



Frontage Holdings Corporation

方達控股公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1521

2020 INTERIM REPORT

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Dr. Zhihe Li
(Chief Executive Officer and Chairman)

Non-executive Director

Mr. Jun Gao

Independent Non-executive Directors

Mr. Yifan Li
Mr. Erh Fei Liu
Dr. Jingsong Wang

MEMBERS OF AUDIT AND RISK MANAGEMENT COMMITTEE

Mr. Yifan Li *(Chairman)*
Mr. Erh Fei Liu
Mr. Jun Gao

MEMBERS OF REMUNERATION COMMITTEE

Dr. Jingsong Wang *(Chairman)*
Mr. Yifan Li
Dr. Zhihe Li

MEMBERS OF NOMINATION COMMITTEE

Dr. Jingsong Wang *(Chairman)*
Mr. Erh Fei Liu
Dr. Zhihe Li

COMPANY SECRETARY

Ms. Karen Ying Lung Chang
(Hong Kong Solicitor)

AUTHORISED REPRESENTATIVES

Dr. Zhihe Li
Ms. Karen Ying Lung Chang

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPLIANCE ADVISER

Somerley Capital Limited

PRINCIPAL BANKER

Wells Fargo Bank, N.A.

LEGAL ADVISERS

As to Hong Kong laws:
Luk & Partners
In Association with
Morgan, Lewis & Bockius

As to Cayman Islands laws:
Conyers Dill & Pearman

REGISTERED OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE

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Exton, PA 19341, USA

PRINCIPAL PLACE OF BUSINESS IN USA

700 Pennsylvania Drive
Exton, PA 19341, USA

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

1521

COMPANY WEBSITE

www.frontagelab.com

- Revenue of the Group for the six months ended June 30, 2020 was approximately US\$50.7 million, representing an increase of approximately 2.0% as compared to approximately US\$49.7 million for the six months ended June 30, 2019.
- Gross profit of the Group for the six months ended June 30, 2020 was approximately US\$14.6 million, representing a decrease of approximately 24.0% as compared to approximately US\$19.2 million for the six months ended June 30, 2019.
- Net profit of the Group for the six months ended June 30, 2020 was approximately US\$4.5 million, representing a decrease of approximately 51.6% as compared to approximately US\$9.3 million for the six months ended June 30, 2019. Adjusted net profit of the Group for the six months ended June 30, 2020 was approximately US\$4.9 million, representing a decrease of approximately 59.5% as compared to approximately US\$12.1 million for the six months ended June 30, 2019.
- Basic earnings per share for the six months ended June 30, 2020 amounted to approximately US\$0.0022, which decreased from approximately US\$0.0058 as that for the six months ended June 30, 2019. Diluted earnings per share for the six months ended June 30, 2020 amounted to approximately US\$0.0021, which decreased from US\$0.0057 as that for the six months ended June 30, 2019.
- Adjusted diluted earnings per share for the six months ended June 30, 2020 amounted to approximately US\$0.0023, which decreased from approximately US\$0.0074 as that for the six months ended June 30, 2019.
- Contract future revenue was approximately US\$138.8 million as at June 30, 2020, representing an increase of approximately 26.8% compared to approximately US\$109.5 million as at December 31, 2019 and an increase of approximately 59.5% compared to approximately US\$87.0 million as at June 30, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

We are a fast-growing CRO engaging in the provision of integrated, scientifically-driven research, analytical and development services throughout the drug discovery and development process to enable pharmaceutical companies to achieve their drug development goals. The services that the Group provides in North America (including the U.S. and Canada) include DMPK, safety and toxicology, in each case, throughout the drug discovery and development process. The Group's bioanalytical and CMC services are offered throughout the drug discovery and development process both in North America and in China. The Group also provides bioequivalence and related services in China. Certain types of the Group's services are also offered to agrochemical companies.

During the Reporting Period, the Group continued to advance our position as a value-add partner with a focus on solving our customers' most significant and complex drug discovery and development challenges. We believe that our comprehensive services, broad scientific and technical expertise, sophisticated equipment and technology, and our experience in global drug development and product launch services, represent our core strengths and are enabling us to cope with the challenges of the COVID-19 pandemic. Revenue of the Group for the six months ended June 30, 2020 was approximately US\$50.7 million, representing an increase of approximately 2.0% compared to approximately US\$49.7 million for the six months ended June 30, 2019. The Group's contract future revenue (represents future service revenues from work not yet completed or performed under all signed contracts or customer's purchase orders in effect at that time) was approximately US\$138.8 million as at June 30, 2020, representing an increase of approximately 26.8% compared to approximately US\$109.5 million as at December 31, 2019 and an increase of approximately 59.5% compared to approximately US\$87.0 million as at June 30, 2019.

COVID-19 Pandemic and Effects on Our Business

Background

On March 11, 2020, the World Health Organization (WHO) declared the outbreak of a strain of novel coronavirus, COVID-19, a global pandemic. The COVID-19 pandemic is dynamic and expanding, and its ultimate scope, duration and effects remain inherently uncertain. Governments and businesses worldwide have implemented travel bans, stay-at-home orders, quarantines, lock-down mandates, and other social distancing measures to mitigate the spread of COVID-19. The outbreak of the COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets.

BUSINESS REVIEW *(Continued)***COVID-19 Pandemic and Effects on Our Business** *(Continued)**Mitigation Measures*

In response to this pandemic, we established a task force to navigate our organizational response to COVID-19 focusing on 1) the safety and well-being of our employees, customers and partners; and 2) the continuity of our business operations, preserving the integrity of the work we do for our customers, including participating in related research projects to ease the challenges presented by the evolving COVID-19 pandemic.

During the Reporting Period, we have employed various mitigation measures to minimize the adverse impacts of the COVID-19 pandemic on our ongoing projects, customer relationships, and procurement of supplies. These measures include: 1) leveraging virtual, cloud-based technologies to facilitate remote telework and devoting extra resources to manage business continuity plans and accelerate the execution of delayed projects while ensuring high-quality services and data protection; 2) implementing regional-specific contingency plans for our employees to work remotely and onsite with protective masks and sanitization supplies; 3) imposing travel restrictions as well as visitor protocols to observe social distancing practices; and 4) managing our response to the pandemic through a combination of enterprise-wide and regional governance teams, with particular focus on the scientific, information technology, human capital, legal, and financial impacts of the pandemic on our business.

During the Reporting Period, we also leveraged our strength in providing innovative, flexible and cost-effective bioanalytical services in speeding up the development process and combating COVID-19. One of our research projects is to provide integrated and science-driven product development services in inventing potential cocktail PK assay for hydroxy-chloroquine, chloroquine and azithromycin in human plasma. This novel 3-in-1 multiplex assay allows rapid and efficient clinical trials in evaluating the potential medical treatments with lower cost implications and sample volume requirements. We are also supporting research projects including the development of the assay kit to detect COVID-19 within 15 minutes, late-stage clinical program, and provision of biomarker testing to numerous pharmaceutical companies and universities for developing COVID-19-related studies. For further details, please refer to the Company's 2019 Environmental, Social and Governance Report dated July 14, 2020.

We will continue to actively monitor the evolving landscape with respect to the COVID-19 pandemic and may take further precautionary and preemptive actions as may be required by national, state, or local authorities or that we determine are in the best interests of our employees, customers, business partners, and investors to ease the adverse impact of COVID-19 on our business.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Impact of the COVID-19 Pandemic on Our Operations

As a result of the global spread of COVID-19 beginning in December 2019, we experienced and may continue to experience disruptions that could severely impact our business and our operations.

Since March 2020, the number of COVID-19 cases continued to rise in the United States, which limited the full capacity of our employees performing laboratory services and lowered our delivery efficiency. In addition, the COVID-19 pandemic has reduced transportation services and disrupted the manufacturing and logistics network in the United States, which have adversely affected our suppliers' and our customers' suppliers' abilities to manufacture drug candidates and other supplies necessary for our services in the United States. Our facilities in the United States continue to operate at a reduced utilization rate and there is no clear indication on when operations in these facilities will normalize.

Additionally, the U.S. federal, state and local governments have implemented economic and other stimulus measures to support individuals and businesses impacted by the COVID-19 pandemic, and while we intend to utilize such measures where appropriate and applicable, there can be no assurance that such measures will benefit us or otherwise offset any or all of the financial impacts from the COVID-19 pandemic.

In China, in addition to CMC service provision, we primarily offer bioequivalence and bioanalytical services which are both inextricably related to operations of clinical trials in hospitals and other clinical sites. Based on official sources, the outbreak of the COVID-19 pandemic reached its peak in February 2020 in China. Accordingly, limited medical staff and facility resources were available for the conduct of clinical trials as hospitals and clinical sites had to divert significant healthcare resources away from the conduct of clinical trials to focus on mitigating the impacts of the COVID-19 pandemic in China. These delays and difficulties in commencing new and operating ongoing clinical trials including the inability to access investigative sites, delays in enrolling subjects and patients, difficulty in obtaining necessary pharmaceutical products and supplies, shutdowns and other business disruptions, adversely impacted our bioequivalence and bioanalytical services during the Reporting Period. As the COVID-19 pandemic began to subside from the beginning of March 2020 in China, we have mobilized internal resources and leveraged our project execution capabilities aiming to accelerate temporarily delayed projects in China and to reduce the impact to our profitability. As of June 30, 2020, most Chinese cities had eased or lifted domestic travel restrictions and resumed work and production, and we had resumed normal operations in China according to the local government's guidelines. As the pandemic subsides, we anticipate an acceleration of business momentum as our customers may pursue delayed research and development activities.

BUSINESS REVIEW *(Continued)*

Impact of the COVID-19 Pandemic on Our Operations *(Continued)*

Despite the unprecedented challenges presented by the COVID-19 pandemic, we maintained revenue growth in most of our segments during the Reporting Period. We attribute this to the combination of the mitigation measures as mentioned above, the ongoing efforts of our dedicated staff, and the effectiveness of our comprehensive business continuity plans. In addition, although our delivery efficiency was negatively impacted by the COVID-19 pandemic, there has been an ongoing demand across most of our business segments as a result of robust biotechnology and pharmaceutical funding and continued innovation which has generated scientific breakthroughs. We were also pleased to know that our contract future revenue reached a record high as at June 30, 2020.

We do not yet know the full extent of the impact of the COVID-19 pandemic on our business, financial condition, results of operations, the markets in which we operate or the global economy as a whole, as the ultimate impact of the pandemic is highly uncertain and cannot be reasonably estimated at this time. The extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives in the expected time frame, will depend on future developments, including the duration and spread of COVID-19 and related restrictions on business operations, including travel and transportation. The financial impact of the COVID-19 pandemic may continue to be material on the global economy in the future as a result of the magnitude, duration, geographic reach, ongoing impact on the capital and credit markets and travel and other restrictions relating to the COVID-19 pandemic.

The Group's Facilities

As of June 30, 2020, the Group had eight facilities in North America, consisting of:

- three (3) facilities in Exton, Pennsylvania;
- one (1) facility in North Wales, Pennsylvania;
- one (1) facility in Concord, Ohio;
- one (1) facility in Princeton, New Jersey;
- one (1) facility in Monmouth Junction, New Jersey; and
- one (1) facility in Vancouver, Canada.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

The Group's Facilities *(Continued)*

In addition, as of June 30, 2020, the Group had six facilities in China, consisting of:

- two (2) facilities in Shanghai;
- one (1) facility in Zhengzhou, Henan Province; and
- three (3) facilities in Suzhou, Jiangsu Province.

Quality Management

As a CRO in a highly regulated industry, the Group continues to maintain an effective and scalable quality system and process that can ensure the quality of our services, withstand the challenges of the global pandemic, our growth and expansion, and maintain our reputation and success.

The Group's laboratories, facilities, and processes are subject to on-site regulatory agency inspections and accreditation evaluations, as applicable, by local or national government agencies, and inspections and audits by customers and vendors. During the Reporting Period, we continued to maintain a strong track record of successful regulatory inspection; namely, BRI's leased rodent vivarium facility was inspected by the Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC) International and subsequently granted accreditation status which would facilitate the expansion of BRI's *in vivo* DMPK, oncology efficacy and metabolic disease efficacy testing services. Our facilities in China were also inspected by The National Medical Products Administration (NMPA) and none of the inspections resulted in any materially adverse issues being identified.

Business Development & Marketing

During the Reporting Period, we continued to promote the Group's expertise and services through concentrated business development efforts and multi-channel marketing initiatives. Our core marketing strategy continues to center around increasing our brand awareness and driving client engagement. The COVID-19 pandemic challenged us to modify the channels and platforms used to meet our objectives. As most in-person conferences and face-to-face activities have either been cancelled or moved to virtual platforms, we have increased our use digital marketing to reach our clients. More specifically,

- we have significantly increased the use of webinars and podcasts to engage client and generate high-value leads;

BUSINESS REVIEW *(Continued)*

Business Development & Marketing *(Continued)*

- we have created virtual tours of some of our major facilities that can provide clients with a 360-degree view of our U.S. facilities. We will also be leveraging automated decks to showcase some of our smaller facilities;
- we are working closely with our business development teams on customized account-based marketing initiatives. This approach leverages email marketing to entice clients to register for white papers, webinars, podcast and other content related assets;
- we will develop an interactive corporate deck to showcase our capabilities and value propositions. Our customers will be able to interact and self-navigate through the deck. It will link to content on our website and YouTube for a multi-media experience; and
- we are updating our website home page to enhance our navigation and to add more features to increase traffic.

Enhance Capabilities and Expertise

To meet the evolving needs of our customers, we have continued to enhance our capabilities through organic service development. Our recent capability and facility expansions are described below:

1. Central Laboratory Capability Expansion in Exton, PA

During the Reporting Period, Frontage Labs initiated the expansion of the capabilities of its bioanalytical and biologics segment by adding central laboratory services which include clinical collection kits, central laboratory testing, sample tracking, local laboratory normalization, biorepository, logistics, scientific operations, advanced therapy services, clinical, pharmacokinetic/pharmacodynamic (PK/PD), and COVID-19 testing. We expect these services to be fully operational by the second quarter of 2021.

2. CMC and Bioanalytical Capacity and Capability Expansion in Exton, PA

During the Reporting Period, Frontage Labs continued its construction of the 71,000 sq. ft. of laboratory space in Exton, PA facility used for expanding CMC and bioanalytical services. This laboratory space is targeted to be fully operational in the first quarter of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Enhance Capabilities and Expertise *(Continued)*

3. *QWBA Capability Expansion in Exton, PA*

During the Reporting Period, Frontage Labs has established a highly requested quantitative whole-body autoradiography (“QWBA”) center of excellence (“COE”) at our Exton, PA facility. QWBA studies are used in the drug development process to determine the distribution and concentrations of radiolabeled test compounds in laboratory animals, which can provide information on tissue PKs, penetration, accumulation and retention. Tissue distribution data obtained from a QWBA study will be utilized to support regulatory submissions, discovery projects, and to provide dosimetry calculations required by regulatory authorities and institutional review boards prior to the administration of radiolabeled drugs to human research subjects. To date, the COE is now fully operational for conducting QWBA studies and providing dosimetry projections for human radiolabel clinical studies.

4. *Bioanalytical Capacity and Capability Expansion to Support Biologics Drug Development, Biomarkers, Cell and Gene Therapy in Shanghai, China*

During the Reporting Period, Frontage Shanghai completed the upgrade of its existing bioanalytical lab facility of approximately 16,000 sq. ft., which is designed to provide the bioanalytical support of biologic services including proteins, cell and gene therapy, and biomarkers.

5. *DMPK and Preclinical Toxicology Services Expansion in Suzhou, China*

During the Reporting Period, the Group initiated its design process for the 215,000 sq. ft.-research-facility in Suzhou, China, which will be used to conduct DMPK, non-GLP and GLP PK and toxicology studies and to further expand the existing businesses, including bioanalysis, clinical trial material production, stability research, microbial detection, and packaging material compatibility research.

Acquisitions

During the Reporting Period, we continued to make strategic acquisitions designed to expand our portfolio of services and strengthen our value proposition to customers. Our recent acquisitions are described below:

BUSINESS REVIEW *(Continued)***Acquisition of Biotranex, LLC**

On March 31, 2020, Frontage Labs acquired the entire equity interest in Biotranex, LLC (“Biotranex”) for a total consideration of approximately US\$2.4 million. Biotranex, an innovative biotech service company located in Monmouth Junction, New Jersey, USA, is principally engaged in providing a broad spectrum of drug metabolism and pharmacokinetic studies for pharmaceutical and biotechnology companies. It offers a variety of services to study transporter properties of new chemical entities to meet the U.S. Food and Drug Administration and European Medicines Agency guidance such as mono- or bi-directional permeability determination in CACO-2, MDCK and P-gp- and BCRP-transfected cell lines; transporter phenotyping/inhibition (IC₅₀ or K_i) and hepatic uptake in hepatocytes from humans and preclinical species. Biotranex has also developed proprietary technologies, such as BSEPcyte[®] and MDR3cyte[®] in understanding the role of Bile Salt Export Protein (“BSEP”) and Multidrug Resistance Protein 3 (“MDR3”) in drug-induced liver injury (“DILI”). This acquisition will fill our existing gap in transporter assay and DILI capabilities at Frontage Labs and will enable us to provide a more comprehensive set of DMPK services to existing and new customers.

FINANCIAL REVIEW**Revenue**

The revenue of the Group increased by 2.0% from approximately US\$49.7 million for the six months ended June 30, 2019 to approximately US\$50.7 million for the six months ended June 30, 2020. Revenue from operations in North America increased by 5.8% from approximately US\$34.6 million for the six months ended June 30, 2019 to approximately US\$36.6 million for the six months ended June 30, 2020. Excluding the impact of currency translation, the revenue from operations in China decreased by 3.4% from approximately RMB102.6 million for the six months ended June 30, 2019 to approximately RMB99.1 million for the six months ended June 30, 2020. The growth of revenue was mainly attributable to (i) marketing efforts made by the Group, resulting in sustainable marketing performance in North America and China; and (ii) a gradual increase in the DMPK services provided by RMI and BRI, which were newly acquired in the second half of 2019. The slight decrease in the China market was mainly due to the delay or suspension of some clinical trial projects caused by the outbreak of the COVID-19 pandemic in China starting early February 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

The revenue of the Group has maintained a steady growth during the Reporting Period despite being impacted by the pandemic of COVID-19. The Group derived a vast majority of its revenue from providing services to customers operating in North America and China.

An analysis of the Group's revenue from external customers, analyzed by the customer's respective country/region of operation, is presented below:

	For the six months ended June 30,			
	2020		2019	
	US\$'000	%	US\$'000	%
Revenue				
– USA	30,947	61.1	29,364	59.1
– China	12,467	24.6	15,606	31.4
– Rest of the world ^(Note)	7,245	14.3	4,719	9.5
Total	50,659	100.0	49,689	100.0

Note: Rest of the world primarily includes Europe, India, Japan, Korea, Israel and Australia.

Top 5 customers' revenue decreased by 19.0% from approximately US\$16.3 million for the six months ended June 30, 2019 to approximately US\$13.2 million for the six months ended June 30, 2020, accounting for 26.0% of total revenue for the six months ended June 30, 2020, as compared to 32.8% for the six months ended June 30, 2019.

Top 10 customers' revenue decreased by 18.2% from approximately US\$20.9 million for the six months ended June 30, 2019 to approximately US\$17.1 million for the six months ended June 30, 2020, accounting for 33.7% of total revenue for the six months ended June 30, 2020, as compared to 42.1% for the six months ended June 30, 2019.

FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

The following table sets forth a breakdown of our revenue by type of service during the Reporting Period:

	For the six months ended June 30,	
	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Bioanalytical	26,631	25,800
CMC	9,298	8,346
DMPK	7,258	5,636
Safety and Toxicology	4,619	4,591
Bioequivalence	<u>2,853</u>	<u>5,316</u>

Our revenue increased in almost each type of services for the six months ended June 30, 2020 compared with same period in 2019, except for bioequivalence services. Decrease in revenue in bioequivalence services is mainly due to the COVID-19 pandemic. Some of our ongoing biopharmaceutical R&D projects in China and overseas, including our clinical trial operations and laboratory services, have been adversely affected in a number of ways:

- Hospitals and other clinical sites in both China and overseas have devoted significant medical resources to patients infected with COVID-19, resulting in fewer medical staff and facility resources available to clinical trials and related functions and services.
- In China, patient candidates have become less willing to participate in clinical trials out of concern for potential infection at clinical sites, which has presented challenges to patient recruitment.
- The COVID-19 pandemic resulted in regulatory approval delays and an increasing backlog of pending drug applications in China and overseas due to government-imposed lockdowns, work-place closures and travel restrictions.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

- Moreover, as social and work gatherings were banned, mandatory quarantine requirements were imposed and public transportation was suspended in certain cities and countries where our offices and facilities are located, a portion of our employees have been working remotely and our operations in those regions have been interrupted to the extent onsite services of our employees were required.

Cost of Services

The cost of services of the Group increased by 18.4% from approximately US\$30.4 million for the six months ended June 30, 2019 to approximately US\$36.0 million for the six months ended June 30, 2020. The increase of the cost of services was mainly attributed to the expansion of our capacity in North America and China which led to an increase in depreciation and employee compensation as more scientists are hired.

The cost of services of the Group consists of direct labor costs, cost of raw materials and overhead. Direct labor costs primarily consist of salaries, bonuses and social security costs for the employees in the Group's business units. Cost of raw materials primarily consists of costs incurred for the purchase of raw materials used in rendering of our services. Overhead primarily consists of depreciation charges of the facilities and equipment used in rendering the Group's services, utilities and maintenance. Particularly, the outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The Group stopped its production activities for 14 days when the outbreak of COVID-19 pandemic reached its peak in China in February 2020 and in North America we had employees work at home, but we retained the necessary laboratory scientists in the laboratory for urgent projects in our facilities in North America in an effort to contain the spread of pandemic. The additional idle expense caused by the lower utilization rate effected by COVID-19 was approximately US\$1.5 million.

FINANCIAL REVIEW *(Continued)***Gross Profit and Gross Profit Margin**

The gross profit of the Group decreased by 24.0% from approximately US\$19.2 million for the six months ended June 30, 2019 to approximately US\$14.6 million for the six months ended June 30, 2020. The Group's gross profit margin decreased from approximately 38.7% for the six months ended June 30, 2019 to approximately 28.9% for the six months ended June 30, 2020. Gross profit margin in the U.S. and China decreased from approximately 33.0% and 51.8% for the six months ended June 30, 2019 to approximately 24.6% and 40.0% for the six months ended June 30, 2020, respectively. The decrease in the gross profit and gross profit margin were mainly attributable to the COVID-19 pandemic as it negatively affected our customers' business and reduced their demand for our services due to the suspension of clinical trials. Particularly, as the outbreak of the COVID-19 pandemic reached its peak in February 2020 in China, limited medical staff and facility resources were available for the conduct of clinical trials as hospitals and clinical sites had to divert significant healthcare resources away from the conduct of clinical trials to focus on mitigating the impacts of the COVID-19 pandemic in China. In addition, patients became less willing to participate in clinical trials out of concern for potential infection at clinical services. Also, the widespread lockdowns, closure of workplaces and travel bans across China during the COVID-19 pandemic caused temporary interruption of our onsite services in general. As at June 30, 2020, we have notified all our employees in China to work in our offices, our on-site facilities or at relevant clinical sites, as applicable, and all our departments and business functions in China have resumed their respective work and operations.

In the United States, the COVID-19 pandemic has limited the full capacity of our employees performing laboratory services and lowered our delivery efficiency. Moreover, the COVID-19 pandemic has reduced transportation services and disrupted the manufacturing and logistics networks in the United States, which have adversely affected our suppliers' and our customers' suppliers' abilities to manufacture drug candidates and other supplies necessary for our services in the United States. As at June 30, 2020, we have been actively taking remedial measures to ensure our facilities in the United States continue to operate at a stable utilization rate and normalize our operations.

Other Income

The other income of the Group increased by 161.5% from approximately US\$1.3 million for the six months ended June 30, 2019 to approximately US\$3.4 million for the six months ended June 30, 2020, primarily due to an increased interest income derived from our cash balance in banks.

FINANCIAL REVIEW *(Continued)***Selling and Marketing Expenses**

The selling and marketing expenses of the Group increased by 17.6% from approximately US\$1.7 million for the six months ended June 30, 2019 to approximately US\$2.0 million for the six months ended June 30, 2020, primarily due to our continuous efforts in the capability enhancement in business development to capture the blooming demand in CRO industry. Despite the COVID-19 pandemic, our contract future revenue as at June 30, 2020 increased by 59.5% compared with June 30, 2019.

Administrative Expenses

The administrative expenses of the Group increased by 43.5% from approximately US\$6.2 million for the six months ended June 30, 2019 to approximately US\$8.9 million for the six months ended June 30, 2020, primarily due to (i) workforce expansion to facilitate the smooth operation and support the Group's growing business and its long-term development; (ii) an increase in its corporate governance related costs as the Shares were listed on the Stock Exchange in May 2019, such as the cost of legal services, compliance advisory and audit services; and (iii) an increase in office administration cost and other operational costs, which are in line with the Group's business growth and headcount growth.

Donations

During the Reporting Period, charitable and other donations made by the Group amounted to approximately US\$0.5 million in both North America and China to fight the COVID-19 outbreak.

Research and Development Expenses

Our research and development activities mainly focused on (i) developing technologies and methodologies to continue to enhance our services; and (ii) improving the quality and efficiency of our services.

The research and development expenses of the Group increased by 33.3% from approximately US\$0.6 million for the six months ended June 30, 2019 to approximately US\$0.8 million for the six months ended June 30, 2020, primarily due to our efforts in enhancing investment in new technologies and platforms.

FINANCIAL REVIEW *(Continued)***Finance Costs**

The finance costs of the Group increased by 66.7% from approximately US\$0.6 million for the six months ended June 30, 2019 to approximately US\$1.0 million for the six months ended June 30, 2020, primarily due to an increase in interest expenses on lease liabilities, as a result of expansion of leasing space during the Reporting Period.

Income Tax Expense

The income tax expense of the Group increased by 14.3% from approximately US\$0.7 million for the six months ended June 30, 2019 to approximately US\$0.8 million for the six months ended June 30, 2020, primarily due to an increase of effective tax rate. The Company's effective income tax rate was 15.8% and 7.2% for the six months ended June 30, 2020 and 2019, respectively.

On March 27, 2020, the U.S. government passed the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") in response to the COVID-19 pandemic. The CARES Act provides wide-ranging economic relief, including significant changes to the U.S. business tax provisions. These changes include, in summary, (i) modifications to limitations on the deductibility of net operating losses; (ii) modifications to limitations on the deductibility of business interest; (iii) alternative minimum tax credit acceleration; and (iv) the expensing of qualified improvement property. The most significant impact to the Company from the CARES Act relates to the modification to limitations on the deductibility of business interest and net operating losses, and the expensing of qualified improvement property. The Company has accounted for the impact of the CARES Act on prior tax years within the current period and accounted for the impact on the current tax year in its interim effective tax rate and income tax for the six months ended June 30, 2020. The Company is continuing to assess the income tax impact of the CARES Act and other legislative changes enacted and being considered by governments around the world in response to the COVID-19 pandemic.

FINANCIAL REVIEW *(Continued)***Net Profit and Net Profit Margin**

The net profit of the Group decreased by 51.6% from approximately US\$9.3 million for the six months ended June 30, 2019 to approximately US\$4.5 million for the six months ended June 30, 2020. The net profit margin of the Group for the six months ended June 30, 2020 was 8.8%, compared to 18.7% for the six months ended June 30, 2019. The lower net profit and net profit margin compared to the six months ended June 30, 2019 were primarily due to the impact of the COVID-19 pandemic. The unprecedented nature of the global pandemic has presented significant challenges and uncertainties to the global economy and across industries, including healthcare. Specifically, our revenue growth has been adversely affected by, delays or suspensions of our ongoing or future projects, lowered delivery efficiency. In the event that our revenue decreases in 2020, we, however, may not be able to proportionately reduce our costs and expenses as, among other reasons, we may choose to continue to maintain our existing employee base and compensation levels and incur other operating expenses in line with historical levels. However, considering that (i) we have notified all our employees in China to work in our offices, our on-site facilities or at relevant clinical sites, as applicable, and all our departments and business functions in China have resumed their respective work and operations; (ii) we have been actively taking remedial measures, such as having employees work at home but retain the necessary laboratory scientists in the laboratory for urgent projects to ensure our facilities in the United States continue to operate at a stable utilization rate and normalize our operations to the extent possible, we aim to maintain or increase our net profit for the year ending December 31, 2020.

Additional information is provided to reconcile adjusted net profit.

FINANCIAL REVIEW *(Continued)*

Adjusted Net Profit

	Six months ended June 30,	
	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Net Profit	4,457	9,294
Add: Share-based compensation expense	436	1,270
Listing expense	–	1,544
Gain on disposal of an associate	–	(56)
Adjusted Net Profit	4,893	12,052
Adjusted Net Profit Margin	9.7%	24.3%

The adjusted net profit of the Group decreased by 59.5% from approximately US\$12.1 million for the six months ended June 30, 2019 to approximately US\$4.9 million for the six months ended June 30, 2020. The adjusted net profit margin of the Group for the six months ended June 30, 2020 was 9.7%, compared to 24.3% for the six months ended June 30, 2019. The lower adjusted net profit margin of the Group for the six months ended June 30, 2020 follows the same set of reasons as disclosed in the above paragraph.

Basic and Diluted Earnings Per Share

The basic earnings per share of the Group decreased by 62.1% from US\$0.0058 for the six months ended June 30, 2019 to US\$0.0022 for the six months ended June 30, 2020. The diluted earnings per share of the Group decreased by 63.2% from US\$0.0057 for the six months ended June 30, 2019 to US\$0.0021 for the six months ended June 30, 2020. The decrease in the basic and diluted earnings per share was primarily due to the decrease in the net profit as discussed above.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Basic and Diluted Earnings Per Share *(Continued)*

The adjusted basic earnings per share for the six months ended June 30, 2020 amounted to US\$0.0024, representing a decrease of 68.4% as compared with that of US\$0.0076 for the six months ended June 30, 2019. The adjusted diluted earnings per share of the Group for the six months ended June 30, 2020 amounted to US\$0.0023 when compared with that of US\$0.0074 for the six months ended June 30, 2019. The decrease in both the adjusted basic and the adjusted diluted earnings per share was primarily due to the decrease in the net profit as discussed above.

Non-IFRS Measures

To supplement the Group's condensed consolidated financial statements which are presented in accordance with the IFRS, the Company has provided adjusted net profit, adjusted net profit margin, and adjusted diluted earnings per share (excluding the share-based compensation expenses, listing expenses and gain on disposal of an associate) as additional financial measures, which are not required by, or presented in accordance with, the IFRS. The Company believes that the adjusted financial measures are useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of these non-IFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. The adjusted results should not be viewed on a stand-alone basis or as a substitute for results under IFRS.

Property, Plant and Equipment

The property, plant and equipment of the Group increased by 9.9% from approximately US\$28.3 million as at December 31, 2019 to approximately US\$31.1 million as at June 30, 2020, primarily due to the expansion of research, development and manufacturing capacities.

FINANCIAL REVIEW *(Continued)***Right-of-Use Assets**

The Group recorded approximately US\$38.6 million right-of-use assets as at June 30, 2020, which increased by 82.9% from approximately US\$21.1 million as at December 31, 2019. The increase was mainly due to the entering into of new leases in order to support business growth.

Goodwill

On March 31, 2020, Frontage Labs entered into an equity purchase agreement to acquire the entire equity interest of Biotranex from an independent third party, with the total consideration of approximately US\$2.4 million. Biotranex is principally engaged in providing a broad spectrum of drug metabolism and pharmacokinetic studies for pharmaceutical and biotechnology companies. In particular, this acquisition has been accounted for using the acquisition method. Goodwill arising to approximately US\$1.5 million as a result of the acquisition. As at June 30, 2020, the Group recorded approximately US\$7.7 million goodwill (for the year ended December 31, 2019: approximately US\$6.2 million).

Intangible Assets

The Group recorded approximately US\$7.3 million intangible assets for the six months ended June 30, 2020, primarily consisting of customer relationship and customer backlog acquired through business combinations (for the year ended December 31, 2019: US\$7.6 million).

Trade and Other Receivables and Prepayment

The trade and other receivables and prepayment of the Group decreased by 2.4% from approximately US\$24.9 million as at December 31, 2019 to approximately US\$24.3 million as at June 30, 2020, primarily due to settlement of a note receivable from the disposal of Tigermed-BDM; partially offset by (i) the growth of the Group's business; and (ii) an increased interest receivables from banks.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Liquidity and Capital Resources

The Group's bank balances and cash amounted to approximately US\$213.8 million in total as at June 30, 2020, as compared to approximately US\$207.8 million as at December 31, 2019, as a result of proceeds from the exercise of share options, receiving remaining proceeds from the disposal of Tigermed-BDM and cash provided by operating activities; partially offset by payments for the purchase of plant and equipment and acquisition of subsidiaries. The cash and cash equivalents held by the Company are composed of RMB, HK\$, CAD and US\$. Currently, the Group follows a set of funding and treasury policies to manage its capital resources and prevent risks involved.

The following table sets forth a condensed summary of the Group's consolidated statements of cash flows for the periods indicated and analysis of balances of cash and cash equivalents for the periods indicated:

	For the six months ended June 30,	
	2020	2019
	US\$'000	US\$'000
Net cash generated from operating activities	9,318	8,458
Net cash used in investing activities	(1,689)	(5,208)
Net cash (used in) generated from financing activities	(1,252)	193,112
Net increase in cash and cash equivalents	6,377	196,362
Cash and cash equivalents at the beginning of the period	207,752	16,306
Effect of exchange rate changes	(338)	(67)
	213,791	212,601
Cash and cash equivalents at the end of the period	213,791	212,601

Capital Expenditures

Our principal capital expenditures relate primarily to purchases of property, plant and equipment in relation to the expansion and enhancement of our facilities and purchases of equipment used in providing our services. Approximately US\$5.1 million of capital expenditures were incurred for the six months ended June 30, 2020, which increased by 30.8% when compared to approximately US\$3.9 million for the six months ended June 30, 2019, primarily due to expansion and enhancement of our facilities and purchases of laboratory equipment to support our services.

FINANCIAL REVIEW *(Continued)***Significant Investments, Material Acquisitions and Disposals**

As at June 30, 2020 and save as disclosed in note 21 to the condensed consolidated financial statements, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Indebtedness*Borrowings*

The Group recorded nil bank borrowings as at June 30, 2020, compared to approximately US\$0.5 million as at December 31, 2019. The Group repaid the bank borrowings in full using its own cash flow generated from business.

Lease Liabilities

The Group leased some of our equipment and facilities under some lease agreements with lease terms of 2 to 25 years and right-of-use assets agreements. The Group recorded approximately US\$38.4 million lease liabilities as at June 30, 2020, compared to approximately US\$20.4 million as at December 31, 2019 due to new leases entering to support our business growth.

Contingent Liabilities and Guarantees

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

Currency Risk

The principal activity of the Group is to provide laboratory and related services to pharmaceutical and agrochemical companies as well as bioequivalence studies.

The functional currency of the Company and the operating subsidiaries incorporated in the United States of America is US\$. The functional currency of the PRC operating subsidiaries is RMB. The functional currency of the operating subsidiary incorporated in Canada is CAD. Particularly, the PRC operating subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk.

FINANCIAL REVIEW *(Continued)***Indebtedness** *(Continued)**Currency Risk (Continued)*

The PRC operating subsidiaries are mainly exposed to foreign currencies of US\$ and Euro. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position.

Gearing Ratio

The gearing ratio is calculated using interest-bearing borrowings less cash and cash equivalents divided by total equity and multiplied by 100%. Our gearing ratio were negative as of June 30, 2020 and December 31, 2019, because our cash and cash equivalents exceeded our interest-bearing borrowings.

Employees and Remuneration Policies

As at June 30, 2020, the Group had a total of 736 employees, of whom 428 were located in the U.S. and Canada and 308 were located in China. The staff costs, including Directors' emoluments but excluding any contributions to retirement benefit scheme contributions and share-based compensation expenses, were approximately US\$22.9 million for the six months ended June 30, 2020, as compared to approximately US\$23.2 million for the six months ended June 30, 2019. The remuneration packages of employees generally include salary and bonus elements. In general, the Group determines the remuneration packages based on the qualifications, position and performance of its employees. The Group also makes contributions to pension schemes, social insurance funds, including basic pension insurance, medical insurance, unemployment insurance, childbirth insurance, work-related injury insurance funds, and housing reserve fund as applicable to the countries where the Group operates.

The Group has adopted the Pre-IPO Share Incentive Plans and the 2018 Share Incentive Plan to provide incentives or rewards to eligible participants for their contribution or potential contribution to the Group.

FINANCIAL REVIEW *(Continued)*

Employees and Remuneration Policies *(Continued)*

In addition, the Group has training systems, including orientation and on-the-job training for all staff, to accelerate the learning progress and improve the knowledge and skill levels of its workforce. The Group also has a training program for senior management that focuses on management skills, conflict resolution and effective communication skills and sessions on how to recruit and retain talent. The orientation process covers corporate culture and policies, work ethics, introduction to the drugs development process, quality management and occupational safety. The periodic on-the-job training covers certain technical aspects of the Group's services, environmental, health and safety management systems and mandatory training required by applicable laws and regulations.

USE OF PROCEEDS FROM LISTING

The total proceeds from the issue of new Shares by the Company in its Listing (after deducting the underwriting fees and related Listing expenses) amounted to approximately US\$193.2 million, and the balance of unutilized net proceeds was approximately US\$173.6 million as at June 30, 2020.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2020:

Use of proceeds	Adjusted on a pro rata basis based on the actual net proceeds (US\$ million)	Percentage of total net proceeds	Actual use of proceeds from the date of Listing up to June 30, 2020 (US\$ million)	Unutilized net proceeds as at June 30, 2020 (US\$ million)	Expected timeline of utilizing the utilized proceeds
Expand and enhance existing capacities to meet anticipated increased demand for services	38.6	20%	9.7	28.9	On or before December 31, 2022
Expand and broaden range of capabilities and services organically	77.3	40%	0.9	76.4	On or before December 31, 2022
Expand capacity and/or capabilities through potential acquisitions	58.0	30%	7.9	50.1	On or before December 31, 2022
Working capital and general corporate purposes	19.3	10%	1.1	18.2	On or before December 31, 2022
Total	193.2	100%	19.6	173.6	

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2020 (six months ended June 30, 2019: nil).

EVENTS AFTER THE REPORTING PERIOD

Acquisition of Acme Bioscience, Inc.

On July 2, 2020, Frontage Labs entered into a stock purchase agreement with Dr. Jason Zhang and Dr. Zhi-jie Ni, both independent third parties, pursuant to which Frontage Labs agreed to acquire and Dr. Jason Zhang and Dr. Zhi-jie Ni agreed to sell the 100% equity interest of Acme Bioscience, Inc. (“Acme”) for a cash consideration of up to US\$26,000,000 (equivalent to approximately HK\$201,500,000 and consisting of US\$15,000,000 payable upon completion and US\$11,000,000 subject to satisfaction of certain performance targets for the three years ending December 31, 2022 as set out in the stock purchase agreement). Acme provides synthetic & medicinal chemistry and process research and development services for biopharmaceutical companies specializing in drug discovery and development. The Acme acquisition will expand the Group’s capabilities in organic synthesis, medicinal chemistry, and process research and development. Acme has extensive experience in antiviral and anti-bacterial research, along with expertise in nucleotides, nucleosides, triphosphates pro-drugs, heterocycles and boron containing compounds, and has partnered with many customers in developing new chemical entities. These synergies will enable the Group to capture growth in the drug discovery and early stage development and other ancillary services, which can also strengthen our position to provide more comprehensive and integrated services to our customers in North America, Asia, and Europe. For further details, please refer to the Company’s announcement dated July 2, 2020 and the supplemental announcement dated August 6, 2020.

Prospects

Since early 2020, the COVID-19 pandemic has impacted the global healthcare industry in various ways. To varying degrees, it disrupted the normal operation of biopharmaceutical companies and hospitals due to a number of factors such as mandatory quarantine requirements, social distancing, and transportation and travel restrictions. On the other hand, the outbreak of the COVID-19 pandemic has raised public awareness of disease control and healthcare management, highlighted the significance of innovative drugs and medical devices and generated additional market opportunities.

Driven by the increasing research and development (“R&D”) expenditure and complexity of the R&D process, cost saving and risk management initiatives from an increasing number of pharmaceutical companies, as well as numerous biotech companies generating additional demands for CRO services, we continue to anticipate the long-term growth of the global and China pharmaceutical CRO market.

EVENTS AFTER THE REPORTING PERIOD *(Continued)***Prospects** *(Continued)*

As a fast-growing CRO operating in a large growing market and well positioned to capitalize on strong industry growth drivers, the Group will benefit from having operations in both North America and China, favorable government policies and increased business demand.

Although the COVID-19 pandemic impacted our operations and performance during the Reporting Period, we remain firmly committed to our development strategy, which includes improving the performance of our core existing business, expanding our capacities and capabilities to meet more demands from our customers, as well as expanding our service geographical range to more regions, so as to achieve sustainable growth in the future.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As at June 30, 2020 and save as disclosed in note 21 to the condensed consolidated financial statements, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiries with all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during the six months ended June 30, 2020.

CORPORATE GOVERNANCE CODE

During the six months ended June 30, 2020, the Company has followed the principles and complied with the code provisions set out in the CG Code, except for the deviation from code provisions A.2.1 and E.1.2 of the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, Dr. Zhihe Li, the executive Director, currently performs these two roles in the Company. The Board believes that Dr. Zhihe Li is a suitable candidate to, in effect, assume the responsibilities and executive roles of the chairman and the chief executive officer of the Company and the above arrangement can help improve the efficiency of the decision-making and execution process of the Company. The Company has put in place an appropriate check-and-balance mechanism through the Board and the independent non-executive Directors. Considering the above, the Board is of the view that the deviation from code provision A.2.1 of the CG Code is appropriate in the circumstances of the Company.

Pursuant to code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Dr. Zhihe Li, the chairman of the Board, was unable to attend the annual general meeting of the Company held on May 28, 2020 (the “2020 AGM”) in person due to the quarantine measures implemented by the government of China to control the spread of COVID-19. As such, Mr. Jun Gao, the non-executive Director, took the chair of the 2020 AGM. The Board considered that such arrangements were sufficient to ensure that a member of the Board was available to answer any questions at the 2020 AGM. Barring any extraordinary circumstances or any new restrictions arising from COVID-19, Dr. Zhihe Li will use his best endeavors to attend all future Shareholders’ meetings of the Company.

CHANGES IN INFORMATION OF DIRECTORS

Changes in information of the Directors since the publication of the annual report of the Company for the year ended December 31, 2019, which are required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules, are set out below:

- Mr. Yifan Li, an independent non-executive Director, has been appointed as an independent non-executive director of 36Kr Holdings Inc., a company listed on NASDAQ (stock code: KRKR) since November 2019 and an independent non-executive director of Shanghai Jinqiao Export Processing Zone Development Co., Ltd., a company listed on the Shanghai Stock Exchange (stock codes: 600639 (A shares) and 900911 (B shares)) since June 2019.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has adopted written terms in order to comply with Rule 3.21 of the Listing Rules. The primary duties of the Audit and Risk Management Committee are to review and supervise the Company's financial reporting process, internal controls and risk management. The Audit and Risk Management Committee comprises of Mr. Yifan Li, Mr. Erh Fei Liu, both independent non-executive Directors, and Mr. Jun Gao, a non-executive Director. Mr. Yifan Li is the chairman of the Audit and Risk Management Committee.

REVIEW BY AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has reviewed together with the Company's management and Deloitte Touche Tohmatsu, the Company's external auditor, the accounting principles and policies, internal controls, risk management and financial reporting adopted by the Group, the unaudited condensed consolidated financial statements, interim results announcement and interim report of the Group for the Reporting Period. The Audit and Risk Management Committee is satisfied that the unaudited condensed consolidated financial statements, interim results announcement and interim report of the Group for the Reporting Period were prepared in accordance with the applicable accounting standards and fairly present the Group's financial position and results for the Reporting Period and that adequate disclosures had been made in accordance with the requirements of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at June 30, 2020, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long Positions in the Shares and underlying Shares

Name of director	Capacity/Nature of Interest	Number of Shares	Number of underlying shares comprised in options ⁽³⁾	Approximate percentage of shareholding interest
Dr. Zhihe Li ⁽¹⁾	Beneficial owner	56,901,560	4,500,000	3.03%
Mr. Jun Gao ⁽²⁾	Beneficial owner	–	2,000,000	0.10%

Notes:

- (1) Dr. Zhihe Li was granted 4,500,000 share options pursuant to the 2015 Share Incentive Plan on February 28, 2019.
- (2) Mr. Jun Gao was granted 2,000,000 share options pursuant to the 2015 Share Incentive Plan on February 28, 2019.
- (3) These figures represent interests in underlying shares of the 2015 Share Incentive Plan granted by the Company.

Save as disclosed above and to the best knowledge of the Directors, as at June 30, 2020, none of the Directors or the chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at June 30, 2020, so far as the Directors are aware, the following persons (other than a Director or chief executive of the Company) and entities had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO:

Interests and Long Positions in Shares

Name of substantial Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding interest
Hongkong Tigermed ⁽¹⁾	Beneficial owner/ Other ⁽²⁾	1,032,964,090	50.94%
Hangzhou Tigermed ⁽¹⁾	Interest of controlled corporation	1,032,964,090	50.94%
Dr. Song Li	Beneficial owner/ Trustee/Founder of the trust ⁽³⁾	192,647,320	9.50%
Hillhouse Capital Advisors, Ltd. ⁽⁴⁾	Investment manager	122,632,000	6.05%
Gaoling Fund, L.P. ⁽⁴⁾	Beneficial owner	115,152,000	5.68%

Notes:

- (1) Hangzhou Tigermed is deemed to be interested in the 1,032,964,090 Shares which Hongkong Tigermed, its wholly-owned subsidiary, is interested in as beneficial owner of Hongkong Tigermed.
- (2) Hongkong Tigermed is the beneficial owner of 1,032,964,090 Shares.
- (3) As at the date of this report, Dr. Song Li is the beneficial owner of 34,883,050 Shares and is the founder and a trustee of each of The Linna Li GST Exempt Trust, The Wendy Li GST Exempt Trust and The Yue Monica Li GST Exempt Trust, which, as at the date of this report, hold 52,588,090 Shares, 52,588,090 Shares and 52,588,090 Shares respectively.
- (4) Hillhouse Capital Advisors, Ltd. is the sole investment manager and the general partner of Gaoling Fund, L.P. and YHG Investment, L.P. respectively. Hillhouse Capital Advisors, Ltd. is deemed to be interested in the aggregate number of 122,632,000 Shares held by Gaoling Fund, L.P. and YHG Investment, L.P.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Save as disclosed above and to the best knowledge of the Directors, as at June 30, 2020, no other persons (other than a Director or chief executive of the Company) or entities had any interests or short positions in the Shares or underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

Pre-IPO Share Incentive Plans

Frontage Labs has adopted the Pre-IPO Share Incentive Plans for the primary purpose of attracting, retaining and motivating the directors of Frontage Labs and employees of the Group. Under such plans, the directors of Frontage Labs may grant up to 9,434,434 share options under the 2008 Share Incentive Plan and 12,000,000 share options under the 2015 Share Incentive Plan to eligible employees, including the directors of Frontage Labs and employees of the Group, to subscribe for shares in Frontage Labs. Each option granted has a contractual term of 5 to 10 years and vests on one calendar year after the grant date.

On April 17, 2018, Frontage Labs assigned and the Company assumed and adopted the rights and obligations of Frontage Labs under the Pre-IPO Share Incentive Plans. The total outstanding share options under Pre-IPO Share Incentive Plans as at December 31, 2018 were 4,035,000 shares.

On February 28, 2019, the Company granted a total of 7,990,000 share options under the 2015 Share Incentive Plan to the eligible employees at an exercise price of US\$2.00.

On May 11, 2019, upon the completion of the Capitalization Issue, the number of options granted to an eligible employee under the Pre-IPO Share Incentive Plans were adjusted to ten times of the original number of options held by that grantee. Accordingly, the exercise price was adjusted to 10% of the original exercise price.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME (Continued)

Pre-IPO Share Incentive Plans (Continued)

Set out below are details of the movements of the outstanding options granted during the Reporting Period, after taking the Capitalization Issue into account:

Category of participants	Date of grant	Exercise price per Share (US\$)	Outstanding as at January 1, 2020	Granted during the Reporting Period	Exercised during the Reporting Period	Forfeited during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at June 30, 2020	Vesting period
Directors									
Dr. Zhihe Li	February 28, 2019	0.200	4,500,000	-	-	-	-	4,500,000	50% on December 31, 2019, 25% on December 31, 2020, and 25% on December 31, 2021 ⁽¹⁾
Mr. Jun Gao	February 28, 2019	0.200	2,000,000	-	-	-	-	2,000,000	50% on December 31, 2019, 25% on December 31, 2020, and 25% on December 31, 2021 ⁽¹⁾
Senior management and other employees									
	March 31, 2010	0.016	500,000	-	500,000	-	-	-	March 31, 2011 (at 20%) and then at 5% on June 30, September 30, December 31 and March 31 of each year until options are fully exercisable ⁽²⁾
	September 30, 2010	0.016	350,000	-	350,000	-	-	-	exercisable at any time ⁽²⁾
	January 21, 2014	0.016	600,000	-	470,000	-	-	130,000	exercisable at any time ⁽²⁾
	June 16, 2016	0.049	16,450,000	-	6,350,000	-	-	10,100,000	exercisable at any time ⁽²⁾
	September 14, 2017	0.057	19,950,000	-	3,050,000	-	-	16,900,000	exercisable at any time ⁽²⁾
	February 28, 2019	0.200	71,300,000	-	9,290,000	3,350,000	75,000	58,585,000	50% on December 31, 2019, 25% on December 31, 2020, and 25% on December 31, 2021 ⁽¹⁾
Total			115,650,000	-	20,010,000	3,350,000	75,000	92,215,000	

Notes:

- (1) The option exercise period is five years from the date of grant.
- (2) The option exercise period is ten years from the date of grant.

SHARE OPTION SCHEME *(Continued)*

Pre-IPO Share Incentive Plans *(Continued)*

The exercise price of options outstanding ranges from US\$0.016 to US\$0.200.

The Group recognized total expenses of approximately US\$436,000 for the six months ended June 30, 2020 (six months ended June 30, 2019: approximately US\$1,270,000) in relation to share options granted by the Company.

2018 Share Incentive Plan

On May 11, 2019, the Board of Directors approved a post-IPO incentive plan to grant share options, restricted share units and any other types of award to eligible employees, including the Directors and the employees of the Group. The total number of shares in respect of which the awards may be granted pursuant to the 2018 Share Incentive Plan and any other equity-based incentive plans of the Company, being 10% of the Shares. No awards have been granted under the 2018 Share Incentive Plan as at June 30, 2020.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF FRONTAGE HOLDINGS CORPORATION

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Frontage Holdings Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 37 to 68, which comprise the condensed consolidated statement of financial position as at June 30, 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

August 28, 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

37

For the six months ended June 30, 2020

		Six months ended	
		6/30/2020	6/30/2019
		US\$'000	US\$'000
	<i>NOTES</i>	(Unaudited)	(Unaudited)
Revenue	3	50,659	49,689
Cost of services		(36,020)	(30,440)
Gross profit		14,639	19,249
Other income	5	3,356	1,255
Other gains and losses, net	6	133	46
Research and development expenses		(751)	(649)
Impairment losses recognized on			
– trade receivables		(125)	(148)
– unbilled revenue		(21)	(78)
– others		(4)	–
Selling and marketing expenses		(1,968)	(1,726)
Listing expenses		–	(1,544)
Gain on disposal of an associate		–	56
Administrative expenses		(8,909)	(6,239)
Share of (loss) profit of associates		(15)	384
Finance costs	7	(1,044)	(588)
Profit before tax	8	5,291	10,018
Income tax expense	9	(834)	(724)
Profit for the period		4,457	9,294
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		(673)	(103)
Total comprehensive income for the period		3,784	9,191
Profit for the period attributable to:			
Owners of the Company		4,399	9,294
Non-controlling interests		58	–
		4,457	9,294
Total comprehensive income for the period attributable to:			
Owners of the Company		3,737	9,191
Non-controlling interests		47	–
		3,784	9,191
Earnings per share	10		
– Basic (US\$)		0.0022	0.0058
– Diluted (US\$)		0.0021	0.0057

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2020

		As at 6/30/2020 US\$'000 (Unaudited)	As at 12/31/2019 US\$'000 (Audited)
	NOTES		
Non-current Assets			
Property, plant and equipment	12	31,080	28,258
Right-of-use assets	12	38,578	21,086
Goodwill		7,677	6,250
Intangible assets		7,295	7,581
Interests in associates		526	541
Deferred tax assets		6,265	8,322
Restricted bank deposits	15	300	300
Other long-term deposits		417	417
Long-term note receivable		—	105
		<u>92,138</u>	<u>72,860</u>
Current Assets			
Inventories		183	173
Trade and other receivables and prepayment	13	24,260	24,927
Unbilled revenue	14	7,565	7,821
Tax recoverable		4,070	1,287
Restricted bank deposits	15	8	448
Bank balances and cash	15	213,791	207,752
		<u>249,877</u>	<u>242,408</u>
Current Liabilities			
Trade and other payables	16	10,193	10,393
Advances from customers	17	15,407	12,845
Bank borrowings	18	—	500
Income tax payable		1,679	1,355
Amounts due to shareholders		210	210
Lease liabilities		4,331	3,773
		<u>31,820</u>	<u>29,076</u>
Net Current Assets		<u>218,057</u>	<u>213,332</u>
Total Assets less Current Liabilities		<u>310,195</u>	<u>286,192</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at June 30, 2020

	<i>NOTES</i>	As at 6/30/2020 US\$'000 (Unaudited)	As at 12/31/2019 US\$'000 (Audited)
Non-current Liabilities			
Deferred tax liabilities		1,200	1,359
Lease liabilities		34,051	16,629
Other long-term liabilities		<u>2,072</u>	<u>2,926</u>
		<u>37,323</u>	<u>20,914</u>
Net Assets		<u>272,872</u>	<u>265,278</u>
Capital and Reserves			
Share capital	19	20	20
Reserves		<u>272,126</u>	<u>264,579</u>
Equity attributable to owners of the Company		272,146	264,599
Non-controlling interests		<u>726</u>	<u>679</u>
Total Equity		<u>272,872</u>	<u>265,278</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

	Reserves							Total US\$ '000			
	Share capital US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000 <i>(Note i)</i>	Foreign currency translation reserve US\$ '000	Equity-settled share based compensation reserve US\$ '000	Reorganization reserve US\$ '000	Capital reserve US\$ '000		Accumulated profit US\$ '000	Subtotal reserves US\$ '000	Non-controlling interests US\$ '000
As at December 31, 2019 (Audited)	20	221,614	2,567	(729)	11,645	(9,531)	3,050	35,963	264,579	679	265,278
Profit for the period	-	-	-	-	-	-	-	4,399	4,399	58	4,457
Other comprehensive expense for the period	-	-	-	(662)	-	-	-	-	(662)	(11)	(673)
Total comprehensive income for the period	-	-	-	(662)	-	-	-	4,399	3,737	47	3,784
Transfer to statutory reserve <i>(Note i)</i>	-	-	5	-	-	-	-	(5)	-	-	-
Exercise of Pre-IPO share options	-	3,332	-	-	(969)	-	-	-	2,363	-	2,363
Recognition of deferred tax assets related to equity-settled share-based compensation	-	-	-	-	1,011	-	-	-	1,011	-	1,011
Recognition of equity-settled share-based compensation	-	-	-	-	436	-	-	-	436	-	436
As at June 30, 2020 (Unaudited)	20	224,946	2,572	(1,391)	12,123	(9,531)	3,050	40,357	272,126	726	272,872

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended June 30, 2020

	Reserves								Total US\$'000		
	Share capital US\$'000	Share premium US\$'000	Statutory reserve US\$'000 <i>(Note i)</i>	Foreign currency translation reserve US\$'000	Equity-settled share based compensation reserve US\$'000	Reorganization reserve US\$'000	Capital reserve US\$'000	Accumulated profit US\$'000		Subtotal reserves US\$'000	Non-controlling interests US\$'000
As at December 31, 2018 (Audited)	2	28,419	1,938	(301)	1,889	(9,531)	3,050	18,168	43,632	-	43,634
Profit for the period	-	-	-	-	-	-	-	9,294	9,294	-	9,294
Other comprehensive expense for the period	-	-	-	(103)	-	-	-	-	(103)	-	(103)
Total comprehensive income for the period	-	-	-	(103)	-	-	-	9,294	9,191	-	9,191
Transfer to statutory reserve <i>(Note i)</i>	-	-	515	-	-	-	-	(515)	-	-	-
Capitalization issue <i>(Note 19)</i>	13	(13)	-	-	-	-	-	-	(13)	-	-
Ordinary shares issued <i>(Note 19)</i>	5	204,470	-	-	-	-	-	-	204,470	-	204,475
Transaction costs attributable to issue of shares	-	(11,262)	-	-	-	-	-	-	(11,262)	-	(11,262)
Recognition of equity-settled share-based compensation	-	-	-	-	1,270	-	-	-	1,270	-	1,270
As at June 30, 2019 (Unaudited)	20	221,614	2,453	(404)	3,159	(9,531)	3,050	26,947	247,288	-	247,308

Note:

- i. In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), those subsidiaries are required to transfer 10% of the profit after taxation to the statutory reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020

	Six months ended	
	6/30/2020 US\$'000 (Unaudited)	6/30/2019 US\$'000 (Unaudited)
NET CASH FROM OPERATING ACTIVITIES	9,318	8,458
NET CASH USED IN INVESTING ACTIVITIES		
Proceeds from prior year disposal of an associate	3,600	–
Purchase of property, plant and equipment	(5,111)	(3,942)
Proceeds from disposal of property, plant and equipment	10	–
Interest received	535	382
Acquisition of a subsidiary, net of cash acquired	(1,113)	–
Withdrawal of restricted bank deposits	440	7
Purchase of intangible assets	(50)	(553)
Other investing cash flows	–	(1,102)
	(1,689)	(5,208)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	–	3,000
Repayment of bank borrowings	(500)	(3,833)
Interest paid on bank borrowings	(6)	(83)
Repayment of lease liabilities	(2,337)	(1,740)
Interest paid on lease liabilities	(772)	(490)
Repayment of loans from a related party	–	(1,500)
Interest paid on loans from a related party	–	(15)
Proceeds from exercise of Pre-IPO share options	2,363	–
Proceeds from issue of ordinary shares	–	204,475
Issue costs paid	–	(6,702)
	(1,252)	193,112
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,377	196,362
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF PERIOD	207,752	16,306
Effects of exchange rate changes	(338)	(67)
CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	213,791	212,601

For the six months ended June 30, 2020

1. GENERAL INFORMATION

1.1 General information

Frontage Holdings Corporation (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on April 16, 2018 under the Company Law of the Cayman Islands, and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since May 30, 2019. The immediate holding company of the Company is Hongkong Tigermed Co., Limited, a company incorporated under the laws of Hong Kong with limited liability (“Hongkong Tigermed”). The ultimate holding company of the Company is Hangzhou Tigermed Consulting Co., Ltd., a company established in Hangzhou, the PRC (“Hangzhou Tigermed”) and whose shares have been listed both on ChiNext of the Shenzhen Stock Exchange and the Main Board of The Stock Exchange of Hong Kong.

The Company is a holding company. The principal activities of the Company and its subsidiaries (collectively the “Group”) are to provide laboratory and related services to pharmaceutical and agrochemical companies as well as bioequivalence studies. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The principle place of business in the USA and Hong Kong is 700, Pennsylvania Drive, Exton, PA 19341, USA and Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong respectively.

The functional currency of the Company and the operating subsidiaries incorporated in the United States of America (the “USA”) is US dollars (“US\$”). The functional currency of the PRC operating subsidiaries is Renminbi (“RMB”). The functional currency of the operating subsidiary incorporated in Canada is Canadian dollars (“CAD”). The reporting currency used for the presentation of the condensed consolidated financial statements is US\$, which is the same as the functional currency of the Company.

1.2 Significant events and transactions in the current interim period

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment directly and indirectly affect the operations of the Group. The Group stopped its production activities for 14 days when the outbreak of COVID-19 pandemic reached its peak in China in February 2020 and in North America the Group had employees work at home, but the Group retained the necessary lab scientists in the lab for urgent projects in its facilities in North America in an effort to contain the spread of pandemic. On the other hand, certain overseas governments have announced some financial measures and support for corporates to overcome the negative impact arising from the pandemic. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in net profit during the current interim period, and government grants in respect of COVID-19-related subsidies received as disclosed in note 5. Particularly, the additional idle expense caused by the lower utilization rate effected by COVID-19 is US\$1,456,000.

For the six months ended June 30, 2020

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2020 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standard Board, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRS in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

For the six months ended June 30, 2020

3. REVENUE

The Group's revenue streams are categorized as follows:

- Bioanalytical services consist of providing method development and validation as well as sample analysis services.
- Chemistry, Manufacturing and Control (“CMC”) services involve assisting the customers with drug product development, analysis, and clinical trial materials’ delivery and supply.
- Drug Metabolism and Pharmacokinetic (“DMPK”) services include study designs, execution of studies, and interpretation of the data through structural optimization in early discovery, pharmacokinetic studies in rodents, non-GLP bioanalytical studies, etc.
- Safety and Toxicology services include in-vitro and in-vivo studies, to help identify toxicology issues and devise testing plans to address the determination of a safe starting dose in humans in clinical studies.
- Bioequivalence services consist of bioequivalence studies designed, coordinated, and reported by the Group to the customers.

An analysis of the Group's revenue is as follows:

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Bioanalytical	26,631	25,800
CMC	9,298	8,346
DMPK	7,258	5,636
Safety and Toxicology	4,619	4,591
Bioequivalence	2,853	5,316
	50,659	49,689

All revenue of the Group listed above are recognized over time as the Group's performance does not create an asset with an alternative future use since the Group cannot redirect the asset for use on another customer, and the contract terms specify the Group has an enforceable right to payment for performance completed to date.

For the six months ended June 30, 2020

4. SEGMENT INFORMATION

Operating segments are determined based on the Group's internal reports which are submitted to the Chief Executive Officer, being the chief operating decision maker ("CODM") of the Group for the purpose of performance assessment and resources allocation. This is also the basis upon which the Group is organized and managed.

The Group's consolidated revenue and results are primarily attributable to the markets in the USA and Canada (together as "North America") and the PRC (country of domicile) and all of the Group's consolidated assets and liabilities are either located in North America or the PRC.

No segment assets and liabilities are presented as they were not regularly provided to the CODM for the purpose of resource allocation and performance assessment.

The following are the Group's reportable segments under IFRS 8:

- North America segment, including Bioanalytical, CMC, DMPK and Safety and Toxicology services in the USA and Canada.
- PRC segment, including Bioanalytical, Bioequivalence and CMC services in the PRC.

For the six months ended June 30, 2020

4. SEGMENT INFORMATION *(Continued)*
Segment revenues and results

The following is an analysis of the Group's revenue by reportable segments from continuing operations.

For the six months ended June 30, 2020 (Unaudited)

	North America <i>US\$' 000</i>	PRC <i>US\$' 000</i>	Total <i>US\$' 000</i>
Revenue			
– Bioanalytical	17,276	9,355	26,631
– CMC	7,408	1,890	9,298
– DMPK	7,258	–	7,258
– Safety and Toxicology	4,619	–	4,619
– Bioequivalence	–	2,853	2,853
	<u>36,561</u>	<u>14,098</u>	<u>50,659</u>
Cost of services	(27,559)	(8,461)	(36,020)
Other income	2,693	663	3,356
Other gains and losses, net	103	30	133
Research and development expenses	–	(751)	(751)
Impairment losses recognized on trade and other receivables and unbilled revenue	(132)	(18)	(150)
Selling and marketing expenses	(1,634)	(334)	(1,968)
Administrative expenses	(7,534)	(1,375)	(8,909)
Finance costs	(828)	(216)	(1,044)
Share of loss of associates	(15)	–	(15)
	<u>1,655</u>	<u>3,636</u>	<u>5,291</u>
Segment profit			
	<u>1,655</u>	<u>3,636</u>	<u>5,291</u>
Profit before tax			<u>5,291</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended June 30, 2020

4. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the six months ended June 30, 2019 (Unaudited)

	North America <i>US\$'000</i>	PRC <i>US\$'000</i>	Total <i>US\$'000</i>
Revenue			
– Bioanalytical	15,986	9,814	25,800
– CMC	8,346	–	8,346
– DMPK	5,636	–	5,636
– Safety and Toxicology	4,591	–	4,591
– Bioequivalence	–	5,316	5,316
	<u>34,559</u>	<u>15,130</u>	<u>49,689</u>
Cost of services	(23,146)	(7,294)	(30,440)
Other income	288	967	1,255
Other gains and losses, net	7	39	46
Research and development expenses	–	(649)	(649)
Impairment losses recognized on trade receivables and unbilled revenue	(133)	(93)	(226)
Selling and marketing expenses	(1,315)	(411)	(1,726)
Gain on disposal of an associate	56	–	56
Administrative expenses	(4,945)	(1,294)	(6,239)
Finance costs	(349)	(239)	(588)
Share of profit of associates	<u>286</u>	<u>98</u>	<u>384</u>
Segment profit	<u>5,308</u>	<u>6,254</u>	11,562
Unallocated listing expenses			<u>(1,544)</u>
Profit before tax			<u>10,018</u>

The accounting policies of reportable segments are the same as the Group's accounting policies.

For the six months ended June 30, 2020

4. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations and non-current assets are located in North America and the PRC.

An analysis of the Group's revenue from external customers, analyzed by the customer's respective country/region of operation, is presented below:

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
<hr/>		
Revenue from external customers		
– USA	30,947	29,364
– PRC	12,467	15,606
– Rest of the world	7,245	4,719
	<hr/> 50,659 <hr/>	<hr/> 49,689 <hr/>

Information about the Group's non-current assets by geographical location of the assets are presented below:

	6/30/2020	12/31/2019
	US\$'000	US\$'000
	(Unaudited)	(Audited)
<hr/>		
Non-current assets excluding financial assets and deferred tax assets		
– North America	60,493	38,851
– PRC	24,663	24,865
	<hr/> 85,156 <hr/>	<hr/> 63,716 <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended June 30, 2020

4. SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Company A	<u>7,949</u>	<u>10,040</u>

5. OTHER INCOME

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Interest income	2,710	382
Government grants related to income <i>(Note)</i>	585	182
Income from rendering technical support service	<u>61</u>	<u>691</u>
	<u>3,356</u>	<u>1,255</u>

Note: During the current interim period, the Group recognized government grants of US\$103,000 in respect of COVID-19-related subsidies, of which US\$56,000 relates to Canada Emergency Wage Subsidy program provided by the Canadian government and US\$47,000 relates to Bureau of Workman's Compensation provided by the U.S. government. The remaining government grants have been received for the Group's contribution to the local high-tech industry and economy. These grants are unconditional and accounted for as immediate financial support with neither future related costs expected to be incurred nor related to any assets.

For the six months ended June 30, 2020

6. OTHER GAINS AND LOSSES, NET

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
<hr/>		
Gain arising on financial liabilities measured as fair value through profit or loss	146	–
Gain (loss) on disposal of property, plant and equipment	5	(11)
Net foreign exchange (loss) gain	(30)	38
Others	12	19
	<hr/>	<hr/>
	133	46
	<hr/> <hr/>	<hr/> <hr/>

7. FINANCE COSTS

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
<hr/>		
Interest expense on lease liabilities	1,038	490
Interest expense on bank borrowings	6	83
Interest expense on loans from a related party	–	15
	<hr/>	<hr/>
	1,044	588
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended June 30, 2020

8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended	
	6/30/2020	6/30/2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Staff cost (including directors' emoluments):		
– Salaries and other benefits	22,820	23,157
– Retirement benefit scheme contributions	319	874
– Share-based payment expense	436	1,270
	<u>23,575</u>	<u>25,301</u>
Depreciation of property, plant and equipment	3,320	1,816
Depreciation of right-of-use assets	1,377	1,667
Amortization of intangible assets	822	30
	<u>5,519</u>	<u>3,513</u>

9. INCOME TAX EXPENSE

	Six months ended	
	6/30/2020	6/30/2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprise Income Tax ("EIT")	358	856
– US Federal Tax	(1,194)	1,245
– US State Tax	126	182
Under (over) provision of EIT, US		
Federal Tax and US State Tax in prior year	439	(1,034)
	<u>(271)</u>	<u>1,249</u>
Deferred tax:		
– Current period	1,105	(525)
Total income tax expense	<u>834</u>	<u>724</u>

For the six months ended June 30, 2020

9. INCOME TAX EXPENSE *(Continued)*

The Company and U.S. subsidiaries are subject to U.S. Federal and State Income taxes, with the combined income tax rate being 31.69% for the six months ended June 30, 2020 (the six months ended June 30, 2019: 22.28%). The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law on March 27, 2020, and includes several key changes to U.S. Federal tax. The impact of the CARES Act is reflected in the Federal tax expense above for the six months ended June 30, 2020.

BRI Biopharmaceutical Research, Inc. (“BRI”), as a non-Canadian-controlled private corporation (“CCPC”) and engaged in active business in British Columbia, Canada, is subject the Canadian Revenue Agency and a flat tax rate of 27% since December 13, 2019 when BRI became a wholly-owned subsidiary of the Group.

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

Frontage Laboratories (Shanghai) Co., Ltd. (“Frontage Shanghai”), a wholly owned subsidiary of the Group in the PRC, was accredited as a “High and New Technology Enterprise” in November 2017 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from 2017. Tax rate of 15% was applied for current interim period as the management was confident to renew the “High and New Technology Enterprise” upon expiry in 2020.

Frontage Laboratories (Suzhou) Co., Ltd. (“Frontage Suzhou”), a 75% owned subsidiary of the Group in the PRC, was accredited as a “High and New Technology Enterprise” in November 2018 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2018.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attribute to owners of the Company is based on the following data:

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
<hr/>		
Earnings:		
Earnings for the purpose of calculating		
basic and diluted earnings per share	4,399	9,294

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended June 30, 2020

10. EARNINGS PER SHARE *(Continued)*

Number of Shares:

	Six months ended	
	6/30/2020	6/30/2019
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,017,539,448	1,594,466,380
Effect of dilutive potential ordinary shares:		
Share options	<u>71,764,867</u>	<u>29,950,666</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u><u>2,089,304,315</u></u>	<u><u>1,624,417,046</u></u>

The computation of basic and diluted earnings per share for the six months June 30, 2019 is based on weighted average number of shares assumed to be in issue after taking into account the retrospective adjustments on the assumption that the Capitalization Issue as disclosed in Note 19 had been in effect on January 1, 2019.

11. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period. The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

12. PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS

During the current interim period, the Group paid approximately US\$1,762,000 (six months ended June 30, 2019: US\$2,284,000) for furniture, fixtures and equipment, and US\$3,349,000 (six months ended June 30, 2019: US\$1,658,000) for constructions in progress related with leasehold improvements.

In prior year, the Group entered into several new lease agreements with lease terms ranged from 2 to 25 years and began during the current interim period, for the use of laboratory equipment and buildings. On commencement date of the leases, the Group recognized right-of-use assets and lease liabilities amounting to US\$20,162,000 (six months ended June 30, 2019: US\$1,459,000).

For the six months ended June 30, 2020

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	6/30/2020 <i>US\$'000</i> (Unaudited)	12/31/2019 <i>US\$'000</i> (Audited)
Trade receivables		
– related parties	107	123
– third parties	21,114	19,784
Less: loss allowance for trade receivables	<u>(3,385)</u>	<u>(3,353)</u>
	<u>17,836</u>	<u>16,554</u>
Notes receivables		
– a related party	–	3,795
– third parties	<u>407</u>	<u>508</u>
	<u>407</u>	<u>4,303</u>
Other receivables		
– related parties	884	1,030
– third parties	3,776	1,426
Less: loss allowance for other receivables	<u>(70)</u>	<u>(70)</u>
	<u>4,590</u>	<u>2,386</u>
Prepayments		
– third parties	<u>1,387</u>	<u>1,386</u>
Value added tax recoverable	<u>40</u>	<u>298</u>
	<u>24,260</u>	<u>24,927</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended June 30, 2020

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENT *(Continued)*

Details of the trade and other receivables due from related parties are set out in Note 22.

The Group allows a credit period ranging from 30 to 90 days to its customers. The following is an age analysis of trade receivables (net of loss allowance), presented based on the invoice dates, at the end the reporting period:

	6/30/2020 <i>US\$'000</i> (Unaudited)	12/31/2019 <i>US\$'000</i> (Audited)
Within 90 days	13,832	13,595
91 to 180 days	2,176	1,472
181 days to 1 year	1,040	709
Over 1 year	788	778
	<u>17,836</u>	<u>16,554</u>

14. UNBILLED REVENUE

	6/30/2020 <i>US\$'000</i> (Unaudited)	12/31/2019 <i>US\$'000</i> (Audited)
Unbilled revenue		
– related parties	283	351
– third parties	7,573	7,723
Less: loss allowance for unbilled revenue	<u>(291)</u>	<u>(253)</u>
	<u>7,565</u>	<u>7,821</u>

Generally, significant payment terms are disclosed within the contents of a given contract and are in the form of either milestone payment terms representing a percentage of the total budgeted contract price or corresponding directly with the value to the customer of the Group's performance. Revenues recognized in excess of billings are recognized as contract assets and disclosed in the condensed consolidated statement of financial position as unbilled revenue.

Details of the unbilled revenue due from related parties are set out in Note 22.

For the six months ended June 30, 2020

15. BANK BALANCES AND CASH/RESTRICTED BANK DEPOSITS

At the end of each reporting period, cash and cash equivalents of the Group comprised of bank balances and cash held. Bank balances held in the PRC carried interest at prevailing market interest rates which ranged from 0.3% to 3.6% per annum as at June 30, 2020 (December 31, 2019: from 0.3% to 2.5% per annum).

According to the lease agreement for the property at Secaucus, NJ, a cash deposit of US\$300,000 was required as a guarantee over the property until the end of the lease term in 2027.

On August 20, 2019, the Group entered into an agreement to expand a lab in Pennsylvania, US. As part of the agreement, US\$1,370,000 was placed in a bank escrow account for funding the expenditures for such expansion, and the amount is restricted. As at December 31, 2019, the remaining amount in the escrow account was US\$440,000, which has been included in restricted bank deposits. The amount has been released from the escrow account during the current interim period and there is no such amount at June 30, 2020.

16. TRADE AND OTHER PAYABLES

	6/30/2020 US\$'000 (Unaudited)	12/31/2019 US\$'000 (Audited)
Trade payables		
– related parties	516	446
– third parties	<u>3,019</u>	<u>4,241</u>
	<u>3,535</u>	<u>4,687</u>
Other payables		
– third parties	<u>5,007</u>	<u>1,814</u>
Salary and bonus payables	1,373	3,268
Other taxes payable	<u>278</u>	<u>624</u>
	<u><u>10,193</u></u>	<u><u>10,393</u></u>

Included in the other payables as at June 30, 2020 is an amount of US\$733,000 arising from the acquisition of Biotranex, LLC (“Biotranex”), as defined and detailed in Note 21.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended June 30, 2020

16. TRADE AND OTHER PAYABLES *(Continued)*

Payment terms with suppliers are mainly on credit ranging from 30 to 90 days from the invoice date. The following is an age analysis of trade payables presented based on invoice date at the end of each reporting period:

	6/30/2020 <i>US\$'000</i> (Unaudited)	12/31/2019 <i>US\$'000</i> (Audited)
Within 90 days	3,040	3,632
91 days to 1 year	171	657
Over 1 year	324	398
	<u>3,535</u>	<u>4,687</u>

17. ADVANCES FROM CUSTOMERS

	6/30/2020 <i>US\$'000</i> (Unaudited)	12/31/2019 <i>US\$'000</i> (Audited)
Advances from customers		
– related parties	416	504
– third parties	14,991	12,341
	<u>15,407</u>	<u>12,845</u>

Amounts received in accordance with contracted payment schedules but in excess of revenues earned are recognized as contract liabilities and disclosed in the condensed consolidated statement of financial position as advances from customers. Changes in advances from customers primarily relate to the Group's performance of services under the related contracts.

18. BANK BORROWINGS

On September 1, 2017, the Group entered into a three-year term loan agreement with a bank, with the grant of security interest of certain collateral which is blanket lien on all assets of the Frontage Labs and all its existing and future US subsidiaries. The bank granted the Group a bank borrowing of US\$2,000,000, which carries interest at a variable rate of LIBOR plus 1.85% per annum. The outstanding borrowing under this agreement was US\$500,000 at December 31, 2019, which has been fully repaid as at June 30, 2020.

In 2019, the Company renewed a one-year US\$4,000,000 revolving line of credit note. The line of credit note carries interest at a variable rate of LIBOR plus 1.75% per annum and is secured by a lien on all assets of Frontage Labs and all of its existing and future US subsidiaries. The facilities matured on June 30, 2020.

For the six months ended June 30, 2020

19. SHARE CAPITAL

	Number of shares	Amount US\$	
Ordinary shares of US\$0.00001 each			
Authorized:			
As at June 30, 2020, December 31, 2019 and June 30, 2019	<u>5,000,000,000</u>	<u>50,000</u>	
	Number of shares	Amount US\$	Show in the financial statements as US\$' 000
Issued and Fully Paid:			
As at December 31, 2018 (Audited)	150,573,091	1,506	2
Capitalization issue (<i>Note i</i>)	1,355,157,819	13,553	13
Issue of ordinary shares (<i>Note ii</i>)	<u>501,910,000</u>	<u>5,019</u>	<u>5</u>
As at June 30, 2019 and December 31, 2019	2,007,640,910	20,078	20
Exercise of Pre-IPO share options	<u>20,010,000</u>	<u>200</u>	<u>–</u>
As at June 30, 2020 (Unaudited)	<u>2,027,650,910</u>	<u>20,278</u>	<u>20</u>

- i) Pursuant to a shareholders' resolution passed on May 11, 2019, 1,355,157,819 ordinary shares of the Company were allotted and issued to the shareholders on the register of members or the principal share register of the Company at the close of business on the date immediately preceding the Listing Date in proportion to their then respective shareholdings in the Company by way of capitalization of certain sums standing to the credit of the share premium account of the Company (the "Capitalization Issue").
- ii) On May 30, 2019, the Company issued a total of 501,910,000 ordinary shares at the price of HK\$3.20 per share by means of the Hong Kong public offering and the International Offering (the "Global Offering").

For the six months ended June 30, 2020

20. SHARE OPTION PAYMENTS

Pre-IPO share incentive plans

Frontage Labs has adopted the share incentive plans respectively in 2008 and 2015 (together as “Pre-IPO share incentive plans”) for the primary purpose of attracting, retaining and motivating the directors of Frontage Labs and employees of the Group. Under such plans, the directors of Frontage Labs may grant up to 9,434,434 share options under the 2008 share incentive plan and 12,000,000 share options under the 2015 share incentive plan to eligible employees, including the directors of Frontage Labs and employees of the Group, to subscribe for shares in Frontage Labs. Each option granted has a contractual terms of 5 to 10 years and vesting on one calendar year after grant date.

On April 17, 2018, Frontage Labs assigned and the Company assumed and adopted the rights and obligations of Frontage Labs under the Pre-IPO share incentive plans. The total outstanding share options under Pre-IPO share incentive plans as at December 31, 2018 were 4,035,000 shares.

On February 28, 2019, the Company granted a total 7,990,000 share options under the Pre-IPO share incentive plans to the eligible employees at an exercise price of US\$2.00.

On May 11, 2019, upon the completion of the Capitalization Issue, the number of options granted to an eligible employee under the Pre-IPO share incentive plans were adjusted to ten times of the original number of options held by that grantee. Accordingly, the exercise price was adjusted to 10% of the original exercise price.

Set out below are details of the movements of the outstanding options granted during the current interim period:

	Weighted average exercise price (US\$)	Number
Outstanding as at December 31, 2019 (Audited)	0.15	115,650,000
Forfeited during the period	0.20	(3,350,000)
Exercised during the period	0.12	(20,010,000)
Lapsed during the period	0.20	(75,000)
Outstanding as at June 30, 2020 (Unaudited)	0.16	92,215,000
Options exercisable		56,665,000
Weighted average contractual life (years)		4.56

The exercise price of options outstanding ranges from US\$0.016 to US\$0.200.

For the six months ended June 30, 2020

20. SHARE OPTION PAYMENTS *(Continued)*

Pre-IPO share incentive plans *(Continued)*

The Group recognized total expenses of approximately US\$436,000 and US\$1,270,000 for the six months ended June 30, 2020 and June 30, 2019, respectively, in relation to share options granted by the Company.

2018 share incentive plan

On May 11, 2019, the Board of Directors approved an incentive plan to grant share options, restricted share units and any other types of award to eligible employees, including the directors of the Company and the employees of the Group. The total number of shares in respect of which the awards may be granted pursuant to the 2018 share incentive plan and any other equity-based incentive plans of the Company, being 10% of the shares of the Company. No awards have been granted under the 2018 Share Incentive Plan by June 30, 2020.

21. ACQUISITION OF A SUBSIDIARY

On March 31, 2020, the Group acquired 100% interest in Biotranex from an independent third party. Biotranex, an innovative biotech service company located in Monmouth Junction, New Jersey, USA, is principally engaged in providing a broad spectrum of drug metabolism and pharmacokinetic studies for pharmaceutical and biotechnology companies. Biotranex has been acquired with the objective of providing more comprehensive DMPK services. The acquisition has been accounted for as acquisition of business using the acquisition method.

Consideration transferred

	<i>US\$'000</i>
Cash	1,250
Contingent consideration arrangement <i>(Note)</i>	1,168
	<u>2,418</u>

Note: Based on the relevant agreement, the Group is required to pay US\$2,600,000 as total consideration, payable by certain instalments with the last instalment to be paid no later than 30 days after March 31, 2023. These instalment payments would be subject to post-acquisition price adjustments with reference to the financial performance of Biotranex from April 1, 2020 to March 31, 2023. Fair value of the consideration is assessed as US\$2,418,000, taking into consideration of the probability of potential purchase prices adjustments and also the contingent payments.

For the six months ended June 30, 2020

21. ACQUISITION OF A SUBSIDIARY *(Continued)*

Consideration transferred *(Continued)*

The purchase price has been preliminarily allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition. The preliminary purchase price allocation is subject to further refinement and may require adjustments to arrive at the final purchase price allocation. These adjustments will primarily relate to intangible assets and income tax-related items. We expect the purchase price allocation to be completed in the first quarter of 2021.

Acquisition-related costs amounting to US\$10,000 have been excluded from the consideration transferred and have been recognized directly as an expense in the current interim period.

The provisional fair value of the identifiable assets and liabilities recognized at the date of acquisition were as follows:

	<i>US\$' 000</i>
<hr/>	
<i>Current assets</i>	
Bank balances and cash	137
Trade and other receivables	143
<i>Non-current assets</i>	
Property, plant and equipment	34
Intangible assets	600
<i>Current liabilities</i>	
Trade and other payables	<u>(35)</u>
Net assets acquired	<u><u>879</u></u>

The fair value of trade and other receivables at the date of acquisition amounted to US\$143,000. The gross contractual amounts of those trade and other receivables acquired amounted to US\$143,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected was nil.

For the six months ended June 30, 2020

21. **ACQUISITION OF A SUBSIDIARY** *(Continued)*

Goodwill arising on acquisition

	<i>US\$' 000</i>
Consideration transferred	2,418
Less: recognized amounts of net assets acquired	879
Goodwill arising on acquisition	1,539

Goodwill arising on the acquisition of Biotranex represents a buyer-specific synergy value where the Group intends to integrate DMPK services to its overall business portfolio and it broadens the Group's comprehensive solution offerings to its client. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflows arising on acquisition of Biotranex

	<i>US\$' 000</i>
Consideration paid in cash	1,250
Less: bank balances and cash acquired	137
	1,113

Impact of acquisition on the results of the Group

Included in the profit for the current interim period is US\$41,000 attributable to the additional business generated by Biotranex. Revenue for the current interim period includes US\$271,000 generated from Biotranex.

Had the acquisition been completed on January 1, 2020, revenue for the current interim period of the Group would have been US\$50,935,000, and profit for the current interim period of the Group would have been US\$4,600,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2020, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Biotranex been acquired at the beginning of the current interim period, the directors of the Company calculated amortization of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the preacquisition financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended June 30, 2020

22. RELATED PARTY TRANSACTIONS AND BALANCES

The Group had the following significant transactions and balances with related parties during the interim periods:

(1) Related party transactions:

(a) *Laboratory and Bioequivalence service income from related parties*

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Taiwan Tigermed Consulting Co., Ltd	9	–
Hangzhou Tigermed	–	1,907
Shanghai Tigermed Technology Co., Ltd.	–	37
Frontage Suzhou	–	7
	<u>9</u>	<u>1,951</u>

(b) *Fees paid to related parties for Laboratory service, Biometrics service, Electronic Data Capture Software service and Clinical Site Management Organization service*

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Frontage Clinical Services, Inc. ("Frontage Clinical")	320	274
Jiaxing Tigermed Data Management Co., Ltd.	149	–
Tigermed-BDM, Inc. ("Tigermed-BDM")	44	44
Jyton-Kannel Medical Technology Co., Ltd.	1	5
Jiaxing EDC Computer Technology Co., Ltd.	–	15
Frontida BioPharm, Inc. ("Frontida")	–	11
Hangzhou Tigermed	–	8
	<u>514</u>	<u>357</u>

For the six months ended June 30, 2020

22. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*
(1) Related party transactions: *(Continued)*
(c) Interest expense on loans from a related party

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Dr. Song Li	–	15

(d) Administrative services provided to related parties

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Frontage Clinical	126	260
Frontida	43	44
FJ Pharma LLC	1	125
Frontage Suzhou	–	442
	170	871

(2) Related party balances:

As at the end of each reporting period, the Group had balances with related parties as follows:

	6/30/2020	12/31/2019
	US\$'000	US\$'000
	(Unaudited)	(Audited)
Trade receivables		
Frontida	95	110
Taiwan Tigermed Consulting Co., Ltd	9	–
Frontage Clinical	3	3
Tigermed-BDM	–	10
	107	123

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended June 30, 2020

22. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(2) Related party balances: *(Continued)*

	6/30/2020 US\$'000 (Unaudited)	12/31/2019 US\$'000 (Audited)
Note receivable		
Hong Kong Tigermed Healthcare Technology Co., Ltd.	–	3,795
Other receivables		
Frontida	405	526
Frontida Biopharm (Beijing) Co., Ltd.	216	–
Frontage Clinical	263	467
Tigermed-BDM	–	19
FJ Pharma LLC	–	18
	884	1,030
	6/30/2020 US\$'000 (Unaudited)	12/31/2019 US\$'000 (Audited)
Unbilled revenue		
Hangzhou Tigermed	281	349
Shanghai Tigermed Technology Co., Ltd.	2	2
	283	351
Trade payables		
Tigermed-BDM	408	424
Frontage Clinical	66	–
Jiaxing Tigermed Data Management Co., Ltd.	22	–
Jyton-Kannel Medical Technology Co., Ltd.	13	13
Hangzhou Simo Laboratories Co., Ltd.	7	7
Hangzhou Tigermed	–	2
	516	446

For the six months ended June 30, 2020

22. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(2) Related party balances: *(Continued)*

	6/30/2020 <i>US\$'000</i> (Unaudited)	12/31/2019 <i>US\$'000</i> (Audited)
Advances from customers		
Hangzhou Tigermed	416	423
Shanghai Tigermed Technology Co., Ltd.	–	78
Frontida	–	3
	<u>416</u>	<u>504</u>

All the above balances with related parties are unsecured, interest free and repayable on demand.

Loans from a related party repaid during the six months ended June 30, 2019 carried interest at the fixed rate of 3% per annum. The amount due was based on scheduled repayment date set out in the loan agreement.

Hangzhou Tigermed is the ultimate holding company of the Company. Dr. Song Li is the largest individual shareholder of the Company. Frontage Clinical and FJ Pharma LLC are associates of the Group. Frontida is considered as a related party of the Group because Dr. Song Li is Frontida's controlling shareholder. Frontida Biopharm (Beijing) Co., Ltd. is 100% held by Frontida. Tigermed-BDM was an associate of the Company, and now is the fellow subsidiary of the Company after it was disposed to Hongkong Tigermed on June 30, 2019. Frontage Suzhou was a 49.04% owned associate of the Company and now is a 75% owned subsidiary of the Company since October 31, 2019. Save as disclosed in this paragraph, all of the other abovementioned related parties are the fellow subsidiaries of the Group.

For the six months ended June 30, 2020

22. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(3) Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

The remuneration of the directors of the Company and other members of key management of the Group during the current interim period were as follows:

	Six months ended	
	6/30/2020	6/30/2019
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Salaries and other benefits	1,149	1,302
Share-based compensation	248	690
Performance-based bonus	–	321
Retirement benefits scheme contributions	15	20
	1,412	2,333

The remuneration of key management is determined with reference to the performance of the individuals and market trends.

23. SUBSEQUENT EVENTS

On July 2, 2020, Frontage Labs entered into a stock purchase agreement to acquire 100% equity interest in ACME Bioscience, Inc. and its subsidiaries ("ACME") from two independent third individuals for a consideration of US\$26,000,000, of which US\$11,000,000 will be subject to the achievement of certain performance targets by ACME for the three years ending December 31, 2022 as set out in the stock purchase agreement. The purpose of the acquisition is to enable the Group to expand the Group's capabilities of organic synthesis, medicinal chemistry, and process research and development, and will enable the Group to capture growth in the drug discovery and early stage development and other ancillary services.

The above acquisition has been completed subsequent to the end of the current interim period upon the fulfilment of the conditions of the acquisition. At the moment, it is not practicable to provide an estimate of the financial effects of the above acquisition until the Group performs a detailed review.

“2008 Share Incentive Plan”	the pre-IPO share incentive plan approved by Frontage Labs in 2008 and assumed by the Company on April 17, 2018
“2015 Share Incentive Plan”	the pre-IPO share incentive plan approved by Frontage Labs in 2015 and assumed by the Company on April 17, 2018
“2018 Share Incentive Plan”	the post-IPO share incentive plan adopted by the Company on May 11, 2019
“Audit and Risk Management Committee”	the audit and risk management committee of the Board
“Board of Directors” or “Board”	the board of directors of the Company from time to time
“BRI”	BRI Biopharmaceutical Research Inc., a company incorporated under the laws of Canada on February 18, 2003, and a subsidiary of the Company
“CAD”	Canadian dollars, the lawful currency of Canada
“Capitalization Issue”	the issue of 1,355,157,819 Shares to the Shareholders to be made upon capitalization of certain sums standing to the credit of the share premium account of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“CMC”	stands for Chemistry, Manufacturing and Controls. The Group’s portfolio of CMC services spans from drug discovery to the post-approval phase, including lead compound quantification and analytical testing for the discovery phase, formulation development, Good Laboratory Practice toxicology batch studies, release and product testing, stability testing, Clinical Trial Materials and Good Manufacturing Practice manufacturing, extractability and leachability studies and commercial product release following approval of an application
“CODM”	the chief operating decision maker of the Group
“Company”	Frontage Holdings Corporation, a company incorporated under the laws of the Cayman Islands with limited liability on April 16, 2018
“Controlling Shareholder(s)”	has the meaning given to it under the Listing Rules and unless the context requires otherwise, refers to Hangzhou Tigermed and Hongkong Tigermed
“CRO”	Contract research organization

DEFINITIONS

“Director(s)”	the director(s) of the Company from time to time
“DMPK”	Drug Metabolism and Pharmacokinetics, refers to studies designed to determine the absorption and distribution of an administered drug, the rate at which a drug takes effect, the duration a drug maintains its effects and what happens to the drug after being metabolized by the body
“EIT”	PRC Enterprise Income Tax
“EIT Law”	Enterprise Income Tax Law of the PRC
“Frontage Labs”	Frontage Laboratories, Inc., a company incorporated under the laws of Pennsylvania, United States on April 21, 2004 and the wholly-owned subsidiary of the Company
“Frontage Shanghai”	Frontage Laboratories (Shanghai) Co., Ltd., a company established in the PRC on August 2, 2005 and a subsidiary of the Company
“Frontage Suzhou”	Frontage Laboratories (Suzhou) Co, Ltd., a company established in the PRC on January 7, 2014, and an associate of the Company
“Global Offering”	the Hong Kong Public Offering (as defined in the Prospectus) and the International Offering (as defined in the Prospectus)
“Group”, “We”, “Our” or “Us”	the Company and its subsidiaries
“Hangzhou Tigermed”	Hangzhou Tigermed Consulting Co., Ltd., a company established in the PRC on December 15, 2004 with its shares being listed on ChiNext market of the Shenzhen Stock Exchange with stock code 300347 and on the Main Board of the Hong Kong Stock Exchange with stock code 3347, which is one of the Controlling Shareholders of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Tigermed”	Hongkong Tigermed Co., Limited, a company incorporated under the laws of Hong Kong with limited liability on September 14, 2011 and which is a wholly-owned subsidiary of Hangzhou Tigermed and one of the Controlling Shareholders of the Company
“IFRSs”	International Financial Reporting Standards

“IPO”	initial public offering
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	May 30, 2019, being the date of Listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“PRC” or “China”	the People’s Republic of China, but for the purposes of this report only, except where the context requires, references to the PRC or China exclude Hong Kong, Macau and Taiwan
“Pre-IPO Share Incentive Plans”	the 2008 Share Incentive Plan and the 2015 Share Incentive Plan
“Prospectus”	the prospectus of the Company dated May 17, 2019
“Reporting Period”	the six months ended June 30, 2020
“RMB”	Renminbi, the lawful currency of the PRC
“RMI”	RMI Laboratories, LLC, a limited liability company established under the laws of Pennsylvania, United States on September 22, 2008, and a subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary share(s) with nominal value USD0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tigermed-BDM”	Tigermed-BDM, Inc., a company incorporated under the laws of New Jersey, United States, and was a former associate of the Company

DEFINITIONS

“US\$” or “USD” United States Dollars, the lawful currency of the U.S.

“USA”, the “United States” or the United States of America
the “U.S.”

“%” per cent

In this report, the terms “associate”, “connected person”, “controlling shareholder” and “subsidiary” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.