (laboratory chemistry and biological sciences) during the Reporting Period. Furthermore, the Company's integrated and coordinated service platforms in China, the U.K. and the U.S. have gained greater customer recognition. In terms of process development, more than 1,100 process development chemists of the Company in China and more than 180 process development chemists of the Company in the U.K. worked closely together to provide customized services for global customers with state-of-the-art technology. In terms of manufacturing, the Company's production facilities in China, the U.K. and the U.S. provided customers with flexible and efficient integrated solutions from pilot to commercial production, covering intermediates, APIs and formulations. During the Reporting Period, the Company's CMC (small molecule CDMO) services covered 620 drug molecules or intermediates, including 29 projects in process validation and commercialization stage, 24 projects in Phase III clinical trials, 136 projects in Phase I-II clinical trials, and 431 projects in preclinical stage.

In May 2023, the Company's drug product manufacturing facility of the Campus I in Ningbo passed China NMPA new drug pre-approval inspections (PAI) and GMP compliance pre-market inspection, and the verification results showed that the Company had no material defects or no major defects. This is the first regulatory inspection for the Company's drug product commercial manufacturing facility and the PAI success marked a milestone for the Company. The inspected product is expected to be launched in early 2024. It fully verified the Company's CMC (small molecule CDMO) service quality control system and cGMP commercial production capacity.

(3) Clinical development services

During the Reporting Period, the clinical development services segment realized revenue of RMB805.2 million, representing an increase of 37.7% over the same period of last year; with a gross margin of 17.0%, which represented a significant increase of 11.9 percentage points over the same period of last year. As of June 30, 2023, the Company had 3,729 employees engaged in clinical development services, up by 127 as compared with December 31, 2022. Pharmaron Clinical's consolidation of the integrated clinical service platform has seen remarkable results. The integration of China, the U.K. and the U.S. clinical services capabilities has been recognized by customers and gained market share, driving the rapid revenue growth and the improvement of gross profit margin.

Pharmaron Clinical has established an integrated clinical trial service platform in China, an independent early clinical R&D center with 96 beds in Maryland, U.S., and an integrated platform of "radioisotope compound synthesis – clinical – analysis" in the U.K. and the U.S.. Pharmaron Clinical's domestic and overseas teams work closely to help overseas customers develop their products in China and help China customers develop their products overseas.

During the Reporting Period, the Company's clinical CRO team provided services to 912 ongoing projects, including 74 projects in Phase III clinical trials, 400 projects in Phase I/II clinical trials, and 438 other clinical trials (including Phase IV clinical trials, investigator initiated trials and real-world evidence trials). The Company's clinical research site management services team provided services to over 1,400 ongoing projects. Its CRC team covered approximately 600 hospitals and clinical trial centers in approximately 120 cities in China for clinical research site management services.

(4) Biologics and CGT services

During the Reporting Period, the Biologics and CGT services segment realized revenue of RMB200.2 million, representing an increase of 12.8% over the same period of last year; and a gross margin of -8.3%, mainly because the Biologics and gene therapy CDMO business was in the investment stage. During the Reporting Period, Pharmaron Ningbo Biologics, the biologics and CGT services platform of the Company, entered into a capital increase agreement for equity financing with a financing amount of approximately RMB950 million, with a post-investment valuation of approximately RMB8.55 billion.

As of June 30, 2023, the Company had 674 employees engaged in Biologics and CGT services, up by 70 as compared with December 31, 2022. The Company's well-established Biologics and CGT laboratory services located in the U.S. and integrated gene therapy CDMO services located in the U.K. are recognized by a growing number of global customers. During the Reporting Period, the Company provided analytical release testing services to 26 CGT projects at various stages, including 2 potency assays for commercial manufacture. For the safety assessment services, over 21 GLP and non-GLP toxicology studies for CGT products either had been completed or are in progress at the Company. In terms of gene therapy CDMO services, the Company's laboratory and facilities in the U.K. offered customers a scalable and approvable multiple AAV production platform. During the Reporting Period, the Company's gene therapy CDMO services had 11 gene therapy CDMO projects across different services offerings and R&D stages, including 2 Phase III projects, 7 Phase I/II projects, and 2 pre-clinical projects.

During the Reporting Period, the Company continued to build the Biologics CDMO platform. The approximately 70,000m^2 laboratories and manufacturing facilities in Ningbo is expected to begin operation in the second half of 2023. The Company is currently providing process development services to a global customer's innovative bispecific antibody in IND enabling stage, and plans to start to provide GMP manufacturing services in the fourth quarter of 2023.

3. Profit in the Reporting Period

The profit attributable to owners of the parent in the Reporting Period was approximately RMB786.1 million, increased by 34.3% as compared to approximately RMB585.4 million for the six months ended June 30, 2022.

4. Basic and Diluted Earnings Per Share

The basic earnings per share was RMB0.4442, increased by 34.9% as compared to RMB0.3294 for the six months ended June 30, 2022. The diluted earnings per share was RMB0.4436, increased by 34.7% as compared to RMB0.3293 for the six months ended June 30, 2022.

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

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

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

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

	Six months ended June 30, 2023 ***RMB'000*** **(unaudited)**	Six months ended June 30, 2022 *RMB'000* (unaudited)
Profit attributable to owners of the parent	**786,093**	585,432
Add:		
Share-based compensation expenses	**109,931**	42,609
Convertible Bonds related losses	**56,873**	65,555
Foreign exchange related (gains)/losses	**(4,039)**	32,356
Realized and unrealized (gains)/losses from equity investments	**(17,006)**	86,154
Non-IFRS adjusted net profit attributable to owners of the parent	**931,852**	812,106

6. Cash Flows

During the Reporting Period, net cash flows generated from operating activities of the Group amounted to approximately RMB1,280.2 million, representing an increase of approximately RMB421.4 million or 49.1% as compared to the six months ended June 30, 2022. The increase was mainly due to the significantly increased revenue during the Reporting Period compared to the six months ended June 30, 2022.

During the Reporting Period, net cash flows used in investing activities of the Group amounted to approximately RMB817.9 million, representing an increase of approximately RMB761.0 million or 1,335.8% as compared to the six months ended June 30, 2022. The increase was mainly due to the decreased redemption from wealth management products and time deposits over three months from a number of reputable international banks during the Reporting Period compared to the same period last year.

During the Reporting Period, net cash flows generated from financing activities of the Group amounted to RMB641.5 million, representing an increase of RMB1,708.7 million or 160.1% as compared to the six months ended June 30, 2022. The increase was mainly due to the capital injection from minority Shareholders increased during the Reporting Period, in addition, dividends were paid in the same period of last year which did not occur during the Reporting Period.

7. Liquidity and Financial Resources

The Group has maintained a sound financial position during the Reporting Period. As at June 30, 2023, the Group's cash and cash equivalents amounted to approximately RMB2,475.9 million. During the Reporting Period, net cash flows generated from operating activities of the Group amounted to approximately RMB1,280.2 million.

The Group recorded total current assets of approximately RMB7,431.0 million as at June 30, 2023 (December 31, 2022: approximately RMB6,536.0 million) and total current liabilities of approximately RMB4,042.7 million as at June 30, 2023 (December 31, 2022: approximately RMB3,912.4 million). The current ratio (calculated by dividing the current assets by the current liabilities) of the Group was approximately 1.8 as at June 30, 2023 (December 31, 2022: approximately 1.7).

8. Borrowings and Gearing Ratio

As at June 30, 2023, the Group aggregated interest-bearing bank borrowings of RMB1,366.7 million. Among the total borrowings, RMB534.6 million will be due within one year and RMB832.2 million will be due after one year.

As at June 30, 2023, the gearing ratio, calculated as total liabilities over total assets, was 45.0%, as compared with 47.1% as at December 31, 2022.

9. Pledge of Assets

As at June 30, 2023, the Group mortgaged property, plant and equipment with a net carrying amount of approximately RMB402.3 million (December 31, 2022: approximately RMB408.1 million); and the mortgaged right-of-use assets had a net carrying amount of approximately RMB126.5 million (December 31, 2022: approximately RMB118.9 million).

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

Besides, as at June 30, 2023, the Group pledged deposits of approximately RMB36.9 million (December 31, 2022: approximately RMB49.3 million) to issue letters of credit and for environmental protection.

10. Interim Dividend

The Board resolved not to declare any interim dividend for the six months ended June 30, 2023.

11. Contingent Liabilities

As at June 30, 2023, the Group did not have any material contingent liabilities.

12. Incentive Scheme

(1) Reduction of registered capital of the Company by virtue of repurchase of Restricted A Shares and unlocking of the third tranche of Restricted A Shares under the 2019 A Share Incentive Scheme

On June 21, 2023, the Shareholders have approved a special resolution to repurchase (at the repurchase price of RMB11.90 per Share) and cancel a total of 69,750 Restricted A Shares under the 2019 A Share Incentive Scheme due to the resignation of three participants. The repurchase and cancellation were completed in July 2023.

In light of the repurchase and cancellation of part of the Restricted A shares granted under the 2019 A Share Incentive Scheme, the total number of issued shares of the Company has decreased from 1,191,224,554 shares to 1,191,154,804 shares, and the registered capital of the Company has decreased from RMB1,191,224,554 to RMB1,191,154,804.

On May 15, 2023, 1,599,510 Restricted A Shares under the third unlocking period pursuant to the first grant of the 2019 A Share Incentive Scheme were unlocked for listing and circulation.

(2) Increase in the registered capital of the Company by virtue of attribution under the 2021 A Share Incentive Scheme

In January 2023, pursuant to the authorization granted to the Board to handle matters pertaining to the 2021 A Share Incentive Scheme at the extraordinary general meeting of the Company held on July 12, 2021, the Company handled the registration of the Restricted A shares for the relevant participants who have satisfied the attribution conditions under the 2021 A Share Incentive Scheme.

On February 1, 2023, the 156,925 Restricted A Shares under the first vesting period pursuant to the 2021 A Share Incentive Scheme were listed and circulation.

In light of the completion of attribution registration of the relevant Restricted A shares under the 2021 A Share Incentive Scheme, the total number of issued shares of the Company has increased from 1,191,067,629 shares to 1,191,224,554 shares, and the registered capital of the Company has increased from RMB1,191,067,629 to RMB1,191,224,554.

(3) Adoption of 2023 A Share Incentive Scheme

On June 21, 2023, the Shareholders resolved to adopt the 2023 A Share Incentive Scheme, the assessment management measures for the implementation of the 2023 A Share Incentive Scheme and the authorization to the board to handle matters pertaining to the 2023 A Share Incentive Scheme during the annual general meeting of the Company. Pursuant to the 2023 A Share Incentive Scheme, the maximum number of Restricted Shares to be granted under the First Grant pursuant to the 2023 A Share Incentive Scheme will be 1,479,300 A Shares, representing approximately 90% of the A Shares available under the 2023 A Share Incentive Scheme (the "**First Grant**"), and approximately 0.12% of the total issued share capital of the Company as at the date of the adoption of the scheme. The remaining 10%, being 164,400 A Shares, representing approximately 0.01% of the total issued share capital of the Company as at the date of the adoption of the scheme, shall be reserved for further award grants (the "**Reserved Grant**"). The granted Restricted A Shares under the First Grant and the Reserved Grant shall be vested in four tranches, respectively, with 25%, 25%, 25% and 25% of total shares attributed on each anniversary date after the date of grant upon meeting certain performance conditions. For details of the terms of the 2023 A Share Incentive Scheme, please refer to the announcement of the Company dated March 30, 2023, and the circular of the Company dated May 25, 2023.

13. Miscellaneous

(1) 2022 Profit Distribution Plan

On June 21, 2023, the 2022 Profit Distribution Plan of the Company was approved at the annual general meeting of the Company. Pursuant to the 2022 Profit Distribution Plan, the Company would (i) pay a cash dividend of RMB0.30 (inclusive of tax) for per Share; and (ii) issue five (5) Capitalization Shares for every ten (10) existing Shares out of reserve to the Shareholders whose names appear on the register of members of the Company on July 26, 2023 (the "Record Date"), which represented a total increase of 595,577,402 Shares comprising 495,065,027 New A Shares and 100,512,375 New H Shares, based on the Company's total share capital of 1,191,154,804 Shares comprising 990,130,054 A Shares and 201,024,750 H Shares as at the Record Date. For details, please refer to the circular of the Company dated May 25, 2023.

(2) Further adjustment to the conversion price of Series 1 Bonds and Series 2 Bonds

Pursuant to the terms and conditions of the Convertible Bonds, the conversion price of the Series 1 Bonds and Series 2 Bonds is subject to adjustment for, among other things, capital distributions and capitalization of profits or reserves made by the Company. As a result of the approval of the payment of the 2022 Profit Distribution and the 2022 Capitalization of Reserve by the Shareholders at the annual general meeting of the Company on June 21, 2023, the conversion price of the Series 1 Bonds and Series 2 Bonds has been further adjusted from HK$166.42 per H Share to HKD $110.32 per H Share, and from HK$152.32 per H Share to HK$100.97 per H Share to, respectively, with effect from July 27, 2023, being the day immediately after the Record Date for determining H Shareholders' entitlement to the 2022 Capitalization of Reserve and 2022 Profit Distribution. Save as disclosed above, all other terms of the Series 1 Bonds and Series 2 Bonds remain unchanged. For details, please refer to the relevant announcement of the Company dated July 26, 2023.

(3) Capital Increase in Pharmaron Ningbo Biologics

On March 30, 2023, the Company entered into a capital increase agreement with Kangjun Zhongyuan, Kangjun Investment, Hongfeng Venture, the Non-Connected Investors and Pharmaron Ningbo Biologics in relation to the capital increase in Pharmaron Ningbo Biologics, pursuant to which the registered capital of Pharmaron Ningbo Biologics increased from RMB3,100.00 million to approximately RMB3,487.4052 million as a result of subscriptions for approximately 11.1087% in the registered capital of Pharmaron Ningbo Biologics. Each of Kangjun Zhongyuan, Kangjun Investment, Hongfeng Venture and the Non-Connected Investors has conditionally agreed to subscribe for the increased registered capital of approximately RMB76.6842 million, RMB4.8947 million, RMB8.1579 million and RMB297.6684 million in Pharmaron Ningbo Biologics, which represents 2.1989%, 0.1404%, 0.2339% and 8.5355% of the equity interests in Pharmaron Ningbo Biologics, at the consideration of RMB188.0 million, RMB12.0 million, RMB20.0 million and RMB729.7676 million, respectively. For details, please refer to the announcements of the Company dated March 30, 2023 and April 10, 2023.

(4) Appointment of Directors of the Third Session of the Board and appointment of Supervisors of the Third Session of the Supervisory Committee

On June 21, 2023, the Shareholders resolved to approve (i) the respective appointments of Dr. LOU Boliang, Mr. LOU Xiaoqiang and Ms. ZHENG Bei as executive Directors of the third session of the Board, (ii) the respective appointments of Mr. HU Baifeng and Mr. LI Jiaqing as non-executive Directors of the third session of the Board, (iii) the respective appointments of Mr. ZHOU Qilin, Ms. LI Lihua, Mr. TSANG Kwan Hung Benson and Mr. YU Jian as independent non-executive Directors of the third session of the Board, and (iv) the appointment of Dr. YANG Kexin and Ms. FENG Shu as the shareholder representative Supervisors of the third session of the Supervisory Committee. Dr. YANG Kexin, Ms. FENG Shu and Ms. ZHANG Lan (elected as employee representative Supervisor on May 10, 2023) as members of the third session of the Supervisory Committee. The term of office of each of the Directors of the third session of the Board and each of the Supervisors of the third session of the Supervisory Committee will be three years commencing from the conclusion of the annual general meeting of the Company held on June 21, 2023. For details, please refer to the announcements of the Company dated April 27, 2023 and May 10, 2023, and the circular of the Company dated May 25, 2023.

(5) Amendments to the Articles of Association

On June 21, 2023, the Shareholders resolved to approve the amendments to the Articles of Association by virtue of (i) the changes of the registered capital of the Company and (ii) the change in board composition, and in order to incorporate certain housekeeping amendments. For details, please refer to the announcements of the Company dated March 30, 2023 and April 27, 2023, and the circular of the Company dated May 25, 2023.

(6) Investment in Decheng Phase II Fund

During the Reporting Period, the Company, as the sole investor under the fourth round of fundraising of Hangzhou Dejia Chengyu Phase II Equity Investment Partnership (Limited partnership) (杭州德佳誠譽二期股權投資合夥企業(有限合夥)) (the "Decheng Phase II Fund"), entered into a limited partnership agreement with respect of Decheng Phase II Fund. The Company, as a limited partner, agreed to invest RMB50 million of its own capital to participate in the investment of Dechang Phase II Fund, which involves investment in equity, quasi equity and debt convertible instruments of enterprises within the medical and health industries through Decheng Phase II Fund, so as to achieve capital appreciation. On the premise of ensuring a stable development of the Company's principal business, by participating in investment funds and leveraging on the ability and experience of the professional investment institutions of other partners of Decheng Phase II Fund, it allows the Company to fully utilize the expertise of and professional analysis provided by other various parties within the industry, strengthens the Company's investment capability, reduces the risks of mergers and acquisitions in the industry, actively seizes opportunities in industrial development, accelerates the achievement of the Company's strategic goals, and improves the company's profitability in the long run, which further promotes the coordinated development of the healthcare industry. For details, please refer to the overseas regulatory announcement of the Company dated June 19, 2023.

C. 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. With this end-to-end and fully-integrated business model, we gain significant competitive advantages in deepening customer collaboration, establishing core technical expertise and professional team building which enable us to better support our customers' innovative R&D programs.

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

The Company is committed to building a R&D and manufacturing service platform across multiple therapeutic modalities (including small molecule, Biologics and CGT products) throughout drug discovery, pre-clinical and clinical development process. The Company has a well-established and fully integrated R&D and manufacturing service platform for small molecule drugs, and has initially completed the construction and integration of our Biologics and CGT service platform. In addition, the Company is in a leading position in drug discovery, pre-clinical and early clinical-stage research, and has expanded its capabilities downstream to late clinical-stage development and commercial manufacturing. In the process of expanding its R&D services, the Company has successfully evolved from a pure laboratory chemistry service provider to an end-to-end pharmaceutical R&D services platform with operations in China, U.S. and U.K..

The Company has established comprehensive expertise in different R&D stages, so as to assist customers in accelerating their R&D programs and cater to a full spectrum of customers' needs. With our professional project management capabilities, we are able to utilize our full integrated services platform to cater for the customers' needs. Vertically, the Company is strengthening the seamless integration of the same discipline across different pharmaceutical R&D stages. Horizontally, the Company is strengthening the integration of different disciplines at the same pharmaceutical R&D stages, improving the science and technology of each discipline, expanding the services offering, and promoting the interdisciplinary collaborations. With the integration and collaboration between our discovery and development service platforms, we have accumulated a profound understanding of the unique scientific challenges involved in our customers' new pharmaceutical R&D projects, which will facilitate us to move projects forward more efficiently and in turn maximize the benefits of our customers. 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 for our customers.

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

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

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

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

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

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

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

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

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

(4) Fully-integrated clinical development services in China

As a significant component of our Company's fully integrated service platform, domestic clinical development platform covers various functions, including regulatory and registration services, medical affairs, medical monitoring, clinical operations, data management and biostatistics, bioanalysis, pharmacovigilance, quantitative pharmacology, site management services, healthy and patient volunteer recruitment and management, and quality assurance, which provides customers with complete, efficient, end-to-end Phase I, II, III and IV clinical development services. Through internal capability building, organic growth and external acquisitions over the years and our effort in integrating different functions and processes and optimizing the team and organization structure, we have built a sizeable and highly competitive clinical development services platform in China, offering high-quality clinical development services of new small molecule drugs, biologics and medical devices for domestic and oversea customers.

Leveraging on the technical capabilities and established reputation of our preclinical R&D platform, the clinical R&D services platform collaborates with the pre-clinical and business development teams to get involved in clinical study planning discussion with customers as early as possible, so as to provide more comprehensive customer services and at the same time, and generate business opportunity for the clinical development services. Also, the medical affair, regulatory affairs, bioanalytical, quantitative pharmacology and biostatistics departments of the clinical development services work closely with the pre-clinical R&D team for planning of IND-enabling. These high quality interactions between pre-clinical and clinical teams accelerate projects progressing in high quality from pre-clinical to clinical stage, allowing our customers to fully enjoy the benefits of the Company's fully integrated service platform.

Together with the Company's U.S. clinical pharmacology center, data management and biostatistical, bioanalytical and clinical CRO operation and project management teams who are well versed with clinical development process and culture in both China and U.S., we are able to provide a faster and convenient gateway for domestic customers to present their R&D program globally.

(5) An integrated platform for "laboratory testing-IND enabling-process development and manufacturing" of gene therapy products

In recent years, with the rapid advancement of gene and cell therapy technologies and their application for rare and incurable diseases as well as vaccines that have had significant impact on public health systems, the R&D of cell and gene therapies and disease prevention methods are flourishing. These gene and cell products play an irreplaceable role in the global medical and public health systems. Through acquisition and integration of related resources and platforms, the Company has completed the establishment of an integrated services platform of "laboratory testing – IND enabling – process development and manufacturing" for gene therapy products. With the acquisition in 2020, the Company established a complete and industry leading analytics platform for biologics and CGT products that are in compliance with ICH guidelines of biologics and CGT products of GLP/GCP/GMP in U.S.. In 2021, the Company acquired capabilities in Pharmaron Biologics UK, which increases the gene therapy product development and GMP manufacturing in U.K.. By combining both the analytics and CMC platforms in gene therapy products with our safety assessment center which has been inspected and/or certified for GLP compliance by NMPA, FDA and OECD regulatory authorities, the Company offers customers a complete pre-clinical IND enabling solution for CGT products, as well as clinical testing material manufacturing and clinical sample analysis services for CGT products.

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 21 operating facilities, clinical and manufacturing facilities in China, U.K. and U.S., of which 11 operating facilities are from overseas. The Company's profound experience in global pharmaceutical R&D, together with its global operations and world-class technical capabilities offers our customers a unique value proposition and customized solutions that combines our technical expertise in different geographic locations and efficient services with seamless integration.

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

On the other hand, it is the Company's core strategy for each international acquisition to effectively integrate with our global services platform and brought in the world class talent and facilities into our integrated services platform to further strengthen our overall services capabilities and increase the efficiency of our services. These strategies complement each other to effectively improve the Company's international operation capability and bring high value-added services to customers.

In 2022, while the chemical reactors with a total volume of $600m^3$ in the Shaoxing plant have been put into operation, the facility in Cramlington, U.K. and the API facility in Coventry, Rhode Island, U.S., which were acquired by the Company have also been integrated and put into operation, realizing the international capacity service of our CMC (small molecule CDMO) platform from early clinical stage to late commercialization of the whole portfolio of solutions. By combining the process chemistry team in Hoddesdon, U.K., we are able to provide end-to-end API production services to our customers in China, U.S. and U.K. in a more flexible, larger scale and greener manner at the same time, bringing our international API production service capabilities to the next level and further enriching our global service network.

By adhering to the long-standing growth strategy of building "end-to-end, fully integrated and global" services platform, it facilitates cross-regional and multiple regulatory jurisdictional collaboration for cross-disciplinary and cross-R&D stages projects. Meanwhile, with efficient project management and cross-cultural communication, it facilitates the collaborations among teams, regions and disciplines to maximize the interests of our customers.

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

Since inception, the Company has put great emphasis on technology and innovation to fuel the constant grow of the business and satisfy the evolving R&D needs. It develops new technologies through multiple measures such as internal research and development, collaboration with academic and professional institutions, customer collaboration and acquisitions. In recent years, the Company has been strategically developing new technologies and capabilities in chemistry and bioscience areas, and committed to further strengthening of the integrated services platform. In the chemical technology area, the Company focuses on the application of the chemical reaction screening platform, flow chemical technology, biocatalysis technology and DNA-encoded chemical library technology platform; in the biotechnology area, the Company had established chemopoteomics platform, 3D spheroid and organoid model, gene editing technologies and imaging technologies.

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

The Company's management team is led by Dr. LOU Boliang, our chairman and chief executive officer. With over 30 years of experience in the pharmaceutical industry, he is highly respected in the industry for his excellent leadership that contributes to the Company's rapid development. The Company's senior management team has been with us for more than 10 years. The Company has nearly 100 senior scientific and technical leaders, 2 of whom were named as National Talents and 15 named as Beijing Talents. Members of our highly skilled, experienced and international management team possess diverse expertise and extensive knowledge, and have significantly contributed to the growth of the Company's institutional knowledge base. The Company focuses on its home-grown scientific team consisting of selected, young and promising scientists, which enables us to form a cohesive and vibrant mid-level management team composed of over 3,300 technical managers and high-caliber scientific research talents across all scientific disciplines of the Company. In addition, the Company's visionary management team has established a highly experienced and skilled talent pool with strong execution efficiency. As of June 30, 2023, the Company had over 17,689 R&D, production technology and clinical services staff in China, U.K. and U.S.. The highly professional technical team ensures the Company's continuous provision of high-quality R&D services for customers. The open platform for talent development ensures that the Company will continuously attract talents from around the globe.

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

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

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

The Company has a large, diverse and loyal customer base including the global top 20 pharmaceutical companies and numerous reputable biotech companies. In the first half of 2023, the Company introduced over 400 new customers, with over 90% of revenue contributed by the Company's large, diverse and loyal repeat customers. The Company's fully-integrated solution and deep understanding of customers' needs allow it to provide customized pharmaceutical R&D services for customers according to their needs. With further progress made in the existing customers' projects, the loyal and growing customer base will enable us to develop new services in drug development and at the early clinical stage.

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

OUTLOOK FOR THE SECOND HALF OF 2023

A. Discussion and Analysis of Future Development

1. Industry competition and development

The Company is engaged in pharmaceutical research, development and manufacturing services which provides fully integrated services to support our global customers' R&D for innovative pharmaceutical products, covering small molecule chemical drugs, biologics and cell and gene therapy products. Its business is closely related to the development of the pharmaceutical industry and pharmaceutical R&D outsourcing market.

Global and China pharmaceutical R&D and manufacturing investments are expected to maintain a good growth momentum. The pursuit of health and longevity is eternal. With the accelerated growth of the aging population globally, the expansion of the chronic disease patients population and the increase in the total investment in the medical and healthcare industry in various countries, the global and China pharmaceutical markets continue to develop, which in turn drives the continuous increase of the pharmaceutical R&D and manufacturing spending. The spending on pharmaceutical research, development and manufacturing is expected to maintain solid growth both globally and in China.

The pharmaceutical R&D and manufacturing outsourcing services market is expected to maintain a rapid growth, and the market share of the fully-integrated R&D service platform that serve global customers is expected to continue to increase. The innovative drug R&D industry features large investments, high risks and long cycles. First of all, as a result of increasing R&D costs and patent cliffs, as well as the internal R&D talent and capacity limitations, large pharmaceutical companies gradually turn to pharmaceutical R&D and manufacturing outsourcing services with an aim to reduce their overall R&D costs and improve their R&D efficiency. It is expected that the large pharmaceutical companies will continue to increase the proportion of R&D outsourcing in the overall R&D investment. Secondly, small and midsized biotech companies have become an important driver of pharmaceutical innovation. These biotech companies generally have yet to establish comprehensive R&D and manufacturing capabilities and rely more on outsourcing services to advance their R&D projects. Thirdly, the fully-integrated R&D platform serving global customers is well positioned to meet the various needs of different customers, especially small and medsized biotech customers, across the entire pharmaceutical R&D process. Through seamless collaborations among each business segment, the fully-integrated service platform can help customers to further improve efficiencies and reduce costs, and is expected to continuously increase its market share.

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

The Company adheres to our core growth strategy to build and improve our global end-to-end drug R&D services platform that is fully-integrated with highest international standard. In addition to continuously strengthen our leading position in the small molecule integrated R&D services, the Company has initially completed the establishment and integration of R&D service capabilities for biologics and CGT products. For the small molecule integrated R&D service platform, through continued expanding and training our talent pools, investing in cutting-edge technologies, upgrading our service capabilities and strengthening the management capabilities for global multidisciplinary collaborations, the Company will further improve the fully-integrated services platform and provide customers with tailored, more flexible and efficient solutions. Cater to the specific needs of domestic and oversea customers, the Company establishes multidisciplinary and collaborative services teams for customers in a timely manner to address customers' R&D needs, so as to help customers successfully and efficiently advance their pharmaceutical R&D programs. For the new therapeutic modalities such as biologics and CGT products, the Company will leverage its existing strengths to actively expand its customer base, gradually enhance its business scale and operational management efficiency, giving into play the role of a global end-to-end and integrated service platform for biologics and CGT products as the pillar of the Company's overall business, and is committed to becoming a global leader in pharmaceutical R&D services across multiple therapeutic modalities.

We will adhere to the business development strategy that puts emphasis on both domestic and oversea markets. With our established effort in developing oversea market and our large customers base with solid relationship, we will continuously improve the capabilities of our R&D service platform in order to provide higher service quality and expand our collaboration with our customers. Also, we will take advantage of our brand reputation and develop and introduce our services to more customers. For the domestic market, we will pay more attention to cultivating the domestic market and adopt a specific market strategy to address the domestic needs.

3. Main operational plan of the Company for the second half of 2023

Adhere to our growth strategy of building an "end-to-end, fully integrated and global" pharmaceutical R&D service platform, the Company will focus on the following works in the second half of 2023:

(1) Strengthen its leading position in the small molecule R&D service area

After years of efforts, the Company has built a small molecule pharmaceutical R&D and manufacturing service platform broadly covering the full process from drug discovery to preclinical and clinical development. In the second half of 2023, the Company will continue to deepen its efforts in strengthening its leading position in small molecule R&D services and further enhance its competitiveness globally. On one hand, we will continue to invest in new technology in small molecule services to ensure our leading position; on the other hand, we will continue to expand and deepen our services offerings. Specifically, in the second half of 2023, we will continue to treat laboratory chemistry as the core business and cornerstone of our growth strategy, actively expanding geographically while improving our global program management system, expanding our service networks in the pharmaceutical R&D hotspots in China, and continuing to promote the construction of Xi'an campus and Chongqing laboratory. We will also further strengthen the synergy and integration between laboratory chemistry and small molecule CDMO, and vigorously develop one-stop chemistry and manufacturing services globally. For bioscience services, while we continuously strengthen our bioscience services in the discovery stage, we will expand our services offerings based on customers' needs and make significant scientific and technical advancement assisted by cutting-edge technologies invested. In order to further extend the Company's bioscience service capacity, we will continue to promote the construction of the Phase I of the Campus III in Ningbo.

(2) Continue improving biologics and CGT service platform

For building the biologics service platform, in the second half of 2023, we will continue to develop our biologics CDMO service platform, further enhance our biologics discovery service capabilities by expanding our team, hence broadening our services offerings. We will also advance the construction of biologics development and manufacturing facilities in Ningbo (Campus II in Ningbo) and establish a quality system that meets the highest international standard.

For cell and gene therapies service platform, in 2022, we had initially integrated our CGT services in U.S. with our gene therapy CDMO services in U.K.. In the second half of 2023, we will take advantage of positive synergies, actively expand our customer base by leveraging our existing strengths, and gradually increase our business scale and operations management efficiency, so as to further develop our CGT services platform to meet the needs of our domestic and international customers.

(3) Continue to improve the fully integrated clinical development service platform

Through a series of integration, the clinical development service platform in China will further strengthen the clinical development service capability of each subsidiary and department of the Group and enhance team cohesion. For our overseas clinical development services, we will continue to strengthen our healthy volunteer-based early clinical research services and expand to patient clinical studies for oncology and other therapeutic areas. In the second half of 2023, the Company will fully leverage the brand effect of "Pharmaron Clinical" to further improve our market competitiveness and industry influence.

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

Talents are the foundation of innovation and the key to strengthening our core competitiveness. It is our long-standing human resources strategy to build an inclusive and open development platform to attract and train our talent pool. In the second half of 2023, we will continue to attract high calibre R&D talents globally, improve the Company's benefits system to maximize the retention of talents in key positions, and further expand and enhance our multi-dimensional and comprehensive training system. In 2023, we will focus on the training of our middle and senior level of managers, and strengthen the business etiquette training and customized business English training on the basis of professional training to strengthen the quality internally and shape the image externally, so as to provide strong support to the future growth of the Company.

(5) Further enhance management capabilities

In the second half of 2023, the Company will continue to take production safety and information security as the top priority in our daily operation so as to protect the health of employees and safeguard information and intellectual property of our customers. We will continue to provide high quality services and products to our customers by adhering to the highest international quality standards. With the expansion of services offering and geographic footprint of our fully integrated services platform, and in order to provide customers with interdisciplinary and global service solutions, a professional, systematic and scientific project management system is essential to support the business growth. In the second half of 2023, we will strategically emphasize the importance of project management, adhere to "transparent, timely, professional and efficient" project management goals, and build an efficient project management system to create value for our customers by effectively utilizing and linking the integrated service platform for new drug development.

(6) Continue to expand domestic and overseas market shares

For the overseas market growth, we will continue to maintain our solid relationships with our existing customer base, analyze and explore in-depth customer needs, expand our service offerings, increase customer loyalty through ensuring service quality, and introduce new customers with the help of our reputation and brand influence. For the domestic market, we will implement a China market strategy based on the characteristics of Chinese market, continue to expand customer base to better understand and address the domestic needs, emphasize team building and service quality building to improve our competitiveness in the domestic market.

4. 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. While the global pharmaceutical industry is expected to keep growing driven by such factors as an aging population, higher disposable income and increased spending on healthcare, there is no guarantee, however, that the pharmaceutical industry will grow at the rate we project. If the growth of the global pharmaceutical market slows down in the future, customers may suspend their pharmaceutical R&D projects or reduce their pharmaceutical R&D budget, which will have an adverse impact on the Company's business performance and prospects. The Company will continue to implement its strategies, improve its scientific research capabilities and service quality and enhance its market competitiveness.

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

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

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

(3) Risks regarding intellectual property protection

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

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

(4) Risks regarding policies and regulation

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

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

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

(5) Risk of international policy changes

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

We have been expanding our service capabilities in overseas markets from 2015 with an aim to mitigate any potential impact such policy changes may have on our business.

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

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

(7) Risks regarding exchange rates

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

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

(8) Risks regarding market competition

The global pharmaceutical R&D service market for innovative drugs is highly competitive. The Company is committed to becoming a multi-therapy drug R&D service company that boasts the capabilities of laboratory services, CMC (small molecule CDMO) services, clinical development services and biologics and CGT services. Therefore, the Company expects to compete with domestic and international competitors at specific stages of pharmaceutical R&D. At the same time, the Company also competes with the discovery, trial, development and commercial manufacturing departments within pharmaceutical companies. As more competitors enter the market, level of competition is expected to escalate. The Company is confronted with market competition in terms of service quality, breadth of integrated service, timeliness of delivery, R&D service strength, intellectual property protection, depth of customer relationship, price, etc.

(9) Risks regarding technological innovation

With the continuous market development and innovation of R&D technologies, advanced technologies are vital for the Company to maintain its leading position in the industry. The Company shall keep up with the development direction of new technologies and processes to maintain our leading position in the industry. The Company will continue to invest a large amount of human and capital resources to develop new technologies and upgrade our service platform. If target companies with new technologies appeal to us, the Company will consider acquisitions to inject new service capabilities into our platform.

(10) Risks regarding service quality

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

OTHER INFORMATION

A. Use of Proceeds from the Global Offering

Upon completion of the global offering of its H Shares (the "Global Offering"), the Company raised net proceeds of approximately RMB4,522.7 million. As at June 30, 2023, the net proceeds from the Global Offering have been fully utilized in accordance with the purposes set out in the prospectus of the Company dated November 14, 2019.

B. Use of Proceeds from the Convertible Bonds

On June 18, 2021, the Company issued the Series 1 Bonds and Series 2 Bonds in an aggregate principal amount of US$300 million and RMB1,916 million, respectively. For details of the Convertible Bonds, please refer to the announcements of the Company dated June 8, 2021, June 9, 2021, June 11, 2021, June 18, 2021 and June 21, 2021. The net proceeds, after deduction of fees, commissions and expenses payable, was approximately RMB3,776.0 million. As at June 30, 2023, the balance of unutilized net proceeds amounted to approximately RMB235.6 million. The net proceeds from the Convertible Bonds have been and will be utilized in accordance with the purposes set out in the announcement of the Company dated June 21, 2021. The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2023.

Use of proceeds		**Allocation of net proceeds** *(RMB million)*	**Utilized amount as at June 30, 2023** *(RMB million)*	**Unutilized net proceeds as at June 30, 2023** *(RMB million)*	**Expected timeline for utilizing the net proceeds**
Expanding capacities and capabilities of the Group's pharmaceutical process development and manufacturing facilities (i.e. CMC services) for small molecule drugs	33.3%	1,258.7	1,258.7	-	Had been fully utilized by June 30, 2023
Expanding the Group's R&D and manufacturing service platform for biologics	33.3%	1,258.7	1,023.1	235.6	Expected to be fully utilized by December 31, 2024
Expanding capabilities of the Group's laboratory services in drug safety assessment	13.3%	503.4	503.4	-	Had been fully utilized by June 30, 2023
Expanding capacities and capabilities of the Group's laboratory and manufacturing facilities in the U.K.	10.0%	377.6	377.6	–	Had been fully utilized by June 30, 2023
Replenishing working capital and other general corporate purposes	10.0%	377.6	377.6	–	Had been fully utilized by June 30, 2023
Total	**100%**	**3,776.0**	**3,540.4**	**235.6**	

Note: Any discrepancies in the table between the total and the sum of the amounts listed are due to rounding.

C. Employee Remuneration and Relations

As at June 30, 2023, the Group had a total of 19,733 employees, as compared to 19,481 employees as at December 31, 2022. The Group provides employees with competitive remuneration and benefits, and the Group's remuneration policies are formulated according to the assessment of individual performance and are periodically reviewed. The Group provides employees with opportunities to work on cutting-edge drug development projects with world-class scientists, as well as offer opportunities to continue academic learning in the Group's Pharmaron College.

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

At the 2022 annual general meetings held on June 21, 2023, the Shareholders have approved a special resolution to repurchase (at the repurchase price of RMB11.90 per Share) and cancel a total of 69,750 Restricted A Shares under the 2019 A Share Incentive Scheme due to the resignation of three participants. The repurchase and cancellation were completed in July 2023.

Save as disclosed above, during the six months ended June 30, 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

E. Material Events after the Reporting Period

Grant of restricted A shares under the 2023 A Share Incentive Scheme

On July 7, 2023, the Company has granted a total of 1,444,500 Restricted A Shares under the first grant, and 25,800 Restricted A Shares under the reserved grant in accordance with the 2023 A Share Incentive Scheme to 282 and 13 eligible employees, respectively, for them to subscribe at the price of RMB28.58 per A share. The granted Restricted A shares under the 2023 A Share Incentive Scheme shall be vested in four tranches, with 25%, 25%, 25% and 25% of total shares attributed on each anniversary date following the relevant grant date upon meeting certain performance targets. For details, please refer to the announcement of the Company dated July 9, 2023.

Save as disclosed above, there are no material events affecting the Company after the Reporting Period and up to the date of this announcement.

F. 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 during the Reporting Period.

G. Compliance with the Corporate Governance Code

During the Reporting Period, the Company has complied with all the code provisions set forth in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, 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 C.2.1 of Part 2 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.

H. 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 as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three members, namely, Mr. YU Jian, Mr. TSANG Kwan Hung Benson and Ms. Li Lihua, who are all independent non-executive Directors of the Company. Mr. YU is the chairman of the Audit Committee, who possesses suitable professional qualifications.

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

I. Publication of the Interim Results Announcement and Interim Report

The interim 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 2023 interim report which include all the financial and other related information of the Company required by the Listing Rules 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.

"2019 A Share Incentive Scheme"	the 2019 Restricted A Share Incentive Scheme of the Company
"2021 A Share Incentive Scheme"	the 2021 Restricted A Share Incentive Scheme of the Company
"2022 A Share Incentive Scheme"	the 2022 Restricted A Share Incentive Scheme of the Company
"2023 A Share Incentive Scheme"	the 2023 Restricted A Share Incentive Scheme of the Company
"2022 Capitalization of Reserve"	the proposed issue of 5 Capitalization Shares for every 10 Shares by way of capitalization of reserve
"2022 Profit Distribution"	the proposed distribution of Dividends
"2022 Profit Distribution Plan"	the 2022 Profit Distribution and 2022 Capitalization of Reserve of the Company for the year ended December 31, 2022
"AMS"	accelerator mass spectrometry
"API"	Active Pharmaceutical Ingredient, the component of a drug product that is intended to furnish pharmacological activity or other direct effect in the diagnosis, cure, mitigation, treatment, or prevention of disease, or to affect the structure or any function of the body
"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
"Bonds"	Series 1 Bonds and Series 2 Bonds
"Capitalization Shares"	New A Shares and New H Shares
"CMC"	chemistry, manufacturing and controls
"CMO"	Contract Manufacturing Organization

"Company" or "Pharmaron"	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 on July 1, 2004, the A Shares of which are listed on the Shenzhen Stock Exchange (stock code: 300759) and the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 3759)
"Convertible Bonds"	the (i) US$300.0 million zero coupon convertible bonds due 2026 (debt stock code: 40725) and the (ii) RMB1,916.0 million zero coupon US$-settled convertible bonds due 2026 (debt stock code: 40733) issued by the Company on June 18, 2021
"CRO"	Contract Research Organization
"Delegatee"	the Management Committee, person(s) or board committee(s) to which the Board has delegated its authority
"Directors"	directors of the Company
"Dividends"	proposed distribution of 2022 final dividends to the Shareholders whose names appear on the register of members for the A Shareholders and the H Shareholders at the close of business on July 26, 2023, being the record date for ascertaining the entitlement to dividend on Shares, based on a rule of receiving RMB0.30 per Share held by the Shareholders payable in RMB to the A Shareholders and in HK$ to the H Shareholders
"DMPK/ADME"	drug metabolism and pharmacokinetics/Absorption, Distribution, Metabolism and Excretion
"FDA"	the Food and Drug Administration of the U.S.
"FIH"	first-in-human
"GBP"	British pound sterling, the lawful currency of the United Kingdom
"GLP"	Good Laboratory Practice
"GMP"	Good Manufacturing Practice
"Group", "we", "our" or "us"	the Company and its subsidiaries
"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
"H Shareholder(s)"	holder(s) of H Share(s)

"Hongfeng Venture"	Ningbo Yufeng Venture Capital Partnership (Limited Partnership) (寧波煜灃創業投資合夥企業(有限合夥)), a limited partnership incorporated in the PRC on September 29, 2021
"IND"	Investigational new drug
"Kangjun Investment"	Bayland Capital (Beijing) Co., Ltd. (康君投資管理(北京)有限公司), a limited liability company incorporated in PRC on June 18, 2019
"Kangjun Zhongyuan"	Ningbo Kangjun Zhongyuan Equity Investment Partnership (Limited Partnership) (寧波康君仲元股權投資合夥企業(有限合夥)), a limited partnership incorporated in the PRC on March 25, 2021
"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
"New A Shares"	the new A Shares to be allotted and issued under the 2022 Capitalization of Reserve
"New H Shares"	the new H Shares to be allotted and issued under the 2022 Capitalization of Reserve
"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
"Pharmaron Biologics UK"	Pharmaron Biologics (UK), Ltd., formerly known as Allergan Biologics Limited, a private company limited by shares incorporated under the laws of England and Wales, which is held as to 88.89% by our Company
"Pharmaron Clinical"	Pharmaron (Chengdu) Clinical Services Co., Ltd. (康龍化成(成都)臨床研究服務有限公司), a company incorporated in PRC on May 27, 2021, which is held as to 81.58% by our Company
"Pharmaron Ningbo Biologics"	Pharmaron (Ningbo) Biologics Co., Ltd. (康龍化成(寧波)生物醫藥有限公司), a limited liability company incorporated in PRC on October 9, 2020, which is held as to 88.89% by our Company
"PRC"	the People's Republic of China
"R&D"	research and development

"Reporting Period"	the six months ended June 30, 2023
"Restricted A Shares"	the restricted A Shares granted by our Company under the respective 2019 A Share Incentive Scheme, 2021 A Share Incentive Scheme, 2022 A Share Incentive Scheme and 2023 A Share Incentive Scheme
"RMB"	Renminbi, the lawful currency of the PRC
"Series 1 Bonds"	the US$300.0 million zero coupon convertible bonds due 2026 (debt stock code: 40725) issued by the Company on June 18, 2021
"Series 2 Bonds"	the RMB1,916.0 million zero coupon US$-settled convertible bonds due 2026 (debt stock code: 40733) issued by the Company on June 18, 2021
"Share(s)"	A Share(s) and H Share(s)
"Shareholder(s)"	the holder(s) of the Share(s)
"SSU"	Study Start up, the startup specialist of a clinical project
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sullivan"	Founded in 1961, it is a world-leading growth consultancy that owns 31 branches and more than 1,700 industry consultants, market analysts, technical analysts and economists in 21 countries across six continents
"U.K."	the United Kingdom
"U.S."	the United States
"%"	per cent.

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

Beijing, the PRC
August 27, 2023

As at the date of this announcement, the Board of Directors comprises Dr. Lou Boliang, Mr. Lou Xiaoqiang and Ms. Zheng Bei as executive Directors; Mr. Hu Baifeng and Mr. Li Jiaqing as non-executive Directors; Mr. Zhou Qilin, Ms. Li Lihua, Mr. Tsang Kwan Hung Benson and Mr. Yu Jian as independent non-executive Directors.

* *For identification purposes only*