



Frontage Holdings Corporation

方達控股公司 *

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1521

2020 ANNUAL REPORT

* For identification purpose only



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FORWARD-LOOKING STATEMENTS

This annual report contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company's control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Song Li
(Chief Executive Officer and Chairman)
Dr. Zhihe Li

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. Song Li

MEMBERS OF NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Karen Ying Lung Chang
(Hong Kong Solicitor)

AUTHORISED REPRESENTATIVES

Dr. Zhihe Li
Ms. Karen Ying Lung Chang

AUDITOR

BDO Limited
Certified Public Accountants

COMPLIANCE ADVISER

Somerley Capital Limited

PRINCIPAL BANKER

Wells Fargo Bank, N.A.

LEGAL ADVISERS

As to Hong Kong laws:
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

700 Pennsylvania Drive
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

FINANCIAL HIGHLIGHTS

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	USD'000	USD'000	USD'000	USD'000	USD'000
Operating results					
Revenue	48,644	70,245	83,114	100,415	125,811
Gross profit	19,291	31,083	33,898	37,291	41,485
Profit before tax	10,370	16,132	14,093	20,863	19,522
Net profit	6,646	10,165	11,241	18,432	17,415
Adjusted net profit ⁽¹⁾	7,776	12,711	16,629	21,397	20,364
Profitability					
Gross profit margin (%)	39.7%	44.2%	40.8%	37.1%	33.0%
Net profit margin (%)	13.7%	14.5%	13.5%	18.4%	13.8%
Adjusted net profit margin (%)	16.0%	18.1%	20.0%	21.3%	16.2%

	As at December 31,				
	2016	2017	2018	2019	2020
	USD'000	USD'000	USD'000	USD'000	USD'000
Financial position					
Total assets	42,639	57,191	77,464	315,268	380,115
Total equity	18,781	30,220	43,634	265,278	288,872
Total liabilities	23,858	26,971	33,830	49,990	91,243
Cash and cash equivalents	3,254	4,339	16,306	207,752	212,087

⁽¹⁾ Calculation of adjusted net profit is modified and calculated as net profit for the Reporting Period, excluding the loss for the year from discontinuing operations, amortization of acquired intangible assets from mergers and acquisitions, share-based compensation expenses, listing expenses, gain on disposal of associates or subsidiary, bargain purchase gain, impairment of investment in an associate and gain arising from fair value change of previously held interest in an associate to better reflect the Company's current business and operations.

FINANCIAL HIGHLIGHTS *(Continued)*

RECONCILIATION FOR ADJUSTED NET PROFIT

	For the year ended December 31,				
	2016	2017	2018	2019	2020
	USD'000	USD'000	USD'000	USD'000	USD'000
Adjusted Net Profit Reconciliation					
Net Profit	6,646	10,165	11,241	18,432	17,415
Loss for the year from discontinuing operations	590	–	–	–	–
Impairment of investment in an associate	–	1,736	–	–	–
Share-based Compensation expenses	540	807	371	3,269	935
Listing Expenses	–	–	6,386	1,564	–
Gains on disposal of associates	–	–	(437)	(27)	–
Gains on disposal of subsidiaries	–	–	(143)	–	–
Bargain purchase gain	–	–	(788)	–	–
Gain arising from fair value change of previously held interest in an associate	–	–	–	(1,841)	–
Amortization of acquired intangible assets from mergers and acquisitions <i>(Note)</i>	–	–	–	–	2,014
Adjusted Net Profit	7,776	12,708	16,630	21,397	20,364

Note: Amortization of acquired intangible assets from mergers and acquisitions is taken into consideration in the reconciliation of adjusted net profit since the year ended December 31, 2020. Considering such effect was only approximately US\$0.2 million for the year ended December 31, 2019, the adjusted basic earnings per share and adjusted diluted earnings per share calculated based on adjusted net profit were not restated.

FINANCIAL HIGHLIGHTS *(Continued)*

NON-IFRS MEASURES

To supplement the Group's consolidated financial statements which are presented in accordance with the IFRSs, the Company has provided adjusted net profit, adjusted net profit margin, adjusted EBITDA, adjusted EBITDA margin and adjusted basic and diluted earnings per share (excluding the loss for the year from discontinuing operations, impairment of investment in an associate, share-based compensation expenses, listing expenses, gains on disposal of subsidiaries, gains on disposal of associates, bargain purchase gain, gain arising from fair value change of previously held interest in an associate and amortization of acquired intangible assets from mergers and acquisitions) as additional financial measures, which are not required by, or presented in accordance with, the IFRSs. 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, non-recurring, non-cash and/or non-operating items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of these non-IFRSs 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 IFRSs. The adjusted results should not be viewed on a stand-alone basis or as a substitute for results under IFRSs.

CHAIRMAN'S STATEMENT

Dear Valued Shareholders,

On behalf of the Board of Directors, I am pleased to present the annual report of the Company and its subsidiaries for the Reporting Period.

Although the COVID-19 pandemic presented challenges in 2020, the Group continued its growth as a full-service CRO by relying on our robust scientific knowledge base, technical expertise and reputation for high quality services. Despite these challenges, the Group's revenue in 2020 increased by 25.3% year-on-year. As a result of disruptions to our operations during the first half of 2020 caused by the impact of the COVID-19 pandemic, our net profit for the first half year of 2020 decreased by 51.6% from the same period of 2019. However, our net profit for the second half year of 2020 increased by 42.9% from the same period of 2019, resulting in an overall annual net profit decrease by 5.4% year-on-year.

When the COVID-19 pandemic began early in 2020, we immediately implemented a number of mitigation measures to protect the safety, health, and well-being of our employees, while permitting our critical business operations to continue in a safe manner.

Below are some highlights of our activities in 2020:

- We continue to maintain strong growth of sales and contract future revenue. As at December 31, 2020, our contract future revenue of US\$172.0 million grew 57.1% from US\$109.5 million as at December 31, 2019.
- We expanded our service offerings in several important areas, including by:
 - o establishing Central Laboratory testing services at our Exton, Pennsylvania location in the U.S. (while continuing to finalize the establishment our Central Laboratory unit in Shanghai, China);
 - o creating a highly specialized Quantitative Whole Body Autoradiography (“QWBA”) center of excellence (“COE”) at our Exton, PA facility;
 - o developing genetic toxicology and safety pharmacology and full IND-enabling panel of *in vivo* & *in vitro* studies on our Concord, Ohio site;
 - o establishing and expanding our genomics capabilities, including DNA sequencing services at our Exton, PA facility; and
 - o expanding our services to include medicinal chemistry and active pharmaceutical ingredient (“API”) and intermediates supplies in the U.S. and in China.

CHAIRMAN'S STATEMENT *(Continued)*

- We renovated and equipped our approximately 16,000 sq. ft. Biologics Laboratory in Shanghai, China. In addition, we are in the process of renovating our new CMC laboratory and clinical testing Central Laboratory in Exton, PA and our Safety and Toxicology, DMPK facilities in Suzhou, China.
- We invested significantly in personnel to bring additional capacities and capabilities to our organization. We now have over 1,000 employees in over 18 sites across three countries. In addition, we implemented several management changes and additions of experienced personnel intended to facilitate further expansion of the Company's platform. These enhancements continued into the new year with the organizational changes we announced in February 2021. Dr. Song Li, the founder of Frontage Labs, was appointed as our Chairman and CEO in February 2021. Mr. Glenn Washer joined us as Executive Vice President of Global Preclinical Services in 2020 and was appointed as President of our North American operations in January 2021. Mr. Richard Fischetti joined us as General Counsel in March 2020. Mr. Yining Qi joined us as President of China Operations in August 2020. Mr. Andrew Wang joined the Company as our chief financial officer in September 2020. Mr. Matthew Vaneman joined the Company as Senior Vice President, Operational Excellence in October 2020.
- In addition to our organic growth and expansion, we also expanded our business through acquisitions in 2020. In March, we acquired Biotranex, LLC ("**Biotranex**"), a DMPK laboratory in Monmouth Junction, New Jersey. In July, we acquired Acme Biosciences, Inc. ("**Acme**") a company which provides synthetic & medicinal chemistry and process research & development services for biopharmaceutical companies specializing in drug discovery and development, which has operations in the San Francisco Bay Area, California and Shanghai, China.
- Our highly experienced Central Laboratory team successfully developed COVID-19 RT-PCR and IgM testing methods at our headquarters in Exton, PA. These platforms have proven to be highly reliable and are nationally recognized as essential tools in managing the spread of the novel coronavirus.

CHAIRMAN'S STATEMENT *(Continued)*

We enter 2021 well-positioned to continue our progress. In the coming year, we plan to continue to grow our business through both organic expansion and strategic acquisitions. Our plans include:

- Completing the renovation and installation of our new 71,000 sq. ft. CMC and Central Laboratory space in Exton, PA and commencing renovation of an approximately 25,000 sq. ft. new bioanalytical lab in Hayward, CA. We also plan to develop and expand DMPK, CMC and Safety and Toxicology services in Suzhou, China, establish biology/pharmacology, central laboratory testing and drug discovery research services in Shanghai, China, and add contract manufacturing organization (“**CMO**”) and API/Intermediates supply capabilities in China. We will continue to actively look for attractive acquisition opportunities globally.
- Improving our operational efficiency and profitability, while strengthening our scientific team, management team, and supporting functional groups, with the goal of supplementing our scalable and sophisticated organizational structure.
- Continuing our emphasis on business development and sales and marketing, including by focusing our business development activities on key regions in the US and pursuing effective marketing campaigns to increase our brand name and advertise our new services. We will continue to concentrate our efforts on cross-selling services and establishing alliances and partnerships with important clients.

It is often trying times that reveal the resilience and grit of our colleagues and friends. Having witnessed the response of the Frontage team to the COVID-19 pandemic, I am confident in the strength of our employees and our commitment to our customers and future growth.

I would like to thank our shareholders for your trust, support, and confidence in us. We look forward to continuing to prove that your trust and confidence are well-placed. I would also like to thank our customers for giving us the opportunity to serve them.

Finally, I would like to thank our employees for their hard work and outstanding performance in helping the Company safely navigate a challenging 2020; putting on their masks and coming to work every day so that we could continue to assist in developing critical treatments for patients around the world is a true act of courage.

Dr. Song Li

Chief Executive Officer and Chairman

Hong Kong, March 29, 2021

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 product discovery and development process to enable biopharmaceutical and life science companies to achieve their product development goals. We benefit greatly from having operations in both North America (including the U.S. and Canada) and China, and are well placed to capture growth opportunities in both markets. The Group's Chemistry, DMPK, Bioanalytical and Biologics, and CMC services are offered throughout the drug discovery and development process both in North America and in China. The Group also provides Safety and Toxicology services in North America and Bioequivalence and related services in China.

Our well-diversified client base includes small, mid-sized, and large biopharmaceutical companies, biotechnology companies, CROs, agricultural and industrial chemical companies, life science companies, contract manufacturing companies, and diagnostic and other commercial entities, as well as hospitals, academic institutions, and government agencies. Additionally, our customer base is geographically diverse with well-established relationships in North America, Europe, Japan, Korea, Israel, and Australia. We currently operate in over 18 facilities in 3 countries and have over 1,000 employees worldwide.

Despite the unprecedented challenges presented by the COVID-19 pandemic, we nevertheless achieved solid development in the past year. During the Reporting Period, revenue of the Group increased by 25.3% from approximately US\$100.4 million for the year ended December 31, 2019 to approximately US\$125.8 million for the year ended December 31, 2020. The Group's contract future revenue, which 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, also achieved a record high with approximately US\$172.0 million as at December 31, 2020, representing an increase of 57.1% compared to approximately US\$109.5 million as at December 31, 2019.

SERVICE OFFERINGS

Drug Metabolism and Pharmacokinetics (“DMPK”)

Our DMPK unit operates in six locations, including Exton, PA, North Wales, PA, Monmouth Junction, New Jersey (“NJ”), USA; Vancouver, Canada; Shanghai and Suzhou, China. Large animal pharmacokinetic studies are also supported by our Safety and Toxicology unit in Ohio. DMPK studies provide critical decision-making data during discovery and development of pharmaceutical and agrochemical products. We offer extensive DMPK services, performed in accredited facilities, that can provide critical data in all stages of drug discovery and development. For pharmaceuticals, we offer extensive DMPK capabilities for new chemical entities in discovery and compounds in development. This offering includes conducting pharmacokinetic (“PK”) studies in small (e.g. rodents) and large animals (e.g. dogs, rabbits, Non-Human Primates (“NHPs”)) in our Association for Assessment and Accreditation of Laboratory Animal Care (“AAALAC”) certified facilities; *in vitro* and *in vivo* absorption, distribution, metabolism and excretion (“ADME”) studies; non-good laboratory practice bioanalytical studies; metabolite identification and characterization; drug-drug interaction (including cytochrome P450 (“CYP”) inhibition and induction, and transporters) studies, and radiolabeled studies (including mass balance and QWBA). In addition, we provide a comprehensive portfolio of *in vitro* assays (such as metabolic soft spots, cross species metabolite profiling, protein binding, metabolic stability in liver microsomes/hepatocytes, CYP/UGT phenotyping) in support of lead optimization to candidate selection activities. For agrochemicals, our DMPK offerings include comprehensive residual analyses, syntheses of metabolite standards, animal, plant and soil metabolism, *in vitro* and *in vivo* studies, bioanalytical studies, chemistry support, physical and chemical profiling, product certification, formulation stability, and GLP mass balance studies with radiolabeled compounds. With the acquisition of RMI in November 2019, we increased our capacity to conduct metabolite identification and characterization of drug candidates. The acquisitions of BRI in December 2019 and Biotranex during the Reporting Period further enhanced our DMPK portfolio; namely, the acquisition of BRI broadened our geographic footprint into Canada and extended our current capabilities into human tumor xenograft mouse efficacy models, obesity and diabetes rodent metabolic disease models, and the growing research market in human gut microbiome metabolism and biomarker assays. The acquisition of Biotranex complemented our current scientific capabilities to include comprehensive transporter services to support projects from discovery to development including screening, and full characterization of both uptake and efflux transporters.

During the Reporting Period, our DMPK unit established a QWBA center of excellence (“COE”) at our Exton, PA facility. The addition of QWBA and dosimetry programs increases the ability for the Group to provide more integrated preclinical drug metabolism services to our customers. QWBA studies are designed to evaluate the time course of elimination for total radioactivity from tissues in animals. 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

SERVICE OFFERINGS *(Continued)*

Safety and Toxicology

Our Safety and Toxicology unit operates from our facility in Concord, Ohio. Our Safety and Toxicology unit provides GLP and non-GLP services in support of investigational research, and regulatory submissions (e.g. IND-enabling, NDA-enabling) to the U.S. Food and Drug Administration (the “**FDA**”) and other international regulatory bodies. The studies performed include assessments for toxicity, pathology, safety pharmacology and evaluation of organ systems including ophthalmology and cardiovascular studies. A typical program of studies (such as for an IND includes range-finding and definitive repeated (14 or 28 days) dose GLP toxicology studies in two species (a rodent and non-rodent), and often include translational biomarkers or investigational endpoints that assist with compound development. Toxicity studies are complemented by safety pharmacology studies, commonly conducted simultaneously to expedite development. All standard dosing regimens and common laboratory species (with multiple test species available including primates) are supported and definitive studies are conducted in strict compliance with GLP regulations. We have scientific and technical expertise in multiple pivotal biosciences research disciplines and our GLP toxicology studies have supported hundreds of successful client IND submissions, leading to first-in-human studies. Our IND-enabling toxicology is performed by experienced scientists who can recommend appropriate study parameters and protocol elements, enabling the collection of a robust and comprehensive data package for IND submission and other safety assessment purposes. Our facility is AAALAC-accredited for animal welfare and is regularly inspected by the FDA and the United States Department of Agriculture. As researchers, we are responsible to our customers, our animals and the public for the health and well-being of the animals in our care. We honor an organizational commitment towards the ethical and humane use of laboratory animals and work closely with the scientific community to understand how living conditions, handling procedures and reduction of stress play an important role in the quality and efficiency of research.

Bioanalytical and Biologics Services

Our Bioanalytical and Biologics Services unit operates in six locations, including: Exton, PA, Concord, Ohio (“**OH**”), Hayward, California (“**CA**”), USA; Vancouver, Canada; Shanghai and Suzhou, China. Working in GLP, good clinical practice (“**GCP**”), Clinical Laboratory Improvement Amendments (“**CLIA**”) certified compliant settings following the FDA, the European Medicines Agency (“**EMA**”), Agência Nacional de Vigilância Sanitária (“**ANVISA**”) and other regional regulatory guidelines, our Bioanalytical and Biologics Services unit have extensive experience in method development, validation, and bioanalytical analysis support for both small molecule therapeutics and biologics using a variety of analytical techniques and instrumentation platforms, as well as the provision of critical reagents handling services for biologics.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

SERVICE OFFERINGS *(Continued)*

Bioanalytical and Biologics Services *(Continued)*

We provide liquid chromatography-tandem mass spectrometry (LC/MS-MS), biologics, biomarker, and genomics support for non-GLP/GLP PK assays (both *in vivo* and *in vitro*) for small molecule, biologics (PK, immunogenicity, neutralizing antibody cell-based assays), and biomarker services from drug discovery to development. Our team of seasoned industry experts with advanced degrees and significant industry experience can support method transfer, cross-validation, new method development, validation, sample analysis of pre-clinical and clinical biological samples to assess pharmacokinetics, immunogenicity and pharmacodynamics effect. Our Bioanalytical and Biologics Services team has developed and validated more than 1,400 proprietary/non-proprietary methods and has the capacity to store and analyze more than 500,000 samples annually. In addition to providing the bioanalytical support for small molecule drugs, our bioanalytical scientists can support development of specialty assays in support of a variety of drug candidates (labile, pegylated, liposomal drugs, chiral, deuterated, and elemental drugs (metals, platins)). In addition, we can perform specialized testing of biologics such as peptides, proteins, monoclonal antibodies, bispecific antibodies, biosimilars, oligonucleotides, and antibody drug conjugates (“ADC”). Our team of biomarkers experts is highly skilled in developing, qualifying and validating biomarker assays using diversified analytical platforms including mass spectrometry, ligand-binding immunoassay platforms, polymerase chain reaction (“PCR”), next gene sequencing (“NGS”), SIMOA, ELLA, Luminex, Elispot and Flowcytometry equipment for exploratory and primary endpoint studies. We employ traditional ELISA platforms as well as ultra-sensitive detection capabilities for quantitation in the femtogram/mL range including single and multiplex analysis in various disease categories.

During the Reporting Period, we have established and significantly expanded our genomics capabilities, namely, our cell and gene therapy offerings include quantification of DNA/RNA, genomic alterations, gene copy number variation, gene expression and microRNA analysis, quantification of NGS sample library preparations, single cell analysis, genome edit detection, genotyping: detection of known variations, gene expression analysis/TaqMan assays, small whole-genome sequencing, exome & large panel sequencing, targeted gene sequencing for pharmacogenetics/pharmacogenomics, single-cell profiling, transcriptome sequencing, chromatin analysis, methylation sequencing, metagenomic profiling, cell-free DNA sequencing for liquid biopsy (ctDNA sequencing for cancer diagnostics and treatment; cfDNA sequencing for other genetic diseases), RNA sequencing (target panel or whole-genome RNAseq for pharmacogenetics/pharmacogenomics and gene expression analysis) and viral RNA sequencing for vaccine development and treatment (capture and RNAseq of SARS-CoV-2 for variant analysis).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

SERVICE OFFERINGS *(Continued)*

Chemistry, Manufacturing and Control

Our CMC unit operates in two locations: Exton, PA and Suzhou, China. Our CMC unit offers analytical services, formulation development and manufacturing services in compliance with GLP/good manufacturing practice (“**GMP**”), and the FDA, and The International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use (“**ICH**”) guidelines. Our analytical services include analytical method development and validation, and sample testing for all products (small molecules and biologics) at all phases, from drug discovery – lead compound evaluation, API qualification, reference standard qualification, impurities identification, preclinical dosing sample analysis, finished dosage product release tests and stability, special in use stability, oral solid dissolution test, liquid product extractable and leachable study, topical product *in vitro* release and *in vitro* permeation test – to commercial product stability sample storage and testing. Our formulation development and manufacturing service offerings include new drug development from preclinical stages through Phase II clinical trials and generic drug development (ANDA), for a variety of oral solids, oral liquids, topical cream, gel and ointment, injections (IV & IM), and ophthalmic eye drops. We also provide preformulation study, formulation development, manufacturing of non-GLP and GLP batch for preclinical study, and GMP batch for human clinical trials.

Central Laboratory

During the Reporting Period, we established a Central Laboratory unit operating in Exton, PA. Our Central Laboratory unit’s service offerings include routine and ancillary central lab testing, kits-related logistics, and biorepository services. Our Central Laboratory unit has core competencies in hematology, urinalysis, coagulation, clinical chemistry, general immunoassay, allergen and autoimmune, infectious disease, flow cytometry, histology, immunohistochemistry, and pathology diagnostic capabilities. We also perform molecular and genetic testing for detection of pathogenic events at the genome level including viral load. In addition to clinical testing, our Central Laboratory unit provides kits-related logistics service including lab manual creation, kits design, kits building, shipment of kits/samples, clinical site training, kit re-ordering, specimen tracking, and sample reconciliation. Our biorepository services offering solutions for comprehensive specimen life cycle management. Our Central Laboratory unit sources state-of-the-art high throughput instrumentation and laboratory information system (“**LIS**”) with a focus on consistent methodologies across all of our Central Laboratory facilities to ensure laboratory data consistency globally and overtime. Our cloud-based LIS technology serves as a backbone of the laboratory workflow, with emphases on sample management, logistics, data regulatory compliance, and data analysis with possible artificial intelligence guided data mining. As ‘the Next Generation Central Lab’, our project management system will adopt a team-based approach (unlike the traditional individual-based arrangement) to ensure project continuity, operational agility, and the utmost customer satisfaction.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

SERVICE OFFERINGS *(Continued)*

Chemistry

Our Chemistry unit operates in two locations: Palo Alto, CA and Shanghai, China. Our Chemistry unit offers a broad range of chemistry services which include discovery chemistry, medicinal chemistry, process chemistry research & development, scale-up, kilograms GMP synthesis, and non-GMP manufacturing. Our Chemistry unit 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.

Bioequivalence

Our bioequivalence service offering in China includes clinical trial services conducted on healthy volunteers in collaboration with public or private hospitals. We also provide bioequivalence and related services (such as pharmacology, medical writing and regulatory support) for international customers seeking to make applications for approval with the FDA, the National Medical Products Administration (the “**NMPA**”) and the EMA. We have supported many ANDA filings by Chinese companies for generic drugs in the United States, and have continued to build on our experience in this area.

Our Growth Strategy

During the Reporting Period, the Group continued to advance our position as a value-added partner with a focus on solving our customers’ most significant and complex product 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.

We intend to build on our operational excellence and financial performance through the following strategies:

- **Scientific Expertise.** We provide a breadth and depth of scientific expertise across the product discovery and development process which may be too costly for our customers to build and/or maintain in-house. We provide essential facilities and capabilities that have high infrastructure costs or are cost-prohibitive for customers to maintain independently. We continue to expand our portfolio in key areas to align with our customers’ internal product discovery and development. We also continue to enhance our service offerings portfolio in areas of greatest industry need, where outsourcing provides major benefits for our customers and where we could provide significant benefits given our unique early development portfolio and global footprint.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

SERVICE OFFERINGS *(Continued)*

Our Growth Strategy *(Continued)*

- **Quality and Customer Support.** We maintain scientific rigor and high-quality standards through management of key performance indicators and an intense focus on quality. We will continue to leverage our expertise embedded in our integrated and comprehensive service offering tailored to the specific need for a particular customer. By utilizing our streamlined and efficient facilities, we strive to continue to improve our customer's workload and staffing requirements. This allows our customers to reduce internal capacity and/or staff while ensuring the conduct of effective quality research for their projects. We intend to provide enhanced value to customers who use us as a preferred full-service CRO partner over a longer period of time.
- **Organic Growth and Targeted Acquisitions.** We intend to continue to deploy capital in investments that enhance the Group's business, which includes pursuing organic expansion and strategic acquisitions to strengthen the Group's scientific capabilities and enhance global product development capabilities.
- **Geographical expansion.** We intend to expand our global commercial presence by continuing to selectively build out our global sales, marketing, and services infrastructure.
- **Operational efficiency.** We seek to expand operating margins through capacity utilization and process optimization strategies designed to increase our yields. We plan to invest in systems to support our global operations, optimizing resources across our global footprint to maximize productivity. Furthermore, we intend to engage with our vendors and suppliers in a meaningful way to drive efficiencies within our partnerships which will result in savings, support our growth strategy and position us to withstand external pressures that could interrupt our supply chain. When determined necessary, we expect to supplement our team via internal and/or external resources to allow us to build the global integrated structure and processes to support the global growth strategy.
- **Talent Development.** We see our employees and personnel as vital key to our success. As such, we intend to continue to invest in the development and retention of our talent pool by increasing the training and development opportunities for our team to allow career growth and internal advancement. We expect to remain a premier employer with an attractive and competitive total compensation strategy, allowing us to attract and retain top level talent.

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. 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.

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.

We work closely with our customers and regulatory agencies to continuously monitor our employees’ working conditions and implement measures to ensure their wellness. 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) adopting protocols regarding employee travel and non-employee visitation; 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. These efforts were further supported by extensive internal and external communications making all stakeholders aware of the precautions taken to protect the health and safety of our employees and their families, our customers, business partners, and communities.

COVID-19 PANDEMIC AND EFFECTS ON OUR BUSINESS *(Continued)*

Effects on Our Global Operations

The COVID-19 pandemic and its adverse effects have impacted the locations where we, our customers, suppliers, and partners conduct significant portions of our business. While we continue to operate across various borders, we are experiencing a continuum of impacts in each location as the COVID-19 pandemic has impacted the global economy in different phases and the level of activity at each of our locations varies depending on the local governmental requirements and guidelines. We are continuing to see demand for products and services across all of our businesses, although as described below the impact of the COVID-19 pandemic on the level of demand varies with our different business units. While there is uncertainty, there continues to be demand for the products and services we provide.

During the Reporting Period, as result of the COVID-19 pandemic, the Group experienced pronounced disruptions in its global operations, initially in China in January 2020, and then across North America later in the first quarter of 2020, the largest of which occurred during the second half of March 2020 and the entirety of the second quarter of 2020. The Group suspended its production activities in China for 14 days during the peak of the COVID-19 outbreak in China in February 2020. In March 2020, in North America, we began requiring all employees capable of performing their job functions remotely to work from home, while retaining scientists in our laboratories as essential workers with safety mitigation measures in place. During the third quarter of 2020, we experienced an increase in our delivery efficiency as the countrywide “lock-down” policy gradually lifted and most industries resumed to work, which positively impacted revenue, operating income, operating income margins, and cash flows, which continued through the fourth quarter of 2020.

Our operations were adversely impacted by the COVID-19 pandemic during the first half of the Reporting Period, including in the following ways: 1) during the second quarter of 2020, we experienced some customer work shifting towards subsequent quarters of 2020 due to the various actions and restrictions put in place by governments around the world intended to slow the spread of the COVID-19 pandemic; 2) there was a reduction in transportation services and a disruption of the manufacturing and logistics network in the United States, which adversely affected our suppliers’ and our customers’ suppliers’ abilities to manufacture drug candidates and other supplies necessary for our services in the United States; 3) medical staff and facility resources were not fully available to conduct clinical trials as hospitals and clinical sites diverted significant healthcare resources away from clinical trials to focus on mitigating the impact of the COVID-19 pandemic; and 4) in February and March 2020, our facilities operated at a reduced utilization rate due to the impact of the COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

COVID-19 PANDEMIC AND EFFECTS ON OUR BUSINESS *(Continued)*

Effects on Our Global Operations *(Continued)*

In China, the bioequivalence and bioanalytical services we provided are both inextricably related to the 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 to conduct clinical trials as hospitals and clinical sites had to divert significant healthcare resources away from 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 first half of 2020. As the COVID-19 pandemic began to subside from the beginning of March 2020 in China, we 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. During the second half of 2020, all Chinese cities had substantially eased or lifted domestic travel restrictions and resumed normal social activities, work and production due to the pandemic being under better control. We resumed normal operations in China according to the local government's guidelines, which resulted in a strong recovery of our business performance in China.

Despite these impacts, we remain confident in our liquidity position, which includes cash and cash equivalents of US\$212.1 million as of December 31, 2020. 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

COVID-19 PANDEMIC AND EFFECTS ON OUR BUSINESS *(Continued)*

Effects on Our Global Operations *(Continued)*

Despite the unprecedented challenges presented by the COVID-19 pandemic, we maintained solid revenue growth 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. While the potential for further disruption to our global operations from the pandemic is difficult to predict and depends on factors not in our control, such as the degree of success of vaccinations and other treatments for COVID-19, we began to see a recovery in the latter half of 2020 in all of our business units and expect this recovery to continue in 2021.

The extent to which COVID-19 impacts our future results will depend on future developments. National, state, and local governments may impose, and have imposed in certain areas, additional restrictions or may extend the restrictions already in place if the pandemic continues or if new waves of infection occur. The continuing spread of COVID-19 and the related safety and business operating restrictions could result in a number of adverse impacts to our business, including, but not limited to, additional disruption to the economy and our customers, additional work restrictions, and supply chains being interrupted or slowed. Also, governments may impose other laws, policies, regulations, or taxes that could adversely impact our business, financial condition, or results of operations. Depending on the extent to which our customers continue to be affected, they could further delay or reduce purchases of services we provide. The effects of COVID-19 also could impact us in a number of other ways including, but not limited to, additional reductions to our revenue and profitability, fluctuations in foreign currency markets, the availability of future borrowings, the cost of borrowings, credit risks of our customers and counterparties, and potential impairment of the carrying amount of goodwill or other long-lived asset.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

COVID-19 PANDEMIC AND EFFECTS ON OUR BUSINESS *(Continued)*

COVID-19 Projects

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. The emergence of the COVID-19 pandemic resulting from the spread of the SARS-CoV-2 virus has ignited intensive efforts to develop diagnostic tests to measure viral infections and antibody responses, together with vaccines and therapeutics. As a result, the availability of antigen assays and serology assays that detect antibodies to SARS-CoV-2 in human serum is critical to understanding SARS-CoV-2 immune responses, measuring the impact of the virus on public health, and to supporting the development of effective vaccines and therapeutics. In light of this, Frontage Labs applied its expertise to support COVID-19 vaccine development programs from preclinical through post-approval stages.

From assay development, validation to clinical testing and regulatory approval, we offer the technology and scientific expertise required for fast and complete vaccine development. 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. Our Bioanalytical and Biologics Services unit is supporting the development of an assay kit designed to detect COVID-19 antibodies as a point of care test.

We are performing the bioanalysis in support of a customer's late-stage clinical program directed to a COVID-19 treatment. Our Bioanalytical and Biologics unit is also providing PK and PD biomarkers testing to a number of pharmaceutical companies and universities in supporting their COVID-19 related clinical trials. During the Reporting Period, Frontage Labs has successfully launched an outstanding new initiative in support of both our local community and the global response to the COVID-19 pandemic. Our dedicated Central Laboratory unit has successfully developed COVID-19 RT-PCR, anti-SARS-CoV-2 IgM and IgG testing capability at our Exton, PA site. As part of our testing capabilities, we are conducting RT-PCR (nucleic acid) testing on nasopharyngeal swab specimens, IgM and IgG antibodies testing on fingerstick blood specimens. We are one of the few laboratories in the region which can provide same day test results for these tests. Our services have been of great value to individuals, local governments, corporations, school districts and airlines with COVID-19 testing needs. Our personnel operate under extensive safety protocols, which have been rigorously developed and implemented.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

THE GROUP'S FACILITIES

As of December 31, 2020, the Group had nine (9) facilities in North America, consisting of:

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

In addition, as of December 31, 2020, the Group had nine (9) facilities in China, consisting of:

- four (4) facilities in Shanghai;
- one (1) facility in Zhengzhou, Henan Province; and
- four (4) facilities in Suzhou, Jiangsu Province.

QUALITY ASSURANCE

The Group's quality compliance programs are managed by a dedicated group responsible for quality compliance. Our independent quality units have oversight and also implement the quality management systems, including global computer system validation. Within each regulated business segment, we have established Quality Assurance units responsible for risk based internal audit programs to manage regulatory requirements and customer expectations. The Quality Assurance units operate independently from those individuals that direct and conduct studies, manufacturing or analytical testing. Our quality assurance team works closely with study teams to ensure compliance with protocols, standard operating procedures ("**SOP(s)**") and regulatory guidelines to ultimately protect research subject safety as well as the integrity and validity of study data. Our quality assurance team also provides services including regulatory training, internal system audits, SOP oversight, hosting of client audits and regulatory inspections, as well as performs third party audits of critical vendors and investigative sites on behalf of our customers.

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.

Virtually all facets of the Group's service offerings are subject to quality programs and procedures, including accuracy and reproducibility of tests; turnaround time; customer service; and data integrity. This includes licensing, credentialing, training and competency of professional and technical staff, and internal auditing. In addition to the Group's internal quality programs, our 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 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 NMPA and none of the inspections resulted in any materially adverse issues being identified. Furthermore, Frontage Labs has been certified by Brazil's National Health Surveillance Agency, ANVISA, to conduct bioanalytical services to support bioequivalence studies in Brazil. ANVISA certified that Frontage Labs meets the agency's stringent biopharmaceutical safety guidelines allowing the company to conduct bioanalytical work on its customers drug products. The certification is valid until August 2022.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS DEVELOPMENT & MARKETING

Business Development

Our Group's global business development team manages global commercial activities through creating relationships with prospective customers and growing relationships with our existing customers. We rely heavily on our past project performance, trusting relationships with our customers, experienced teams, new capabilities, in securing and developing new business opportunities. Our business development representatives collaborate closely with our seasoned scientific experts and operational leaders from the beginning of the sales process to ensure proposals meet customers' needs in a strategic and solution-based manner. Our business development remains embedded throughout the life of the project by partnering with project managers and strategic alliance executives to optimize timely completion of the projects and foster long-term relationships with the customers.

The specific role of the business development team is to grow the business across all service areas across the entire continuum of drug development. Our global business development team is strategically dispersed across the United States, China, Europe, and Canada and is responsible for managing all accounts within their geographical territory. In addition to significant client engagement and key account development experience, many of these individuals possess advanced scientific and technical degrees to support our customers' complex product development endeavors and challenges.

Marketing

Our Group's marketing team is focused on building global brand awareness, trust and driving deeper client engagement through demand generation initiatives. The marketing team leverages several key channels including digital marketing, conferences and events, and high-profile publications. Potential customers are driven to our website where they can access a wide range of scientific content including whitepapers, video material, webinars, case studies, scientific posters, and other resources.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS DEVELOPMENT & MARKETING *(Continued)*

Marketing *(Continued)*

Our core marketing strategy continues to center around providing a one-stop integrated drug development support with the highest level of science and regulatory expertise while driving long term 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 of digital marketing to reach our customers and still meet business needs. More specifically:

- We have significantly increased the use of webinars and podcasts to engage client and generate high value leads.
- We have created virtual tours and quality audits for our facilities that provide customers with a 360-degree view of our U.S. facilities.
- We are working closely with our business development teams on customized account-based marketing initiatives. This approach targets specific accounts with customized email and scientific content focusing on a specific, modality technology or platform of interest to the client.
- We have updated our website to help customers better understand our integrated offering, enhance our navigation to increase access to content.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS DEVELOPMENT & MARKETING *(Continued)*

Enhanced 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/Secaucus, NJ/Shanghai, China*

During the Reporting Period, Frontage Labs initiated the expansion of the capabilities of its Bioanalytical and Biologics unit 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. The kits-related logistic service and COVID-19 testing services launched successfully in November 2020 at our Exton, PA facility and we expect the rest of these services to be fully operational by the third quarter of 2021. In addition, a satellite laboratory dedicated for hematology, coagulation, chemistry, immunoassay, and basic infectious disease profile in Secaucus, NJ is expected to be operational by the fourth quarter of 2021. The Group also initiated the establishment of its central laboratory services in Shanghai, China.

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

During the Reporting Period, Frontage Labs continued with its construction of the 71,000 sq. ft. of laboratory space in Exton, PA facility used for expanding its CMC, bioanalytical, and central laboratory services. We will expand our Central Laboratory unit to include the central laboratory logistic services, biorepository, lab testing services including histology, IHC/IF, pathology, COVID-19 Ag and Ab testing. The expanded bioanalytical services will include the genomics labs to support the gene and cell therapies, biologics PK/ADA labs, and biomarker labs in addition to the automation lab, sample management areas with the dedicated freezer farm. This laboratory space is targeted to be operational within the second quarter of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS DEVELOPMENT & MARKETING *(Continued)*

Enhanced Capabilities and Expertise *(Continued)*

3. *QWBA and hAME Capability Expansion in Exton, PA*

During the Reporting Period, Frontage Labs has established a highly requested QWBA 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.

With the establishment of the QWBA COE, our DMPK unit further to develop full service human radiolabeled Absorption, Metabolism, and Excretion (“hAME”) study capability. This expanded capability presents the opportunity for our Group to offer our customers with end-to-end hAME services, ensuring efficient sample analysis and a seamless service experience. Subject to receipt of required regulatory approvals, this new service offering is expected to be operational by the second quarter of 2021.

4. *Establishment of Genetic Toxicology and Safety Pharmacology and Full IND-enabling Panel of in Vivo & in Vitro Studies in Concord, OH*

We are positioned to be a leading CRO for IND-enabling studies for biotechnology and pharmaceutical companies. In support of this positioning, during the Reporting Period, our Safety and Toxicology unit in our Concord, Ohio facility established a new service line and expertise in genetic toxicology to include bacterial reverse mutation assays (Ames), *in vitro* micronucleus assays using human lymphoblastoid cell line TK6, and *in vivo* micronucleus assays in both mice and rats. Our Safety and Toxicology unit also expanded its expertise in safety pharmacology service offerings to include *in vivo* cardiovascular telemetry in dogs, whole-body plethysmography respiratory studies in rodents, and central nerve system safety assessments in rodents. As a complement to these services, the site also established a strategic partnership to offer *in vitro* safety pharmacology models (i.e. hERG ion channel study as well as a CiPA-compliant).

5. *Bioanalytical Laboratory Capacity and Capability Expansion in Hayward, California*

During the Reporting Period, Frontage Labs executed a lease for a 25,000 sq. ft. of facility space in Hayward, California and initiated the design of the facility to expand its bioanalytical capabilities. The construction is set to commence during the second quarter of 2021 and the facility is expected to be partially operational by the fourth quarter of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS DEVELOPMENT & MARKETING *(Continued)*

Enhanced Capabilities and Expertise *(Continued)*

6. *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.

7. *DMPK and Safety and Toxicology Services Expansion in Suzhou, China*

During the Reporting Period, the Group initiated the construction for the 215,000 sq. ft. research facility in Suzhou, China, which will be used to conduct DMPK and non-GLP/GLP toxicology studies. The construction design has been approved by the local government and the construction has initiated in March 2021. The new facility is expected to be operational and to provide DMPK and non-GLP toxicology services by the fourth quarter of 2021.

8. *CMC Expansion in Suzhou, China*

During the Reporting Period, the Group executed a lease for an 83,000 sq. ft. of facility space in Suzhou, China and initiated the construction of the facility to expand its CMC and GMP clinical trial material manufacturing capabilities. The construction is set to begin in May 2021 and the facility is expected to be partially operational by the fourth quarter of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS DEVELOPMENT & MARKETING *(Continued)*

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:

1. *Acquisition of Biotranex*

On March 31, 2020, Frontage Labs acquired the entire equity interest in 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 FDA and the EMA 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 Ki) 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.

BUSINESS DEVELOPMENT & MARKETING *(Continued)*

Acquisitions *(Continued)*

2. *Acquisition of Acme*

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 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 acquisition of Acme 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.

We believe that we will continue to realize strategic benefits from the acquisitions we have completed, resulting in additional revenue growth and margin improvements. We believe that our strategic acquisitions are complementary to our customer base and expect to generate incremental revenue growth by cross-selling our full set of services to our existing and new customers, thereby expanding the scope of our customer relationships and generating additional revenue.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS DEVELOPMENT & MARKETING *(Continued)*

Group Awards

1. Frontage Labs has once again been named as a *CRO Leadership Awards* recipient by Life Science Leader magazine. The publication annually asks pharmaceutical and biopharmaceutical companies to rate the capability and performance of CROs. Frontage Labs has won awards with Life Science Leader every year since 2014.
2. Frontage Labs has been named as *2020 TOP 10 CRO PROVIDERS* by Pharma Tech Outlook.
3. Frontage Labs has been named as *2020 Top 10 Most Innovative Pharma & Biotech Solution Providers* by Insight Success.
4. Frontage Labs has been named as *2020 Top 10 CRO Solution Providers* by Medhealth Outlook.
5. Frontage Shanghai has been named as *Top 20 Chinese R&D CRO Enterprise in 2020* in the 2020 Conference on High Quality Development of Healthcare Industry.

EVENTS AFTER THE REPORTING PERIOD

On January 22, 2021 (Hong Kong time), the Board approved the adoption of the 2021 Share Award Scheme to recognize the contributions by certain employees of the Group, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The 2021 Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules and is a discretionary scheme of the Company. No Shareholders' approval is required for the adoption of the 2021 Share Award Scheme.

On January 25, 2021 (New York time), the Board has resolved to grant a total of 22,950,500 Awarded Shares to 184 award participants pursuant to the terms of the 2021 Share Award Scheme, in order to recognize the contributions of the award participants and retain them for the continual operation and development of the Group. Of the 22,950,500 Awarded Shares, (i) 19,850,500 Awarded Shares were granted to 182 Non-connected Award Participants, all being employees of the Group who are not connected persons of the Company; and (ii) 3,100,000 Awarded Shares were granted to Dr. Song Li and Dr. Zhihe Li, the executive Directors, which shall be subject to the approval by the independent Shareholders and the fulfilment of the applicable requirements under Chapter 14A of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

EVENTS AFTER THE REPORTING PERIOD *(Continued)*

As at the date of this report, no Awarded Shares granted under the 2021 Share Award Scheme have vested. For further details of the 2021 Share Award Scheme, please refer to the Company's announcements dated January 22, 2021, January 26, 2021 and February 5, 2021.

In January 2021, our Chemistry unit initiated the construction of a new GMP kilo laboratory in its Shanghai site and the construction of the new facility is anticipated to be completed by the end of the second quarter of 2021. The new GMP kilo laboratory will enable our Group to provide GMP API manufacturing services to our customers, thereby enhancing our Chemistry unit's range of chemistry services from discovery to development, milligram to kilogram and medicinal chemistry to API synthesis.

On February 3, 2021, the Group expanded its capacity and capability of bioanalytical and central laboratory in China by way of renting a new laboratory facility of more than 67,000 sq. ft. The new laboratory is located at F3, 356 Zhengbo Road, Lin-Gang Special Area, Shanghai, China. It will be mainly used for bioanalytical in biologics, central laboratory services and drug activity screening.

On February 10, 2021, Dr. Song Li was appointed as an executive Director and was elected as the Chairman of the Board and appointed as the Chief Executive Officer of the Company in place of Dr. Zhihe Li, who resigned from such positions and from his roles as a member of the remuneration committee of the Board and a member of the nomination committee of the Board but continues to serve as an executive Director and the Senior Vice President of Frontage Labs.

PROSPECTS

The global economy faced unprecedented challenges in 2020 due to the COVID-19 pandemic, as did our Group, but we believe the resilience of our business model has enabled us to weather these challenges well. This resilience was the result of comprehensive business continuity plans that enabled us to keep our operating sites open and adequately staffed; the global scale, broad scientific capabilities, and flexible outsourcing solutions that we are able to offer customers; and the commitment of our global employees. While our businesses experienced a short-term impact on delivery efficiency caused by COVID-19 related disruptions, primarily in the first half of 2020, we also benefited from persistent customer demand across many of our businesses, driven by robust biotech funding and continued innovation that is generating scientific breakthroughs across multiple therapeutic areas, including for COVID-19 therapeutics.

The Group intends to leverage its existing strengths and expand its capacities by recruiting additional scientists, continuing to invest in state-of-the-art equipment and technologies, expanding or enhancing its existing facilities, and adding new facilities, so as to pursue opportunities from anticipated increase in outsourcing of the pharmaceutical industry and the related demand for its services. Moreover, the Group intends to strategically extend the range of its services to offer customers a more integrated solution through organic growth and potential acquisitions and aims to pursue a range of opportunities arising from the growing demand for CRO services.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 25.3% from approximately US\$100.4 million for the year ended December 31, 2019 to approximately US\$125.8 million for the year ended December 31, 2020. The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have limited the full capacity of our employees performing laboratory services and lowered our delivery efficiency during the first half of 2020. During the second half of 2020, with countrywide “lock-down” policy gradually lifted in North America and all Chinese cities had substantially eased or lifted domestic travel restrictions and resumed normal social activities, work and production due to the pandemic being under better control in China, we have been actively taking measures to ensure our facilities continue to operate at a stable utilization rate and normalize our operations. This can be exemplified by the strong revenue growth by 48.3% from approximately US\$50.7 million for the second half of 2019 to approximately US\$75.2 million for the second half of 2020.

Revenue from operations in North America increased by 20.7% from approximately US\$72.8 million for the year ended December 31, 2019 to approximately US\$87.9 million for the year ended December 31, 2020 (revenue growth by 34.6% from approximately US\$38.2 million for the second half of 2019 to approximately US\$51.4 million for the second half of 2020). Excluding the impact of currency translation, the revenue from operations in China increased by 36.6% from approximately RMB190.3 million (equivalent to approximately US\$27.7 million) for the year ended December 31, 2019 to approximately RMB259.9 million (equivalent to approximately US\$37.9 million) for the year ended December 31, 2020 (revenue growth by 83.4% from approximately RMB87.7 million for the second half of 2019 to approximately RMB160.8 million for the second half of 2020). The growth of revenue from operations in North America was mainly attributable to (i) marketing efforts made by the Group, resulting in robust marketing performance in North America; and (ii) positive synergies effect created by the acquisitions of RMI, BRI and Biotranex. The revenue increase in the China market was mainly due to (i) the expansion of CMC capabilities and business in China; (ii) the thriving large molecules business in China; and (iii) revenue generated from newly acquired chemistry service due to the acquisition of Acme.

The revenue of the Group has maintained a steady growth during the Reporting Period despite being impacted by COVID-19 during the first half of 2020. The Group derived a vast majority of its revenue from providing services to customers operating in North America and China.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

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

	Year ended December 31,	
	2020	2019
	US\$' 000	US\$' 000
Bioanalytical	61,916	53,797
CMC	22,576	16,035
DMPK	16,531	11,921
Safety and Toxicology	10,835	10,315
Bioequivalence	7,531	8,347
Chemistry	6,422	—
	<u>125,811</u>	<u>100,415</u>

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

	Year ended December 31,			
	2020		2019	
	US\$' 000	%	US\$' 000	%
Revenue				
– USA	78,082	62.1%	58,982	58.7%
– China	33,984	27.0%	30,284	30.2%
– Rest of the world ^(Note)	13,745	10.9%	11,149	11.1%
Total	<u>125,811</u>	<u>100.0%</u>	<u>100,415</u>	<u>100.0%</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

Top 5 customers' revenue increased by 4.0% from approximately US\$32.1 million for the year ended December 31, 2019 to approximately US\$33.4 million for the year ended December 31, 2020, accounting for 26.6% of total revenue for the year ended December 31, 2020 as compared to 32.0% for the year ended December 31, 2019.

Top 10 customers' revenue increased by 3.0% from approximately US\$40.3 million for the year ended December 31, 2019 to approximately US\$41.5 million for the year ended December 31, 2020, accounting for 33.0% of total revenue for the year ended December 31, 2020, as compared to 40.1% for the year ended December 31, 2019.

Cost of Services

Associated with the revenue growth, the cost of services of the Group increased by 33.6% from approximately US\$63.1 million for the year ended December 31, 2019 to approximately US\$84.3 million for the year ended December 31, 2020. The increase of the cost of services was also 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 were hired due to our enlarged operations.

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 the Group's services. Overhead primarily consists of depreciation charges of the facilities and equipment used in rendering the Group's services, utilities and maintenance.

FINANCIAL REVIEW *(Continued)*

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 11.3% from approximately US\$37.3 million for the year ended December 31, 2019 to approximately US\$41.5 million for the year ended December 31, 2020. The Group's gross profit margin decreased from approximately 37.1% for the year ended December 31, 2019 to approximately 33.0% for the year ended December 31, 2020. The gross profit margin in North America and China decreased from approximately 33.0% and 48.1% for the year ended December 31, 2019 to approximately 29.5% and 41.0% for the year ended December 31, 2020, respectively. The decrease in the gross profit margin were mainly attributable to the COVID-19 pandemic. However, the impact of COVID-19 reduced from the second half of 2020 onwards, as we have been actively taking measures to ensure our facilities in North America continue to operate at a stable utilization rate and normalize our operations, resulting in the recovery of gross profit margin for the second half of 2020. In particular, the gross profit margin in North America increased from 24.6% for the first half of 2020 to 33.0% for the second half of 2020. The gross profit margin in China increased from 40.0% for the first half of 2020 to 41.6% for the second half of 2020. Moreover, the Group's newly acquired chemistry service contributed a relatively lower gross profit margin. In addition, such decrease is attributable to the expansion of our capacities in North America and China to support the business growth.

Other Income

The Group's other income increased by 14.5% from approximately US\$5.5 million for the year ended December 31, 2019 to approximately US\$6.3 million for the year ended December 31, 2020, primarily due to (i) an increased interest income derived from unused proceeds from IPO; and (ii) an increase in income from government grants related to income.

Other Gains and Losses

The Group recorded net other losses of approximately US\$0.1 million for the year ended December 31, 2020, primarily due to net foreign exchange loss arising from appreciation of RMB against USD during the Reporting Period.

FINANCIAL REVIEW *(Continued)*

Impairment Losses Under Expected Credit Loss Model, Net of Reversal

Impairment losses and net of reversal represent the loss allowance on the Group's financial assets (including trade and other receivables and unbilled revenue). The Group has recorded the net impairment losses of approximately US\$0.09 million for the year ended December 31, 2020, compared to approximately nil for the year ended December 31, 2019. The change of the net impairment losses was mainly due to the increased trade receivable and unbilled revenue balance as a result of the growth of the Group's business.

Selling and Marketing Expenses

Selling and marketing expenses of the Group increased by 30.8% from approximately US\$3.9 million for the year ended December 31, 2019 to approximately US\$5.1 million for the year ended December 31, 2020, which demonstrated our continuous efforts in the capability enhancement in business development to capture the blooming demand in the CRO industry. With our continuing marketing efforts, our contract future revenue as at December 31, 2020 of approximate US\$172.0 million increased by 57.1% compared with December 31, 2019.

Administrative Expenses

The Group's administrative expenses increased by 14.6% from approximately US\$16.4 million for the year ended December 31, 2019 to approximately US\$18.8 million for the year ended December 31, 2020. Excluding share-based compensation expenses and amortization of intangible assets acquired from mergers and acquisitions, the Group's administrative expenses increased by 23.3% from approximately US\$12.9 million for the year ended December 31, 2019 to approximately US\$15.9 million for the year ended December 31, 2020, primarily due to (i) workforce expansion to facilitate smooth operations 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Donations

During the Reporting Period, charitable and other donations made by the Group amounted to US\$0.5 million in both North America and China to fight the COVID-19 outbreak. Such donation has been recorded as administrative expenses for the year ended December 31, 2020.

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 Group's research and development expenses increased by 20.0% from approximately US\$1.5 million for the year ended December 31, 2019 to approximately US\$1.8 million for the year ended December 31, 2020, primarily due to our efforts in enhancing investment in new technologies and platforms.

Finance Costs

The Group's finance cost increased from approximately US\$1.2 million for the year ended 2019 to approximately US\$2.2 million for the year ended December 31, 2020, primarily due to interest expenses on lease liabilities, as a result of expansion of leased space during the Reporting Period.

Income Tax Expense

The income tax expense of the Group decreased by 12.5% from approximately US\$2.4 million for the year ended December 31, 2019 to approximately US\$2.1 million for the year ended December 31, 2020, primarily due to a decrease of the effective tax rate.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Income Tax Expense *(Continued)*

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 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 the expensing of qualified improvement property. 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. The Company’s effective income tax rate was 10.8% and 11.7% for the year ended December 31, 2020 and 2019, respectively. The Company’s income tax for the year ended December 31, 2020 was primarily due to the estimated tax effect on the Company’s pre-tax income, and reduced by the impact of favorable tax benefits due to stock-based compensation.

Net Profit and Net Profit Margin

The net profit of the Group decreased by 5.4% from approximately US\$18.4 million for the year ended December 31, 2019 to approximately US\$17.4 million for the year ended December 31, 2020. The net profit margin of the Group for the year ended December 31, 2020 was 13.8%, compared to 18.4% for the year ended December 31, 2019. The lower net profit and net profit margin compared to the year ended December 31, 2019 were primarily due to the impact of the COVID-19 pandemic especially in the first half of 2020. The unprecedented nature of the global pandemic has presented significant challenges and uncertainties to the global economy and across industries, including healthcare. Our operations both in North America and China have been adversely impacted by the pandemic. However, with the strong recovery of our global operations, our net profit for the second half of 2020 increased by 42.9% from approximately US\$9.1 million for the second half of 2019 to approximately US\$13.0 million for the second half of 2020. The net profit margin of the Group improved from 8.8% for the first half of 2020 to 17.2% for the second half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Adjusted Net Profit

The following table presents a reconciliation of adjusted net profit to the net profit for the years, the most directly comparable IFRS measure, for each of the years indicated.

	For the year ended December 31,	
	2020	2019
	<i>US\$' 000</i>	<i>US\$' 000</i>
Net Profit	<u>17,415</u>	<u>18,432</u>
Add: Share-based compensation expense	935	3,269
Listing expense	–	1,564
Gain on disposal of an associate	–	(27)
Gain arising from fair value change of previously held interest in an associate	–	(1,841)
Amortization of acquired intangible assets from mergers and acquisitions <i>(Note)</i>	<u>2,014</u>	<u>–</u>
Adjusted Net Profit	<u><u>20,364</u></u>	<u><u>21,397</u></u>
Adjusted Net Profit Margin	<u><u>16.2%</u></u>	<u><u>21.3%</u></u>

Note: Amortization of acquired intangible assets from mergers and acquisitions is taken into consideration in the reconciliation of adjusted net profit since the year ended December 31, 2020. Considering such effect was only approximately US\$0.2 million for the year ended December 31, 2019, the adjusted basic earnings per share and adjusted diluted earnings per share calculated based on adjusted net profit were not restated.

The adjusted net profit of the Group decreased by 4.7% from approximately US\$21.4 million for the year ended December 31, 2019 to approximately US\$20.4 million for the year ended December 31, 2020. The adjusted net profit margin of the Group for the year ended December 31, 2020 was 16.2%, compared to 21.3% for the year ended December 31, 2019. The lower adjusted net profit margin of the Group for the year ended December 31, 2020 follows the same set of reasons as disclosed in the above paragraph. However, with the strong recovery of our global operations, our adjusted net profit for the second half of 2020 increased by 66.7% from approximately US\$9.3 million for the second half of 2019 to approximately US\$15.5 million for the second half of 2020. The adjusted net profit margin of the Group improved from 9.7% for the first half of 2020 to 20.6% for the second half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

EBITDA

The EBITDA¹ of the Group increased by 14.9% from approximately US\$29.6 million for the year ended December 31, 2019 to approximately US\$34.0 million for the year ended December 31, 2020. The EBITDA margin of the Group for the year ended December 31, 2020 was 27.1%, compared to 29.5% for the year ended December 31, 2019. The slightly lower EBITDA margin of the Group for the year ended December 31, 2020 was primarily due to a lower net profit margin as discussed above. However, with the strong recovery of our global operations, our EBITDA for the second half of 2020 increased by 43.2% from approximately US\$15.5 million for the second half of 2019 to approximately US\$22.2 million for the second half of 2020. The EBITDA margin of the Group improved from 23.4% for the first half of 2020 to 29.5% for the second half of 2020.

Adjusted EBITDA

The adjusted EBITDA² of the Group increased by 7.4% from approximately US\$32.6 million³ for the year ended December 31, 2019 to approximately US\$35.0 million for the year ended December 31, 2020. The adjusted EBITDA margin of the Group decreased from 32.4% for the year ended December 31, 2019 to 27.8% for the year ended December 31, 2020. The decrease of adjusted EBITDA margin follows the same set of reasons as discussed in the EBITDA. However, with the strong recovery of our global operations, our adjusted EBITDA for the second half of 2020 increased by 44.6% from approximately US\$15.7 million for the second half of 2019 to approximately US\$22.7 million for the second half of 2020. The adjusted EBITDA margin of the Group improved from 24.3% for the first half of 2020 to 30.2% for the second half of 2020.

¹ EBITDA represents net profit before (i) interest expenses; (ii) income tax expenses; and (iii) amortization and depreciation.

² Calculation of adjusted EBITDA is modified and calculated as EBITDA for the Reporting Period, excluding the share-based compensation expenses to better reflect the Company's current business and operations.

³ Calculation of adjusted EBITDA is modified and calculated as EBITDA for the year ended December 31, 2019, excluding the share-based compensation expenses, listing expenses, gains on disposal of associates and a gain arising from fair value change of previously held interest in an associate to better reflect the Company's current business and operations.

FINANCIAL REVIEW *(Continued)*

Basic and Diluted Earnings Per Share

The basic earnings per share of the Group decreased by 16.7% from US\$0.0102 for the year ended December 31, 2019 to US\$0.0085 for the year ended December 31, 2020. The diluted earnings per share of the Group decreased by 16.2% from US\$0.0099 for the year ended December 31, 2019 to US\$0.0083 for the year ended December 31, 2020. The decrease in the basic and diluted earnings per share was primarily due to the decrease in the net profit negatively affected by the COVID-19 and the exercise of share options.

The adjusted basic earnings per share for the year ended December 31, 2020 amounted to US\$0.0100, representing a decrease of 16.0% as compared with that of US\$0.0119 for the year ended December 31, 2019. The adjusted diluted earnings per share for the year ended December 31, 2020 amounted to US\$0.0097, representing a decrease of 15.7% as compared with that of US\$0.0115 for the year ended December 31, 2019. The decrease in both the adjusted basic and diluted earnings per share was primarily due to the decrease in the adjusted net profit resulted from the negative impact of COVID-19 as discussed in the above section headed “Net Profit and Net Profit Margin” and the exercise of share options.

Non-IFRS Measures

To supplement the Group’s 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, gains on disposal of associates, gain arising from fair value change of previously held interest in an associate and amortization of acquired intangible assets from mergers and acquisitions) 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, non-recurring, non-cash and/or non-operating 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Property, Plant and Equipment

The property, plant and equipment of the Group increased by 49.8% from approximately US\$28.3 million as at December 31, 2019 to approximately US\$42.4 million as at December 31, 2020, primarily as a result of the expansion of research, development and manufacturing capacities.

Right-of-Use Assets

The Group recorded approximately US\$39.8 million right-of-use assets as at December 31, 2020, which increased by 88.6% 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 July 2, 2020, Frontage Labs acquired the entire equity interest in Acme for a total consideration of US\$27.4 million from independent third parties. Acme is engaged in providing synthetic & medicinal chemistry and process research and development services for biopharmaceutical companies specializing in drug discovery and development. In particular, this acquisition has been accounted for using the acquisition method, resulting in approximately US\$14.0 million increase in the goodwill. As at December 31, 2020, the Group recorded approximately US\$22.1 million goodwill (2019: US\$6.3 million). No impairment of goodwill was recorded upon the management's assessment.

Intangible Assets

The Group recorded approximately US\$15.0 million intangible assets as at December 31, 2020, compared to US\$7.6 million as at December 31, 2019, primarily consisting of customer relationship and customer backlog acquired through business combinations.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Trade and Other Receivables and Prepayments

Trade and other receivables and prepayment of the Group increased by 9.6% from approximately US\$24.9 million as at December 31, 2019 to approximately US\$27.3 million as at December 31, 2020, primarily due to (i) the growth of the Group's business; partially offset by (ii) settlement of a note receivable from the disposal of Tigermed-BDM.

Unbilled Revenue

The Group recorded 1.3% decrease in unbilled revenue from approximately US\$7.8 million as at December 31, 2019 to approximately US\$7.7 million as at December 31, 2020, primarily due to temporary shorter billing cycles as a result of improved credit control.

Structured Deposits

As at December 31, 2020, the Group recorded approximately US\$2.5 million structured deposits to improve the return of available cash balance.

Trade and Other Payable

The trade and other payables of the Group increased by 88.5% from approximately US\$10.4 million as at December 31, 2019 to approximately US\$19.6 million as at December 31, 2020, primarily due to increases in (i) trade payables to third parties along with its business growth; (ii) salary and bonus payables in line with the expansion of the work force; (iii) payables related to leasehold improvements for new leases in order to support business growth; and (iv) consideration payables and contingent consideration payables due to the acquisitions of Biotranex and Acme.

Advances from Customers

The Group has recorded 39.1% increase in advance from customers along with its business growth and improved credit control.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Liquidity and Capital Resources

The Group's bank balances and cash amounted to approximately US\$212.1 million in total as at December 31, 2020, as compared to approximately US\$207.8 million as at December 31, 2019, as a result of proceeds from cash provided by operating activities, exercise of share options, and receiving remaining proceeds from the disposal of Tigermed-BDM, 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 years indicated:

	For the year ended December 31,	
	2020	2019
	US\$' 000	US\$' 000
Net cash generated from operating activities	31,654	18,728
Net cash used in investing activities	(25,892)	(12,787)
Net cash (used in) generated from financing activities	(2,913)	185,723
Net increase in cash and cash equivalents	2,849	191,664
Cash and cash equivalents at the beginning of the year	207,752	16,306
Effect of exchange rate changes	1,486	(218)
Cash and cash equivalents at the end of the year	<u>212,087</u>	<u>207,752</u>

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. US\$15.1 million capital expenditures were incurred for the year ended December 31, 2020, which increased by 8.6% when compared to US\$13.9 million for the year ended December 31, 2019, primarily due to the expansion and enhancement of our facilities and purchases of laboratory equipment to support our services.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Significant Investments, Material Acquisitions and Disposals

As at December 31, 2020, save for the Biotranex and Acme acquisitions, there were no significant investments held by the Company. The details of both acquisitions are set out in the section headed “Management Discussion and Analysis – Acquisitions” in this report.

Indebtedness

Borrowings

As at December 31, 2020, the Group did not have material borrowings.

Lease Liabilities

The Group leased some of our equipment and facilities under lease agreements with lease terms of three to twenty five years and right-of-use assets agreements. The Group recorded approximately US\$40.6 million lease liabilities as at December 31, 2020, compared to approximately US\$20.4 million as at December 31, 2019 due to entering into new leases in order to support business growth.

Contingent Liabilities and Guarantees

As at December 31, 2020, the Group did not have material contingent liabilities nor 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 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.

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.

FINANCIAL REVIEW *(Continued)*

Indebtedness *(Continued)*

Gearing Ratio

Gearing ratio is calculated using interest-bearing borrowings less cash and cash equivalents and structured deposits, divided by total equity and multiplied by 100%. The gearing ratios were -60.2% and -70.4% as at December 31, 2020 and 2019, respectively. Our gearing ratios were negative as of December 31, 2020 and December 31, 2019, because our cash and cash equivalents and structured deposits exceeded our interest-bearing borrowings.

Employees and Remuneration Policies

As at December 31, 2020, the Group had a total of 1,002 employees, of whom 463 were located in the U.S. and Canada and 539 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\$49.8 million for the year ended December 31, 2020, as compared to approximately US\$43.3 million for the year ended December 31, 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.

As at the date of this report, the Group has adopted the Pre-IPO Share Incentive Plans, the 2018 Share Incentive Plan and 2021 Share Award Scheme to provide incentives or rewards to eligible participants for their contribution or potential contribution to the Group.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out as follows:

DIRECTORS

Executive Directors

Dr. Song Li (“**Dr. Song Li**”), aged 63, was appointed as the Chief Executive Officer of the Company and a Director and designated as an executive Director and Chairman on February 10, 2021. He is also a member of the Remuneration Committee and Nomination Committee.

In 2001, he founded Frontage Labs and has been the chief executive officer of Frontage Labs ever since and remains a driving force behind the Group’s strategic, technical and commercial success. His visionary leadership of Frontage Labs has earned him widespread respect in the industry and within the Group.

Prior to joining the Group, Dr. Song Li held management positions at Great Valley Pharmaceuticals and Wyeth. During that period of time, he led numerous projects related to the development of pharmaceutical products. Dr. Song Li was formerly a director in the second session and the third session of the board of directors of Hangzhou Tigermed, a company listed on the Shenzhen Stock Exchange under stock code 300347 and on the Stock Exchange under stock code 3347, from August 2014 to April 2018.

Dr. Song Li has authored more than 15 scientific publications spanning a wide range of topics, including chiral separations, drug-protein interactions, pharmacokinetics, and analytical chemistry. Dr. Song Li has been the recipient of numerous awards, most recently the Healthcare CEO award from Philadelphia Alliance for Capital and Technologies, the Ernst & Young Entrepreneur of the Year Award, the “Realizing the American Dream” award from the Pennsylvania Welcoming Society, and the Outstanding 50 Asian Americans in Business Award from the Asian American Business Development Center.

Dr. Song Li received his PhD degree in analytical chemistry from McGill University, Canada in 1992 and a Bachelor of Science in chemistry from Zhengzhou University, China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Dr. Zhihe Li (“**Dr. Li**”), aged 66, was appointed as a Director on April 16, 2018 and designated as an executive Director on June 20, 2018. Dr. Li resigned as the chairman and Chief Executive Officer of the Company and ceased to be a member of the Remuneration Committee and Nomination Committee with effect from February 10, 2021.

Dr. Li served as the Chief Executive Officer of the Company from April 17, 2018 to February 10, 2021. He has also served as the senior vice president of Frontage Labs since April 2007, responsible for its China operations. Before joining Frontage Labs, he worked at Scios Inc. (subsequently acquired by Johnson & Johnson in 2003) as a group leader. Prior to that, he worked at Megabios Corporation (Valentis, Inc.) as a scientist.

Dr. Li also possesses extensive academic experience. He was a scientist at the National Institutes of Health, United States. Dr. Li received his M.D. degree majoring in medicine from Norman Bethune University of Medical Sciences, China in August 1978 and his PhD degree from McGill University, Canada in May 1993. He received the Merit Award for Outstanding Research from the National Institutes of Health, United States, in September 1995. He is an owner of two medical patents and has contributed to many scientific publications.

DIRECTORS *(Continued)*

Non-executive Director

Mr. Jun Gao (“**Mr. Gao**”), aged 45, was appointed as a Director on April 17, 2018 and designated as a non-executive Director on June 20, 2018. He is a member of the Audit and Risk Management Committee.

Mr. Gao has been working at Hangzhou Tigermed as the senior vice president and chief financial officer since November 2016, heading finance and investment, and has been in the position of board secretary of Hangzhou Tigermed since April 30, 2019. Prior to this and until October 2016, he was the chief financial officer and board secretary of Shanghai Xiaoi Robot Technology Corporation Limited, a company that was listed on the National Equities Exchange and Quotations in the PRC with stock code 834869. From May 2011 to December 2015, he was the chief financial officer and board secretary of McWong Environmental Technology Corporation Limited. Prior to that, Mr. Gao held various positions in Hong Kong Shanghai Alliance Holdings Limited, formerly known as Van Shun Chong Holdings Limited, a company listed on the Hong Kong Stock Exchange with stock code 1001, City North Infrastructure Pty Ltd., Rio Tinto Group, a company listed on the London Stock Exchange, Australian Securities Exchange and New York Stock Exchange with stock code RIO, and Felix Resources Ltd, a company that was listed on the Australian Securities Exchange with stock code FLX. From May 2001 to June 2007, he worked at Foster Wheeler AG, a company listed on NASDAQ with stock code FWLT, taking up different roles including the China finance manager, chief compliance officer and project control director. Prior to that, he worked in the business assurance and advisory section of PricewaterhouseCoopers Business Consulting (Shanghai) Co., Limited.

Mr. Gao received his bachelor’s degree from Shanghai University of Finance & Economics, China in June 1997, majoring in international accounting. He is a Certified Public Accountant in China, an internationally accredited Certified Internal Auditor, an Associate of the Chartered Institute of Management Accountants (UK), a member of the Association of International Certified Professional Accountants (US & UK) and a Fellow of the Association of Chartered Certified Accountants (UK).

DIRECTORS *(Continued)*

Independent Non-executive Directors

Mr. Yifan Li (“Mr. Li”), aged 53, was appointed as an independent non-executive Director on April 17, 2018. He is the chairman of the Audit and Risk Management Committee and a member of the Remuneration Committee.

Mr. Li has extensive experience in corporate financial management. His experience spans across various industries such as automotive, insurance, port operations, environmental services, online financing and real estate development and management in both United States and China.

Mr. Li has been the vice president of Zhejiang Geely Holding Group (“**Geely**”) since October 2013, responsible for the strategic investments and new business. Prior to joining Geely, he had held the role of chief financial officer in China Zenix Auto International Limited (stock code: ZXAIY) from December 2010 to February 2014, which is a company listed on the New York Stock Exchange. Mr. Li was also a director of Zhejiang Qianjiang Motorcycle Co., Ltd. (stock code: 000913) from November 2016 to April 2018, a company listed on the Shenzhen Stock Exchange.

Mr. Li received his MBA from the University of Chicago Booth School of Business, United States, in June 2000, his Master of Science in Accounting from University of Texas at Dallas, United States, in May 1994, and his Bachelor of Economics in World Economy from Fudan University, China, in July 1989.

Mr. Li has been an independent non-executive director of Everest Medicines Limited (stock code: 1952) since September 2020, Xinyuan Property Management Service (Cayman) Ltd. (stock code: 1895) since September 2019 and ZhongAn Online P & C Insurance Co., Ltd. (stock code: 6060) since December 2016 (which are companies listed on the Hong Kong Stock Exchange), Shanghai Jinqiao Export Processing Zone Development Co., Ltd. (stock codes: 600639 (A shares), 900911 (B shares)) since June 2019, Shanghai International Port Group Co., Ltd. (stock code: 600018) since September 2015 and Heilongjiang Interchina Water Treatment Co., Ltd. (stock code: 600187) since May 2015 (which are companies listed on the Shanghai Stock Exchange), Zhejiang Tiantie Industry Co., Ltd. (stock code: 300587) since December 2017 (which is listed on the Shenzhen Stock Exchange), and 36Kr Holdings Inc. (stock code: KRKR) since November 2019 (which is listed on NASDAQ), Sunlands Technology Group (stock code: STG) since July 2019, Qudian Inc. (stock code: QD) since October 2017 and Xinyuan Real Estate Co., Ltd. (stock code: XIN) since February 2017, which are companies listed on the New York Stock Exchange.

Notwithstanding Mr. Li’s directorship in eleven other listed companies, all such directorships are non-executive in nature. Mr. Li has maintained his professionalism in various directorships of listed companies he has served and has actively participated in Board meetings and Audit and Risk Management Committee meetings during the Reporting Period. Accordingly, the Board is of the view that he is able to devote sufficient time and attention to perform his duties as an independent non-executive Director.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

DIRECTORS *(Continued)*

Independent Non-executive Directors *(Continued)*

Mr. Erh Fei Liu (“**Mr. Liu**”), aged 62, was appointed as an independent non-executive Director on April 17, 2018. He is a member of each of the Audit and Risk Management Committee and Nomination Committee.

Mr. Liu was a co-founder of Cindat Capital Management Limited (“**Cindat**”), a global real estate investment platform. Prior to founding Cindat, he was an investment banker. From December 1999 to July 2012, he was the Managing Director of Merrill Lynch, based in Hong Kong. He was awarded the Asian Banker Skills-based Achievements Award in investment banking in 2006 by The Asian Banker.

From 1992 to 1994, he worked at Goldman Sachs Group, Inc. as the head of investment banking for China. From May 1987 to March 1990, he worked as an associate at Goldman Sachs Group, Inc.’s New York and Tokyo offices.

Mr. Liu graduated from Harvard Business School, United States, in June 1987 with a master’s degree in business administration, and from Brandeis University, United States, in May 1984 with a Bachelor of Arts degree in economics and from the Beijing Foreign Studies University, China, in 1981.

Mr. Liu has been an independent non-executive director of Qingling Motors Co. Ltd since May 2015 (stock code: 1122) (which is listed on the Hong Kong Stock Exchange), Jiangxi Copper Company Limited since July 2016 (which is a company listed on the Hong Kong Stock Exchange with stock code 0358 and listed on the Shanghai Stock Exchange with stock code 600362), and 21Vianet Group, Inc. (stock code: VNET, which has been listed on NAS since May 2015). Mr. Liu was an independent non-executive director of Fortunet e-Commerce Group Limited (now known as Changyou Alliance Group Limited), a company listed on the Hong Kong Stock Exchange with stock code 1039, from March 2015 to April 2017.

DIRECTORS *(Continued)*

Independent Non-executive Directors *(Continued)*

Dr. Jingsong Wang (“**Dr. Wang**”), aged 56, was appointed as an independent non-executive Director on April 17, 2018. He is the chairman of each of the Remuneration Committee and Nomination Committee.

Dr. Wang is the chief executive officer of Harbour BioMed Shanghai Co., Ltd. since December 2016, a global biotech company specializing in developing biological therapeutics in the areas of immunology and inflammatory diseases with operations in Boston, Rotterdam and Shanghai. From November 2011 to December 2015, he was the Head of China R&D of Sanofi (China) Investment Co., Ltd. Dr. Wang has been an executive director, the chief executive officer and chairman of the board of HBM Holdings Limited since July 2016 (which is a company listed on the Hong Kong Stock Exchange with stock code 2142).

Dr. Wang received his PhD degree from China Pharmaceutical University in June 2011, majoring in microbiology and biochemical pharmacy. Dr. Wang was a medical physician and surgeon in Pennsylvania, United States.

Dr. Wang has published in numerous leading scientific journals related to inflammation, autoimmune diseases and translational medicine.

Dr. Wang currently serves on the board of directors of Silicon Therapeutics LLC, a Boston-based biotech company focusing on the design of novel small molecule therapeutics in highly unmet disease areas since August 2016.

SENIOR MANAGEMENT

Mr. Jianmin (Andrew) Wang (“Mr. Wang”), aged 50, has been the chief financial officer of the Company and Frontage Labs since October 2020, responsible for the management of all aspects of the Group’s finance and treasury matters. Prior to joining the Company, Mr. Wang was the chief financial officer of Frontida BioPharm, Inc., a contract development and manufacturing organization in the United States of America. Previously, he was the chief financial officer and the director of the board of Sky Solar Holdings, Ltd. (stock code: SKYS), a NASDAQ listed company, from May 2011 to September 2018. Before that, he served as finance director or controller in different multinational companies, mainly in the Asia Pacific area.

Mr. Wang received his bachelor’s degree in accounting from University of Shanghai for Science and Technology in July 1993 and an executive master of business administration from Washington University in St. Louis in December 2004. Mr. Wang is a professional accountant, having been a member of the China Institute of Certified Public Accountant since August 1995.

Dr. Zhongping (John) Lin (“Dr. Lin”), aged 57, has been an executive vice president of the Company and Frontage Labs since 2017, responsible for bioanalytical and biologics services. From 2007 to 2017, he was a senior vice president of Frontage Labs, responsible for bioanalytical and biologics services. Before joining Frontage Labs, he worked at AstraZeneca Pharmaceuticals LP as a scientist and later on was responsible for global DMPK business. Prior to this, he worked at Avantix Laboratories, Inc. as a senior research scientist and a manager of bioanalytical chemistry from 2000 to 2005.

Dr. Lin also has extensive research and academic experience. He was a research associate at the James Cancer Hospital and Research Institute, Ohio State University, United States. From 1998 to 1999, he was a postdoctoral fellow at the Institute of Ocean Sciences, the Department of Fisheries and Oceans, Canada. Previously, he was a research and teaching assistant at Dalhousie University, United States. From 1987 to 1993, he was an analytical chemist and director at the Modern Instrumental Analysis Laboratory, Yunnan University.

Dr. Lin received his bachelor’s degree majoring in chemistry from Fuzhou Teacher’s College (now known as Minjian University), China in August 1982, his master’s degree majoring in analytical chemistry from Yunnan University, China, in October 1987, and his PhD degree majoring in chemistry from Dalhousie University, Canada, in May 1998. He has also completed post-doctoral research in pharmacokinetics and metabolism at the College of Pharmacy and the Comprehensive Cancer Center of the Ohio State University. He is a member of the American Chemical Society in 2005 and a member of the American Association of Pharmaceutical Scientists. In addition, he is an author of numerous scientific publications.

SENIOR MANAGEMENT *(Continued)*

Dr. Dongmei Wang (“Dr. Wang”), (with former name as 王東梅), aged 57, has been an executive vice president of the Company and Frontage Labs since June 2017, being responsible for global CMC services. She has been working at Frontage Labs since February 2007. From February 2007 to May 2010, she was the vice president, responsible for analytical R&D and project management. From May 2010 to June 2017, she was the senior vice president and general manager, responsible for CMC services. Prior to joining the Group, she worked at NovaDel Pharma Inc. as the director of analytical chemistry.

Dr. Wang received her bachelor’s degree in Chemistry from Peking University, China, in July 1984, her master’s degree in nuclear chemical engineering from the China Institute of Atomic Energy, China, in July 1987, and her PhD degree in inorganic chemistry from Iowa State University, United States in May 1995. In addition, she has obtained the research excellence award from Iowa State University in May 1995.

Dr. Abdul Ezaz Mutlib (“Dr. Mutlib”), aged 60, has been an executive vice president of the Company and Frontage Labs since June 2017, being responsible for our DMPK services. From February 2010 to December 2017, he was the vice president of Frontage Labs. Before joining the Group, he was a director of Wyeth Pharmaceuticals, Inc/Pfizer Inc. Prior to that, he was an associate director of Pfizer Global Research and Development Ann Arbor Laboratories, United States, a senior research associate of DuPont Pharmaceuticals and a research associate of Hoechst-Roussel Pharmaceuticals Company.

Dr. Mutlib received his bachelor’s degree in pharmacy and his PhD degree in pharmaceutical chemistry from the University of Sydney, Australia in 1983 and 1987, respectively. He has also completed post-doctoral fellowships at the University of Washington and the University of British Columbia, Canada.

Dr. Mutlib has been a member of the American Society for Mass Spectrometry since 1990. He has also received numerous awards, including the DuPont Merck Summit Award in 1997, and the Wyeth Team of the Year Award (Quantitative NMR Leader) in 2009. He is also an author of numerous scientific articles and an owner of four patents.

SENIOR MANAGEMENT *(Continued)*

Mr. Glenn Washer (“**Mr. Washer**”), aged 55, was appointed as the president of North American operations in February 2021 and is responsible for overall operations support of the Group’s North American businesses, leading development and implementation of short-term and long-term strategic initiatives, establishing and tracking business Key Performance Indicator (KPI), guiding continuous improvement initiatives, resource management, allocation & prioritization, and regulatory compliance. From March 2020 to January 2021, Mr. Washer was the executive vice president for Global Safety and Toxicology of Frontage Labs.

Mr. Washer has more than 35 years of experience in increasingly responsible roles within the realm of Safety and Toxicology at various companies. Prior to joining Frontage Labs, Mr. Washer served as the president of Charles River Laboratories, Montreal, Canada and as the corporate senior vice president, for Charles River’s North America Safety Assessment sites. He brings a wealth of knowledge and experience to his new role, including extensive executive management experience and profit and loss (P&L) responsibility in regulated contract research and biopharmaceuticals industries with emphasis on multi-site, multi-national CRO management and research and development. Mr. Washer has in-depth knowledge and experience in operations management, merger and acquisition due diligence, integration of new acquisitions, organizational restructuring, and strategic planning.

Mr. Washer graduated from McGill University in 1989 with a bachelor’s degree in physiology and was certified in General Toxicology by the American Board of Toxicology in 1999.

Mr. Yining Qi (“**Mr. Qi**”), aged 58, appointed as the president of China operations in August 2020, is responsible for overall operations and support of Frontage’s operations in China. Mr. Qi joined Frontage in August 2020, and has brought extensive experience in drug development and management served in executive roles with CrownBio, Wuxi AppTec, Merck, Becton Dickinson and other highly regarded organizations.

Mr. Qi received a Master of Business Administration in Pharmaceutical Management from Rutgers University in 2007, a Master of Science in Computer Science from Southeastern University in 1999, a Master of Public Health from Shanxi Medical University in 1991, and a Bachelor of Medicine (M.D. equivalent) from Shanxi Medical University in 1984.

SENIOR MANAGEMENT *(Continued)*

Mr. Matt Vaneman (“**Mr. Vaneman**”), aged 46, appointed as the senior vice president, Operational Excellence & Procurement of Frontage Labs in August 2020, is responsible for identifying and implementing operational efficiencies and best practices across the business units and for oversight of Frontage Labs’ purchasing and procurement.

Mr. Vaneman has more than 20 years of demonstrated success leveraging strategic leadership vision while developing, mentoring, and leading highly skilled, cross-functional teams for productivity, compliance, safety, and operational excellence. His most recent position was with Charles River Laboratories as the vice president of Operational Excellence, a position which included the oversight of multiple Charles River sites and post-acquisition integration teams.

Mr. Vaneman received his bachelor of science in biology from Philadelphia College of Pharmacy and Science.

Mr. Richard Fischetti (“**Mr. Fischetti**”), aged 38, was appointed as the vice president and general counsel of Frontage Labs in March 2020 and is responsible for all of the Group’s legal matters. Mr. Fischetti brings to our Group extensive legal experience, having led numerous strategic transactions for both public and private companies – including mergers & acquisitions, and joint ventures, as well as advising on matters related to corporate governance and shareholder activism.

Prior to joining Frontage Labs, Mr. Fischetti was a partner in the Mergers & Acquisitions Group of Shearman & Sterling LLP, a multinational law firm headquartered in New York City, where he practiced for over a decade.

Mr. Fischetti earned his Bachelor of Art and Juris Doctor (JD) from Rutgers University.

COMPANY SECRETARY

Ms. Karen Ying Lung Chang (“**Ms. Chang**”), aged 57, was appointed as the Company Secretary of the Company on June 20, 2018. She has been an associate solicitor at Chiu & Partners since April 2000, a law firm specializing in listings in Hong Kong and other general commercial transactions.

Ms. Chang received her Bachelor of Arts degree from Tamkang University, Taiwan, in June 1988. She then received her Hong Kong Common Professional Examination Certificate in Laws and Post-graduate Certificate in Laws from the University of Hong Kong, Hong Kong, in June 1996 and June 1997, respectively.

REPORT OF DIRECTORS

The Directors are pleased to present to the shareholders their report and the audited consolidated financial statements of the Group for the year ended December 31, 2020 (the “**Consolidated Financial Statements**”).

PRINCIPAL ACTIVITIES

The principal activities of the Group are to provide laboratory and related services to pharmaceutical, biotechnology companies and agrochemical companies as well as bioequivalence studies. During the Reporting Period, there were no significant changes in the nature of the Group’s principal activities.

The particulars of the Company’s principal subsidiaries are set out in Note 44 to the Consolidated Financial Statements.

BUSINESS REVIEW

A review of the business of the Group including a discussion and analysis of the Group’s performance during the Reporting Period and the material factors underlying its financial performance and financial position, events after the Reporting Period as well as an indication of likely future development in the Group’s business as required by section 388(2) and Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are included in the sections headed “Chairman’s Statement” and “Management Discussion and Analysis” of this annual report, respectively. The future development of the Group’s business is discussed in the section headed “Chairman’s Statement” of this annual report. In addition, further details regarding the Group’s principal risks and uncertainties are included in the section of this annual report. The sections headed “Chairman’s Statement” and “Management Discussion and Analysis” form part of this Directors’ Report.

RESULTS

The results of the Group for the Reporting Period and the Group's financial position as at December 31, 2020 are set out in the Consolidated Financial Statements and their accompanying notes on pages 112 to 243 of this annual report.

DIVIDEND POLICY

The Company has adopted a dividend policy, which sets out the approach in recommending dividends, to allow the Shareholders to participate in the Company's profits and enable the Company to retain adequate reserves for future growth. Before declaring or recommending dividends, the Board shall take into account, among other things, the financial results, the earnings, losses and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the current and future development plans of the Company. The form, frequency and amount of dividend payment by the Company are subject to any restrictions under the memorandum and articles of association of the Company, the applicable laws and regulations of Hong Kong and the Cayman Islands and any other laws and regulations applicable to the Company.

The Board has resolved not to recommend payment of any final dividend for the Reporting Period.

ANNUAL GENERAL MEETING

The annual general meeting ("**AGM**") of the Company is scheduled to be held on Thursday, May 27, 2021. A notice convening the AGM will be published and dispatched to the Shareholders in due course.

CLOSURE OF REGISTER MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, May 24, 2021 to Thursday, May 27, 2021, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, May 21, 2021.

REPORT OF DIRECTORS *(Continued)*

FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group in the form of a comparative table for the last four financial years is set out in the section headed “Financial Highlights” of this annual report. This summary does not form part of the Consolidated Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Reporting Period are set out in Note 17 to the Consolidated Financial Statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 35 to the Consolidated Financial Statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Period are set out in the section headed “Consolidated Statement of Changes in Equity” in the Consolidated Financial Statements.

DISTRIBUTABLE RESERVES

As at December 31, 2020, the aggregate amount of reserves available for distribution to the Shareholders, as calculated under the Companies Law of the Cayman Islands, was approximately US\$53 million.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Shares.

BANK AND OTHER BORROWINGS

Particulars of the bank and other borrowings of the Group as at December 31, 2020 are set out in Note 30 to the Consolidated Financial Statements.

CHARITABLE CONTRIBUTIONS

During the Reporting Period, the Group made charitable contributions totaling approximately US\$0.5 million (2019: approximately US\$3,000).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 26.6% of the total revenue of the Group for the Reporting Period whilst sales to the largest customer accounted for approximately 15.7% of the total revenue of the Group for the Reporting Period.

Purchases from the Group's five largest suppliers accounted for approximately 21.8% of the Group's total purchases during the Reporting Period whilst purchases from the largest supplier accounted for approximately 5.8% of the total purchases of the Group for the Reporting Period.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any Shareholder (whom, to the best knowledge of the Directors, own more than 5% of Company issued share capital) had an interest in any of the five largest customers and suppliers of the Group for the Reporting Period.

DIRECTORS

The Directors during the Reporting Period and up to the date of this annual report were:

Executive Directors

Dr. Song Li, Chairman and Chief Executive Officer (appointed on February 10, 2021)
Dr. Zhihe Li

Non-executive Director

Mr. Jun Gao

Independent Non-executive Directors

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

Pursuant to Article 83(3) of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

REPORT OF DIRECTORS *(Continued)*

DIRECTORS *(Continued)*

Dr. Song Li was appointed as a Director by way of directors' resolution on February 10, 2021. Accordingly, pursuant to Article 83(3) of the Articles of Association, Dr. Song Li will hold office until the AGM and, being eligible, offer himself for re-election at the AGM.

Pursuant to Article 84(1) of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Pursuant to Article 84(2) of the Articles of Association, a retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires and any Director appointed by the Board pursuant to Article 83(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last reelected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Accordingly, pursuant to Article 84 of the Articles of Association, Mr. Jun Gao and Mr. Yifan Li will retire from office at the forthcoming AGM and, being eligible, offer themselves for re-election at the AGM.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

The biographical details of the Directors and senior management of the Group are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in information of the Directors since the publication of the interim report of the Company for the six months ended June 30, 2020, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

- Dr. Song Li has been appointed as the executive Director, chairman of the Board and Chief Executive Office of the Company as well as a member of the Remuneration Committee and Nomination Committee with effect from February 10, 2021.
- Dr. Zhihe Li resigned as the chairman of the Board and the Chief Executive Officer of the Company and ceased to be a member of the Remuneration Committee and Nomination Committee with effect from February 10, 2021.
- Mr. Yifan Li has been appointed as an independent non-executive director of Everest Medicines Limited, a company listed on the Hong Kong Stock Exchange (stock code: 1952) since September 25, 2020.
- Dr. Jingsong Wang has been appointed as an executive director, the chief executive officer and chairman of the board of HBM Holdings Limited, a company listed on the Hong Kong Stock Exchange on December 10, 2020 (stock code: 2142) since July 20, 2016.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE AGREEMENT

Each Director is appointed under a letter of appointment for a term of three years from his respective date of appointment which is terminable by either party by giving three months' written notice to the other party.

None of the Directors proposed for re-election at the AGM has an unexpired letter of appointment which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

REPORT OF DIRECTORS *(Continued)*

DIRECTORS' REMUNERATION

The Directors' fees and other emoluments are supervised by the Remuneration Committee and determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Company as well as the prevailing market conditions. Details of the Directors' remuneration are set out in Note 12 to the Consolidated Financial Statements.

The Company was not aware of any arrangement under which a Director has waived or agreed to waive any emoluments. Details of the remuneration of the Directors and the Group's five highest-paid individuals are set out in Note 12 and Note 13 to the Consolidated Financial Statements of this annual report, respectively.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in Note 42 to the Consolidated Financial Statements and in the section headed "Connected Transactions" below, no Director nor an entity connected with a Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company's holding company, or any of its subsidiaries or fellow subsidiaries was a party during or at the end of the Reporting Period.

MANAGEMENT CONTRACTS

During the Reporting Period, the Company has not entered into any contract with any individuals, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group.

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Articles of Association provide that the Directors or other officers of the Company are entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices.

The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the Reporting Period.

DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Reporting Period was the Company or any of its subsidiaries, the holding company, a party to any arrangement to enable a Director to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Reporting Period, none of the Directors is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at December 31, 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:

REPORT OF DIRECTORS *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES *(Continued)*

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	17,467,187	4,500,000	1.08%
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. In addition, on January 25, 2021, the Board resolved to grant 1,250,000 awarded shares to Dr. Zhihe Li pursuant to the 2021 Share Award Scheme adopted by the Company on January 22, 2021. Such grant remains subject to the fulfillment of the applicable requirements under Chapter 14A of the Listing Rules.
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 December 31, 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, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at December 31, 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	50.70%
Hangzhou Tigermed ⁽¹⁾	Interest of controlled corporation	1,032,964,090	50.70%
Dr. Song Li	Beneficial owner/Trustee/ Founder of the trust ⁽³⁾	161,891,320	7.95%
Hillhouse Capital Advisors, Ltd. ⁽⁴⁾	Investment manager	122,632,000	6.02%
Gaoling Fund, L.P. ⁽⁴⁾	Beneficial owner	115,152,000	5.65%

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 as Hongkong Tigermed.
2. Hongkong Tigermed is the beneficial owner of 957,678,090 Shares and is a lender under a stock borrowing agreement in relation to the loaning of 75,286,000 Shares, which it has a long interest in and will be returned to Hongkong Tigermed.
3. As of the date of this report, Dr. Song Li is the beneficial owner of 25,083,050 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 of the date of this report, hold 45,600,090 Shares, 45,602,090 Shares and 45,606,090 Shares, respectively. On February 28, 2019, the Board resolved to grant 4,700,000 share options to Dr. Song Li pursuant to the 2015 Share Incentive Plan. In addition, on January 25, 2021, the Board resolved to grant 1,850,000 awarded shares to Dr. Song Li pursuant to the 2021 Share Award Scheme adopted by the Company on January 22, 2021. Such grant remains subject to the fulfillment of the applicable requirements under Chapter 14A of the Listing Rules.
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.

REPORT OF DIRECTORS *(Continued)*

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

Interests and Long Positions in Shares *(Continued)*

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 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 SCHEMES

Details of the Company's Share Option Schemes are set out in Note 35 and Note 36 to the Consolidated Financial Statement.

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 which was determined with reference to the fair market value of the shares at the time of the grant.

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.

REPORT OF DIRECTORS *(Continued)*

SHARE OPTION SCHEMES *(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	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at December 31, 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, 25% on December 31, 2021 ⁽¹⁾
Mr. Gao Jun	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	-	8,900,000	-	-	7,550,000	exercisable at any time ⁽²⁾
	September 14, 2017	0.057	19,950,000	-	6,366,000	-	-	13,584,000	one-third in each of 2017, 2018 and 2019 ⁽²⁾
	February 28, 2019	0.200	71,300,000	-	13,251,000	4,275,000	75,000	53,699,000	50% on December 31, 2019, 25% on December 31, 2020, and 25% on December 31, 2021 ⁽¹⁾
Total			<u>115,650,000</u>	<u>-</u>	<u>29,837,000</u>	<u>4,275,000</u>	<u>75,000</u>	<u>81,463,000</u>	

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.

REPORT OF DIRECTORS *(Continued)*

SHARE OPTION SCHEMES *(Continued)*

Pre-IPO Share Incentive Plans *(Continued)*

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

The estimated fair value of the share options granted under the 2015 Share Incentive Plan in 2019 was approximately US\$5,001,000 and detailed as follows. The fair value was calculated using the Black-Scholes model. There were no share options issued during the year ended December 31, 2020 and no more options may be granted under the Pre-IPO Share Incentive Plans upon the Listing of the Company. The equity-settled share based compensation recognised during the Reporting Period are as follow:

	The year ended December 31,	
	2019	2020
	US\$	US\$
Directors	272,000	95,000
Senior management and other employees	2,997,000	840,000

The major inputs into the model are as follows:–

Grant date	As at February 28, 2019
Share price (US\$)	0.22
Exercise price (US\$)	0.20
Expected volatility	30.0%
Expected life (years)	5
Risk-free interest rate	2.5%
Expected dividend yield	–

Share price is determined as the total fair value of the Company's equity divided by the total number of shares. To determine the fair value of the Company's equity value as of grant date, the Group used primarily the discounted cash flow method under the income approach, using cash flow projections based on financial forecasts approved by management covering a five-year period as appropriate and a discount rate of 18% for the options granted on February 28, 2019. Management's assessment is that the Group will arrive at a stable growth stage after a five-year period. Cash flow beyond that five-year period has been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates. The result from the income approach was cross checked with the market approach, which incorporates certain assumptions, including the market performance of comparable listed companies, as well as the financial results and growth trends of the Group, to derive the total equity of the Group.

SHARE OPTION SCHEMES *(Continued)*

Pre-IPO Share Incentive Plans *(Continued)*

The risk-free interest rate was based on the market yield rate of U.S. government bonds with the term corresponding to the contractual life of the options. Expected volatility was determined by using the historical volatility of the comparable companies.

Changes in variables and assumptions may result in changes in the fair values of the share options.

The Group recognized total expenses of approximately US\$935,000 for the Reporting Period (2019: approximately US\$3,269,000) in relation to share options granted by the Company.

2018 SHARE INCENTIVE PLAN

On May 11, 2019, for the primary purpose of attracting, retaining and motivating the personnel of the Group 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 is 200,764,091, being 9.80% of the Shares in issue as at the date of this report. No awards have been granted under the 2018 Share Incentive Plan as at December 31, 2020. In accordance with the Listing Rules, the maximum number of shares issued and to be issued upon exercise of the share options granted to any eligible participant in the 2018 Share Incentive Plan in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. Any further grant of Share Options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their close associates, are subject to approval in advance by the independent non-executive

REPORT OF DIRECTORS *(Continued)*

Directors (excluding the independent non-executive Directors who or whose close associates are the grantees of a share option). In addition, any grant of share options to a substantial shareholder or an independent non-executive Director of the Company, or to any of their close associates, would result in the securities issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: a) representing in aggregate over 0.1% of the relevant class of securities in issue; and b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million, such further grant of share options must be approved by shareholders of the Company (voting by way of a poll). The remaining life of the 2018 Share Incentive Plan is approximately 8 years until May 29, 2029. The offer of a grant of share options may be accepted a period to be determined by the Board upon payment of a consideration of US\$1.00 by the grantee, provided that no such grant shall be open for acceptance after the expiry of the term of the 2018 Share Incentive Plan or after the participant to whom the grant is made has ceased to be a Participant (as defined under the 2018 Share Incentive Plan). Subject to such terms and conditions as the Board may determine, there is no minimum period for which any share option granted under the 2018 Share Incentive Plan must be held before it can be exercised. The exercise price of share options granted under the 2018 Share Incentive Plan will be determined by the Board, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Schemes, no equity-linked agreements were entered into by the Company during the Reporting Period.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group's financial conditions or results to be materially different from the expected or historical results are described below:

(i) Operational Risks

The Group's operation is subject to its customers' demand for its outsourcing services which is subject to, among other things, their own financial performance, their decisions to acquire or develop in-house research and development capacity, their spending priorities, their budgetary policies and practices, the regulatory environment, and their desire to develop new products. In addition, changes in government policy may affect our customers' research and development spending, which in turn could have an impact on their demand for CRO services. Any reduction in research and development spending, or any substantial shift in our customers' research and development spending to projects which we are not competitive for, may adversely impact the demand for our services.

(ii) International Operation Risks

The Company's international operations could subject it to additional risks and expenses that could adversely impact the business or results of operations.

The Company's international operations expose it to risks from failure to comply with foreign laws and regulations that differ from those under which the Company operates in the U.S. In addition, the Company may be adversely affected by other risks of expanded operations in foreign countries, including, but not limited to, changes in reimbursement by foreign governments for services provided by the Company; compliance with export controls and trade regulations; changes in tax policies or other foreign laws; compliance with foreign labor and employee relations laws and regulations; restrictions on currency repatriation; judicial systems that less strictly enforce contractual rights; countries that do not have clear or well-established laws and regulations concerning issues relating to drug development services; countries that provide less protection for intellectual property rights; and procedures and actions affecting approval, production, pricing, reimbursement and marketing of products and services. Further, international operations could subject the Company to additional expenses that the Company may not fully anticipate, including those related to enhanced time and resources necessary to comply with foreign laws and regulations, difficulty in collecting accounts receivable and longer collection periods, and difficulties and costs of staffing and managing foreign operations.

REPORT OF DIRECTORS *(Continued)*

PRINCIPAL RISKS AND UNCERTAINTIES *(Continued)*

(iii) Interest Rate Risks

The Group's borrowings are floating-rate bank loans, which expose the Group to rising interest rates. We will closely monitor the interest rate risk and when appropriate adopt measures to manage the associated risk, including but not limited to, the issuance of fixed rate bonds, and use of derivatives such as interest rate swaps and management of the ratio of fixed or floating loan portfolio. During the Reporting Period, the Group had not carried out any hedging activities to manage its interest rate exposure.

(iv) Currency Risks

The Group principally operates in the U.S. with most of its transactions being settled in US\$, which is the functional currency of most of the Group's entities. The Group also has certain entities that have RMB and EUR sales and purchases, expenses, assets and liabilities and net investments, which expose the Group to foreign currency risks. The Group seeks to limit its exposure to foreign currency risks by closely monitoring and minimizing its net foreign currency position. During the Reporting Period, the Group had not used any derivative contracts to hedge against its exposure to currency risks.

(v) Cybersecurity Risks

We could experience a breach of the confidentiality of the information we hold or of the security of our computer systems.

We operate large and complex computer systems that contain significant amounts of the data of our Company, our employee, and customer. As a routine element of our business, we collect, process, analyze, and retain substantial amounts of data pertaining to the studies we conduct for our customers. Security breaches and unauthorized access to the Company's or its customers' data could harm the Company's reputation and adversely affect its business. During the Reporting Period, we made investments in state-of-the art technology to proactively identify and protect against potential information system disruptions and breaches; to monitor, test and secure key networks and services; and to facilitate prompt resumption of operations if a breach or interruption should occur. Additional resources will continue to be dedicated to expanding the Company's ability to investigate and remediate any cybersecurity vulnerabilities in the context of the ever-evolving cyber liability landscape.

PRINCIPAL RISKS AND UNCERTAINTIES *(Continued)*

(v) Cybersecurity Risks *(Continued)*

We believe that we have taken appropriate measures to protect them from intrusion, and we will continue to improve and enhance our systems in this regard, but in the event that our efforts are unsuccessful, we could suffer significant harm. In addition, as cyber threats continue to evolve, the Company may be required to expend additional resources to continue to enhance the Company's information security measures or to investigate and remediate any information security vulnerabilities. The Company's remediation efforts may not be successful and could result in interruptions, delays or cessation of service. This could also impact the cost and availability of cyber liability insurance to the Company. Breaches of the Company's security measures and the unauthorized dissemination of personal, proprietary or confidential information about the Company or its customers or other third parties could expose customers' confidential and proprietary information. Such breaches could expose customers to the risk of financial or medical identity theft or expose the Company or other third parties to a risk of loss or misuse of this information, result in litigation and potential liability for the Company, damage the Company's brand and reputation or otherwise harm the Company's business. Any of these disruptions or breaches of security could have a material adverse effect on the Company's business, regulatory compliance, financial condition and results of operations.

(vi) Data Privacy and Protection Risks

The legislative and regulatory landscape for privacy and data protection is complex and continually evolving. Data protection regulations have been enacted or updated in regions (i.e. North America, Asia, and Europe) where the Company has operations in or does business in. We are required to comply with the data privacy and security laws in these jurisdictions. Laws and regulations regarding the protection of personal data could result in increased risks of liability or increased cost to us or could limit our service offerings. Failure to comply with these regulations may result in, among other things, civil, criminal and contractual liability, fines, regulatory sanctions and damage to the Company's reputation and may have a significant adverse effect on our business and operations. We have made changes to our business practices and will continue to invest in additional resources to attain compliance with these evolving and complex regulations.

REPORT OF DIRECTORS *(Continued)*

PRINCIPAL RISKS AND UNCERTAINTIES *(Continued)*

(vii) Natural Disasters, Public Health Crises, and Political Crises Risks

We conduct our activities in our facilities located in Exton, Pennsylvania, North Wales, Pennsylvania, Concord, Ohio, USA; Palo Alto, California, USA; Vancouver, Canada; Shanghai, Zhengzhou, Henan, and Suzhou, Jiangsu, China. We depend on these facilities for continued business operations.

Our facilities could be damaged or disrupted by natural disasters, such as earthquakes, tsunamis, power shortages or outages, floods or monsoons, public health crises, such as pandemics and epidemics, political crises, such as terrorism, war, political instability or other conflict, or other events outside of our control. The occurrence of any of these disruptions or other events outside of our control (particularly involving locations in which the Company has operations) could cause significant delays in shipments of our deliverables, reduce our capacity to provide services, eradicate unique manufacturing capabilities and, ultimately, result in material adverse effect on our financial position, results of operations, and cash flows.

(viii) COVID-19 Pandemic

The COVID-19 pandemic is dynamic and expanding. The continuation of this outbreak may have, and the emergence of other epidemic or pandemic crises could have, material adverse effects on our business, results of operations, or financial conditions.

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic is dynamic and expanding, and its ultimate scope, duration and effects are uncertain. This pandemic has and continues to result in, and any future epidemic or pandemic crises may potentially result in, direct and indirect adverse effects on our industry and customers, which in turn has (with respect to COVID-19) and may (with respect to future epidemics or crises) impact our business, results of operations and financial conditions. As a result of the COVID-19 pandemic, we have experienced, and expect to continue to experience, disruptions that have severely impacted, and are expected to continue to impact, our business and our operations, including:

PRINCIPAL RISKS AND UNCERTAINTIES *(Continued)*

(viii) COVID-19 Pandemic *(Continued)*

- deterioration of worldwide, regional or national economic conditions and activities, which adversely affects global demand for our products and services;
- disruptions to our operations as a result of the potential health impact on our employees, and on the workforces of our customers and business partners;
- temporary and/or partial closures of our facilities or the facilities of our customers and third-party service providers or business partners;
- interruption of the operations of global supply chains and those of our suppliers;
- disruptions to our business from, or additional costs related to, new regulations, directives or practices implemented in response to the pandemic, such as travel restrictions, shelter in place/stay in place/work from home orders, increased inspection regimes, hygiene measures (such as quarantining and physical distancing) or increased implementation of remote working arrangements;
- impacts from prolonged remote work arrangements, such as strains on our business continuity plans, cybersecurity risks, and inability of certain employees to perform their work remotely;
- reduced cash flows and financial conditions, including potential liquidity constraints;
- reduced access to capital, including the ability to refinance any existing obligations, as a result of any credit tightening generally or due to declines in global financial markets, including to the prices of publicly-traded equity securities of us, our peers and of listed companies generally;

REPORT OF DIRECTORS *(Continued)*

PRINCIPAL RISKS AND UNCERTAINTIES *(Continued)*

(viii) COVID-19 Pandemic *(Continued)*

- disruption and volatility in the global capital markets, which increases the cost of, and adversely impacts access to, capital and increases economic uncertainty. This volatility and uncertainty adversely affected our stock price, and may again adversely affect our stock price in the future;
- deterioration in the financial conditions and prospects of our customers or attempts by customers, suppliers or service providers to invoke force majeure contractual clauses, or the legal doctrines of impossibility or impracticability (or other similar doctrines) as a result of delays or other disruptions; and
- delays in the commencement of, or the suspension or cancellation of, customer studies.

The COVID-19 pandemic has caused us to modify our business practices, including but not limited to health management of employees, customers and suppliers, compensation practices and capital expenditure planning. We have formed a tiered structure of designated COVID-19 task force teams throughout our organization to identify, implement and monitor such actions as required by the dynamic exigencies arising from the pandemic. Such measures and others may not be sufficient to mitigate all the risks posed by COVID-19, and our ability to perform critical functions could be materially adversely affected.

Although disruption and effects from the COVID-19 pandemic may be temporary, given the dynamic nature of these circumstances and the nature of our worldwide business and operations, the duration of any business disruption and the related financial impact to us cannot be reasonably estimated at this time but could materially affect our business, results of operations and financial conditions.

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\$140.4 million as at December 31, 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 December 31, 2020:

Use of proceeds	Adjusted on a pro rata basis based on the actual net proceeds <i>(US\$ million)</i>	Percentage of total net proceeds	Actual use of proceeds from the date of Listing up to December 31, 2020 <i>(US\$ million)</i>	Net proceeds brought forward for the Reporting Period <i>(US\$ million)</i>	Unutilized net proceeds as at December 31, 2020 <i>(US\$ million)</i>	Expected timeline of utilizing the utilized proceeds
Expand and enhance existing capacities to meet anticipated increased demand for services	38.6	20%	14.6	33.3	24.0	On or before December 31, 2022
Expand and broaden range of capabilities and services organically	77.3	40%	2.5	77.0	74.8	On or before December 31, 2022
Expand capacity and/or capabilities through potential acquisitions	58.0	30%	33.2	51.4	24.8	On or before December 31, 2022
Working capital and general corporate purposes	19.3	10%	2.5	19.3	16.8	On or before December 31, 2022
Total	<u>193.2</u>	<u>100%</u>	<u>52.8</u>	<u>181.0</u>	<u>140.4</u>	

REPORT OF DIRECTORS *(Continued)*

CONNECTED TRANSACTIONS

Details on related party transactions for the year ended December 31, 2020 are set out in note 42 to the Consolidated Financial Statements. Among the related party transactions, the provision of administrative services to Frontida BioPharm, Inc. is regarded as fully exempted continuing connected transactions under Chapter 14A of the Listing Rules. Details of related party transactions which also constitute connected transactions or continuing connected transactions not fully exempted under Rule 14A.73 of the Listing Rules are disclosed below.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

On May 11, 2019, the Company entered into a number of non-exempt continuing connected transactions. These connected transactions of the Company are also related party transactions, which are disclosed in note 42 to the Consolidated Financial Statements in this annual report.

The table below set out the annual caps and the actual transaction amount of such continuing connected transactions for the year ended December 31, 2020:

Continuing Connected Transactions	Connected Person	Description	Pricing Policy	Annual cap	Actual
				for the year ended December 31, 2020 <i>(USD '000)</i>	transaction for the year ended December 31, 2020 <i>(USD '000)</i>
Service Framework Agreement	Hangzhou Tigermed, one of the controlling shareholders	Revenue received from providing laboratory and bioequivalence studies services to the Tigermed Group	Service fee determined through arm's length negotiation	4,200	368
		Fees paid for biometrics services, electronic data capture software services and clinical site management organization services provided by the Tigermed Group	Service fee determined through arm's length negotiation	390	110

NON-EXEMPT CONTINUING CONNECTED TRANSACTION *(Continued)*

The pricing basis for the relevant services provided and received by the Group under the Services Framework Agreement is as follows:

The fees for the laboratory and bioequivalence studies services provided by the Group to the Tigermed Group are agreed and set out in the relevant service agreements which will be determined based on arm's length negotiations after taking into account various factors including (1) the actual cost and expenses incurred in providing such services, (2) the types and nature of the services provided, (3) the expected technical complexity of the required services and duration of the project involved, (4) the market rates for providing the relevant services of similar types and nature and (5) the expected commitment of resources required for providing the relevant services.

The fees for the biometrics services, electronic data capture software services and clinical site management organization services provided by the Tigermed Group to the Group are agreed and set out in the relevant service agreements which will be determined based on arm's length negotiations after taking into account various factors including (1) the requirements of the ultimate client, (2) the types and nature of the services provided, (3) the expected technical complexity of the required services and duration of the project involved, (4) the market rates for providing the relevant services of similar types and nature and (5) the expected commitment of resources required for providing the relevant services.

For detailed terms of the non-exempt continuing connected transactions mentioned above, please refer to the Prospectus.

The independent non-executive Directors have reviewed each of the above-mentioned continuing connected transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better; and
- (3) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION *(Continued)*

The non-exempt continuing connected transactions in relation to the Service Framework Agreement (as defined in the Prospectus) dated May 11, 2019 entered into between the Company and Hangzhou Tigermed expires on December 31, 2021 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months' prior written notice or otherwise in accordance with the terms of the Services Framework Agreement.

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

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

During the Reporting Period, there was no connected transaction of the Group which has to be disclosed in accordance with the Listing Rules, save for the foregoing.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2020, the Group had a total of 1,002 employees, of whom 463 were located in the U.S. and Canada and 539 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\$49.8 million for the Reporting Period, as compared to approximately US\$43.3 million for the year ended December 31, 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.

EMPLOYEES AND REMUNERATION POLICY *(Continued)*

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.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF 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 Reporting Period.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular those that have a significant impact on the Group. The Group would seek professional legal advice from its legal advisers to ensure transactions and business to be performed by the Group are in compliance with the applicable laws and regulations. During the Reporting Period, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

REPORT OF DIRECTORS *(Continued)*

ENVIRONMENTAL POLICIES AND PERFORMANCE

Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction and to minimise the operational impact on the environment and natural resources.

The Group will review its environmental practices from time to time and will implement further eco-friendly measures and practices closely to enhance environmental sustainability.

CORPORATE GOVERNANCE

The Company is committed to fulfilling its responsibilities to its Shareholders and protecting and enhancing Shareholders' value through good corporate governance. The Directors recognize that good corporate governance is essential for the Company to achieve its objectives and drive improvement, as well as maintain legal and ethical standing in the eyes of the Shareholders, regulators and the general public. The Company is committed to the view that the Board should include a balanced composition of the executive Director and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

To the best of the knowledge of the Board, during the Reporting Period, the Company has complied with all the code provisions of the CG Code, except for code provisions A.2.1 and E.1.2. For details, please refer to the section headed "Corporate Governance Report" of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 Reporting Period.

RELATIONSHIPS WITH THE GROUP'S EMPLOYEES

The Group believes that employees are important and valuable assets. The Group will provide trainings for employees to enhance their knowledge in corporate values and culture and to implement them thoroughly. Meanwhile, the Group accelerates development of young leaders and nurtures them in establishing study-oriented teams and keeps them abreast of updated knowledge and timely development.

The Group also aims to provide competitive and attractive remuneration packages to retain the employees. The management reviews annually the remuneration package offered to employees of the Group. Meanwhile, for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations, the Group adopted the Pre-IPO Share Incentive Plans. Information about these plans is set out in the paragraph headed "Share Option Schemes" in the Directors' Report.

RELATIONSHIPS WITH THE GROUP'S CUSTOMERS AND SUPPLIERS

The Group values long standing relationships with its suppliers and customers. The Group aims at delivering high quality services to its customers and developing mutual trust and enhancing communication and commitment between the Group and its suppliers, especially the commercial banks and financial institutions as the Group's businesses are capital intensive which require on-going funding to maintain sustainable growth.

Relationship with our customers

It is our key focus to ensure our services and deliverables are safe, effective and of high quality to our customers. The Group has specifically put in place an in-house quality management system in this respect. For details, please refer to the paragraph headed "Quality Management" in the Management Discussion and Analysis.

Multiple communication channels have been established with the view to providing quality services to our customers, acquiring their feedback and solving their inquiries in a more transparent and effective manner. To take our customer relationships to the next level, we maintain a strong track record of regulatory inspections, achieving efficient, flexible and integrated delivery when required by our customers. Coupled with our high-performance management team, we have proven success in growing our customer base and enhancing customer retentions.

REPORT OF DIRECTORS *(Continued)*

RELATIONSHIPS WITH THE GROUP'S CUSTOMERS AND SUPPLIERS *(Continued)*

Relationship with our suppliers

Given our broad range of services, we procure a wide variety of consumables and equipment, such as test tubes and mass spectrometers. A transparent, responsibility-based procurement policy is put in place to ensure compliance, improve competitiveness of supply chain and hence, promote a sustainable development of supply chain. We have a designated team to oversee supply matters and monitor our suppliers for any incidents or regulatory warnings.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules throughout the Reporting Period and as at the date of this annual report.

IMPORTANT EVENT AFTER THE REPORTING PERIOD

Details of the event after the Reporting Period are set out in Note 45 to the Consolidated Financial Statements.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Material acquisitions of the Group during the Reporting Period are set out in the paragraph headed "Acquisitions" in the Management Discussion and Analysis. Please refer to such paragraph for details of the acquisitions of Biotranex and Acme during the Reporting Period.

Save as disclosed above, the Group had no other material acquisition and disposals of subsidiaries, associates and joint ventures during the Reporting Period.

REVIEW OF THE ANNUAL RESULTS BY AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee currently consists of the non-executive Director, namely Mr. Jun Gao, and two independent non-executive Directors, namely Mr. Yifan Li (Chairman) and Mr. Erh Fei Liu.

The Audit and Risk Management Committee, together with the management of the Company, has reviewed this annual report (including the Consolidated Financial Statements) and the annual results announcement of the Company for the Reporting Period and had submitted the same to the Board for approval. The Audit and Risk Management Committee was of the opinion that the Consolidated Financial Statements, the results announcement and this annual report had been prepared in compliance with the applicable accounting standards, requirements and the Listing Rules, and that adequate disclosure had been made.

INDEPENDENT AUDITOR

Following the resignation of Deloitte Touche Tohmatsu as the auditor of the Company on November 25, 2020, BDO Limited (“**BDO**”) was appointed as the auditor of the Company on the same day to fill the vacancy. Save as disclosed above, there were no other changes in auditor of the Company during the past three years.

The Consolidated Financial Statements were audited by BDO, who will retire and, being eligible, offer itself for re-appointment at the forthcoming AGM. Having been approved by the Board upon the Audit and Risk Management Committee’s recommendation, a resolution for the re-appointment of BDO as the independent auditor of the Company for the ensuing year will be put to the forthcoming AGM for Shareholder’s approval.

On behalf of the Board

Dr. Song Li

Executive Director, Chief Executive Officer and Chairman

Hong Kong, March 29, 2021

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining high standard of corporate governance practices. The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has followed the principles and complied with the code provisions set out in the CG Code which are applicable to the Company, except for the deviation from code provisions A.2.1 and E.1.2 of the CG Code, details of which are explained in the relevant paragraphs of this report.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision-making processes are regulated in a proper and prudent manner.

Chairman and Chief Executive Officer

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, performed these two roles in the Company during the Reporting Period and until February 10, 2021 and Dr. Song Li, the executive Director, performs these two roles in the Company with effect from February 10, 2021. The Board believes that vesting the roles of the chairman and chief executive officer of the Company in the same person can help to 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 considers that the deviation from code provision A.2.1 of the CG Code is appropriate in the circumstances of the Company.

CORPORATE GOVERNANCE CODE *(Continued)*

Chairman and Chief Executive Officer *(Continued)*

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 in 2020, 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 travel restrictions arising from COVID-19, Dr. Song Li, the current chairman of the Board, will use his best endeavors to attend all future Shareholders’ meetings of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Employees of the Group (the “**Relevant Employees**”) who, because of their office or employment, are likely to possess inside information in relation to the Company or its securities are also subject to compliance with the Model Code. After having made specific enquiries with all Directors, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the Reporting Period. No incident of non-compliance of the Model Code by the Relevant Employees was noted by the Company during the Reporting Period.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has put in place a policy on handling and dissemination of inside information which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way to avoid placing any person in a privileged dealing position. The inside information policy also provides guidelines to employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory and listing rule disclosure requirements. The Company has appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Stock Exchange and the Company, according to the requirements of the Listing Rules.

CORPORATE GOVERNANCE REPORT *(Continued)*

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board composition

As at the date of this report, the Board of the Company currently comprises six Directors as follows:—

Executive Directors

Dr. Song Li (*Chief Executive Officer and Chairman*)

Dr. Zhihe Li

Non-executive Director

Mr. Jun Gao

Independent Non-executive Directors

Mr. Yifan Li

Mr. Erh Fei Liu

Dr. Jingsong Wang

The biographical information of the Directors is set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

BOARD OF DIRECTORS *(Continued)*

Board Meetings

The Directors are continually updated with the regulatory requirements, business activities and development of the Company to facilitate the discharge of their responsibilities. Through regular Board meetings, all Directors are kept abreast of the conduct, business activities and development of the Company.

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Regular Board meetings should be held at least four times a year at approximately quarterly intervals involving active participation, either in person or through electronic means of communication, of the Directors. Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

Minutes of the Board and committee meetings are prepared and kept by the company secretary of the Group, and are open for inspection by Directors upon request. All Directors have access to the advice and services of the company secretary, and are allowed to seek external professional advice if needed.

Where necessary, the senior management shall attend regular Board meetings and other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

CORPORATE GOVERNANCE REPORT *(Continued)*

BOARD OF DIRECTORS *(Continued)*

Directors' Attendance Records

During the Reporting Period, four Board meetings, three Audit and Risk Management Committee meetings, one Nomination Committee meeting, one Remuneration Committee meeting and one general meeting were held. The attendance of each Director during the Reporting Period is set out in the table below:

Director	Attendance/Number of meetings				
	Board	Audit and Risk Management Committee	Nomination Committee	Remuneration Committee	General meeting
Executive Director					
Dr. Zhihe Li	4/4	N/A	1/1	1/1	0/1
Non-executive Director					
Mr. Jun Gao	4/4	3/3	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Yifan Li	4/4	3/3	N/A	1/1	0/1
Mr. Erh Fei Liu	3/4	2/3	1/1	N/A	0/1
Dr. Jingsong Wang	4/4	N/A	1/1	1/1	0/1

Apart from regular Board meetings, a meeting between the chairman of the Board and independent non-executive Directors without the presence of other Director was held during the Reporting Period in order to comply with the code provision A.2.7 of the CG Code.

Independent non-executive directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

BOARD OF DIRECTORS *(Continued)*

Appointment and re-election of Directors

According to code provision A.4.1 of the CG Code, non-executive directors shall be appointed for a specific term, subject to re-election, whereas according to code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The executive Director was appointed under a letter of appointment for a term of three years from April 16, 2018 which is terminable by either party by giving three months' written notice to the other party. Each of the non-executive Director and the independent non-executive Directors was appointed under a letter of appointment for a term of three years from April 17, 2018 which is terminable by either party giving three months' written notice to the other party.

In accordance with article 83(3) of the Articles of Association, any Director appointed by the Board shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. For Directors not appointed by the Board, at each annual general meeting, one-third shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Such retiring Director shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including the non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

BOARD OF DIRECTORS *(Continued)*

Responsibilities, Accountabilities and Contributions of the Board and Management *(Continued)*

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company. The Company has received confirmations from the Directors that they have provided sufficient time and attention to the affairs of the Group.

The Directors shall disclose to the Company their interests as director and other office in other public companies and organisations held by them in a timely manner and have updated the Company on any subsequent changes.

The Board reserves, for its decision, all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and key management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors are arranged and reading materials on relevant topics will be circulated to the Directors where appropriate so as to ensure that the Directors understand the condition of the Company and the latest policies from regulatory bodies in a timely manner. All Directors are encouraged to attend relevant training courses at the Company's expenses.

CORPORATE GOVERNANCE REPORT *(Continued)*

BOARD OF DIRECTORS *(Continued)*

Continuous Professional Development of Directors *(Continued)*

During the Reporting Period, the Company organized training sessions conducted by the qualified professionals for all Directors. The training sessions covered a wide range of relevant topics including directors' duties and responsibilities, corporate governance and regulatory updates. In addition, relevant reading materials including compliance manual, legal and regulatory updates and seminar handouts have been provided to the Directors to refresh their knowledge and skills on the roles, functions and duties of a director of listed company.

The Directors are required to provide the Company with details of the continuous professional development trainings undertaken by them from time to time. Based on the details so provided, the training records of the Directors for the Reporting Period are summarized as follows:

	Areas		Directors' roles, functions and duties
	Legal, regulatory and corporate governance	Businesses of the Group	
Executive Director			
Dr. Zhihe Li	✓	✓	✓
Non-executive Director			
Mr. Jun Gao	✓	✓	✓
Independent Non-executive Directors			
Mr. Yifan Li	✓	✓	✓
Mr. Erh Fei Liu	✓	✓	✓
Dr. Jingsong Wang	✓	✓	✓

BOARD COMMITTEES

The Board has established three Board committees, namely, the Audit and Risk Management Committee, the Nomination Committee and the Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are published on the Company's website and the Stock Exchange's website and are available to shareholders upon request. The Board committees are provided with sufficient resources to discharge their duties.

Audit and Risk Management Committee

The Audit and Risk Management Committee consists of the non-executive Director and two independent non-executive Directors. The members of the Audit and Risk Management Committee are:

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

Mr. Yifan Li possesses appropriate professional qualifications and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit and Risk Management Committee is a former partner of the existing external auditor of the Company.

The primary duties of the Audit and Risk Management Committee include overseeing the financial reporting system, risk management and internal control systems of the Group and effectiveness of the internal audit function, reviewing and monitoring the integrity of the financial information of the Company and considering issues relating to the external auditor and its appointment.

BOARD COMMITTEES *(Continued)*

Audit and Risk Management Committee *(Continued)*

The following is a summary of the work performed by the Audit and Risk Management Committee during the Reporting Period:

- reviewed and discussed the annual and interim financial statements, results announcements and reports, the related accounting principles and practices adopted by the Group and the relevant audit findings;
- reviewed and reported on continuing connected transactions carried out during the year ended December 31, 2020;
- reviewed and discussed the effectiveness of financial reporting, risk management and internal control systems of the Group; and
- discussed and recommended the change of auditor and re-appointment of external auditor.

Nomination Committee

As at the date of this report, the Nomination Committee consists of the executive Director and two independent non-executive Directors. The members of the Nomination Committee are:

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

The primary duties of the Nomination Committee include reviewing the structure, size and composition of the Board, developing and formulating relevant procedures for the nomination and appointment of Directors, assessing the independence of the independent non-executive Directors, making recommendations to the Board on the appointment and succession planning of Directors.

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

The following is a summary of the work performed by the Nomination Committee during the Reporting Period:

- reviewed the structure, size and composition of the Board and make recommendations to the Board regarding any proposed changes;
- assessed the independence of the independent non-executive Directors; and
- made recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors.

Board Diversity Policy

The Company has adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of the Board in order to enhance the effectiveness of the Board. Pursuant to the board diversity policy, the Board considers a number of factors when deciding on appointments to the Board and the continuation of those appointments, including but not limited to professional experience, skills, relevant knowledge, gender, age, cultural and education background, ethnicity and length of service. The Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness.

Director Nomination Policy

The Company has a director nomination policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Company considered that, in assessing the suitability of a proposed candidate, the Nomination Committee may make reference to certain criteria, including but not limited to, the experience in the Company principal business and/or the industry in which the Company operates, balance of skills, knowledge and experience on the Board, and various aspects set out in the board diversity policy.

The Nomination Committee had reviewed the director nomination policy to ensure its effectiveness and considered that the Board has a balance of expertise, skills and experience required for the business of the Company for the Reporting Period.

BOARD COMMITTEES *(Continued)*

Remuneration Committee

At as the date of this report, the Remuneration Committee consists of the executive Director and two independent non-executive Directors. The members of the remuneration committee are:

Dr. Jingsong Wang *(Chairman)*

Mr. Yifan Li

Dr. Song Li

The primary functions of the Remuneration Committee include determining, reviewing and making recommendations to the Board on the remuneration packages of individual Directors, the remuneration policy and structure for all Directors; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his/her own remuneration.

The following is a summary of the work performed by the Remuneration Committee during the Reporting Period:

- assessed the performance of the Directors and the senior management; and
- reviewed on the remuneration packages for individual Directors and senior management and made recommendations to the Board.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management (other than Directors) by bands for the Reporting Period is set out below:

Band of remuneration (US\$)	No. of individuals
Less than 300,000	4
300,000 to 500,000	3
More than 500,000	1

Further details of the remuneration of the Directors and the 5 highest paid employees is set out in Note 12 and Note 13 to the Consolidated financial statements.

CORPORATE GOVERNANCE REPORT *(Continued)*

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL REPORT

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report of this annual report.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

During the Reporting Period, the total fees paid/payable to the external auditor of the Company, BDO, in respect of audit and non-audit services are set out below:

Service Category	Fees Paid/Payable <i>(US\$)</i>
Audit Services	217,000
Non-audit Services – Taxation	<u>375,000</u>
Total	<u><u>592,000</u></u>

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management periodically confirms to the Board on the effectiveness of these systems.

The Board oversees the Group's risk management and internal control systems on an ongoing basis, ensuring that a review of the effectiveness of the Group's risk management and internal control systems has been conducted at least annually. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The review covers all material controls, including financial, operational and compliance controls.

The Audit and Risk Management Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems and they have conducted their annual reviews on the effectiveness of the Group's risk management and internal control systems in respect of the Reporting Period.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology, financial, operational and compliance controls. The Board is satisfied that the Group's risk management and internal control systems including financial, operational and compliance controls and risk management functions as appropriate to the Group have been put in place and considers the risk management and internal control systems effective and adequate.

RISK MANAGEMENT AND INTERNAL CONTROLS *(Continued)*

Risk Management

The Company recognizes that risk management is critical to the success of our business. We believe that key operational risks faced by us include changes in the general market conditions and the regulatory environment of the global CRO market and our ability to offer quality drug development services, to manage our anticipated growth and execute on our growth strategies and to compete with other CROs and comply with regulations and industry standards. Please refer to “Principal Risks and Uncertainties” under the section headed “Directors’ Report” of this annual report for a discussion of various risks and uncertainties we face. We also face various market risks. In particular, we are exposed to credit, liquidity, interest rate and currency risks that arise in the normal course of our business.

In order to meet these challenges, the Audit and Risk Management Committee, which is chaired by Mr. Yifan Li, has responsibility for overseeing and managing the overall risks associated with our business operations from time to time. The Audit and Risk Management Committee (i) reviews and approves our risk management policy to ensure that it is consistent with our corporate objectives; (ii) reviews and approves our corporate risk tolerance; (iii) monitors the most significant risks associated with our business operation and our management’s handling of such risks; (iv) reviews our corporate risk in the light of our corporate risk tolerance; and (v) monitors and ensures the appropriate application of our risk management framework across the Group.

Internal Controls

In addition to the arrangements we have put in place pursuant to our risk management framework, we have adopted a series of internal control policies, measures and procedures designed to provide reasonable assurance for achieving objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Below is a summary of the internal control policies, measures and procedures we have implemented and/or plan to implement:

- The Board and senior management oversee and manage the overall risks associated with our business operations;
- We engaged an external independent professional firm as our internal audit advisor to assist the Company’s chief financial officer in carrying out the internal audit function in the Group and to supervise the implementation of our risk management policy at the corporate level;

RISK MANAGEMENT AND INTERNAL CONTROLS *(Continued)*

Internal Controls *(Continued)*

- We have put a policy in place pursuant to which a working group (consisting of representatives from each of our business units) is responsible for identifying the possibility of competition between us and our controlling shareholders based on publicly available information relating to the businesses of our controlling shareholders. Any relevant information is brought to the attention of the Audit and Risk Management Committee who may then decide to escalate it to the Company's Board;
- With this policy in place, we expect to be able to monitor the possibility of competition with our controlling shareholders and make announcements as required in accordance with the Listing Rules and other applicable laws;
- We have engaged Somerley Capital Limited as our compliance adviser to provide advice to our Directors and management team until the end of 2020 regarding matters relating to the Listing Rules. Our compliance adviser has provided support and advice regarding requirements of relevant regulatory authorities in a timely fashion;
- We have an in-house legal team comprising qualified lawyers in the PRC and the US dedicated to advising the Company on laws and regulations of the relevant jurisdictions, and we also engage external counsels from time to time when we require additional support; and
- We arranged various trainings to be provided by external legal advisors from time to time when necessary and/or any appropriate accredited institution to update the Directors, senior management, and relevant employees on the latest laws and regulations in Hong Kong and other relevant jurisdictions.

COMPANY SECRETARY

Ms. Karen Ying Lung Chang is the company secretary of the Company. She reports directly to the Board and is responsible for, among others, providing updated and timely information to all Directors from time to time. Ms. Chang is nominated by an external service provider to assist in company secretarial affairs of the Company.

During the Reporting Period, Ms. Chang has confirmed that she has taken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules. Her biographical details are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. Except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings shall be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to article 58 of the Articles of Association, an extraordinary general meeting may be convened by the Board upon requisition of one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such Members shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition at the Company's Hong Kong office at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There are no provisions allowing Shareholders to put forward new resolutions at the general meetings under the Cayman Islands Companies Law (2018 Revision) or the Articles of Association. However, Shareholders who wish to put forward proposal at general meetings may convene an extraordinary general meeting following the procedures set out above.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

SHAREHOLDERS' RIGHTS *(Continued)*

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Building 2, No. 1227 Zhangheng Road, Pudong, Shanghai, China
Tel: +86 021 50796268 ext. 826
Email: ir@frontagelab.com.cn

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The Company has adopted a Shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. Such policy aims at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. It will be reviewed regularly to ensure its effectiveness and compliance with the prevailing regulatory and other requirements.

To promote effective communication, the Company maintains a website at www.frontagelab.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

CONSTITUTIONAL DOCUMENTS

During the Reporting Period, there had been no significant changes in the constitutional documents of the Company.

INDEPENDENT AUDITOR'S REPORT



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話 : +852 2218 8288
傳真 : +852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

To the Shareholders of Frontage Holdings Corporation

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Frontage Holdings Corporation (the “Company”) and its subsidiaries (together the “Group”) set out on pages 112 to 243, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institutes of Certified Public Accountants (“HKICPA”). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the HKICPA’s “Code of Ethics for Professional Accountants” (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Revenue recognition

We identified revenue recognition of contracts with customers as a key audit matter due to its significance to the consolidated financial statements and the key judgements exercised by the directors in determining whether the performance obligations have been satisfied and the relevant amounts of revenue to be recognised accordingly.

As disclosed in Note 4 to the consolidated financial statements, recognition of service revenue requires key judgements in determining the performance obligations and timing of satisfaction of such performance obligations.

The Group earns services revenues over time by providing bioanalytical services, chemistry, manufacturing and control services, drug metabolism and pharmacokinetic services, safety and toxicology services, bioequivalence services and chemistry services. Also, the selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customers, the Group generally measures its progress using either cost-to-cost (input method) or units produced/ services transferred to the customers to date (output method). During the year ended December 31, 2020, service revenue recognised over time by the Group is approximately US\$125,811,000.

Our response:

Our procedures in relation to the revenue recognition included:

- Understanding the policies, procedures, methods and related controls for the determination of budgeted revenue and budgeted costs;
- Inquiring of management of the Group and inspecting terms of contract research organisation services contracts to evaluate whether accounting policy of the Group complies with IFRS 15 "*Revenue from Contracts with Customers*"; and
- Checking the accuracy and appropriateness of revenue recorded, on a sample basis, by tracing to the services contracts for the key terms of the contracts and obtaining the supporting evidence that prove the performance obligations are satisfied.

INDEPENDENT AUDITOR'S REPORT *(Continued)*

KEY AUDIT MATTERS *(Continued)*

Recognition of goodwill and intangible assets arising from acquisitions

We identified the recognition of goodwill and intangible assets arising from the acquisitions of new subsidiaries namely Biotranex, LLC (“Biotranex”) and Acme Bioscience, Inc. (“Acme”), as a key audit matter due to its significance to the consolidated financial statements and key judgement exercised by the directors in estimating the fair value of assets acquired and liabilities assumed and identifying any separately identifiable intangible assets arising from these acquisitions. Key assumptions include discount rate, the long-term sustainable growth rate and market adjustments with historical performance.

As disclosed in Note 43 to the consolidated financial statements, goodwill arising from acquisition of Biotranex and Acme amounted to approximately US\$1,539,000 and US\$14,034,000, respectively. Intangible assets, including customer relationship, customer backlog, and non-competition clause arising from these acquisitions amounted to approximately US\$9,100,000.

Our response:

Our procedures in relation to the goodwill and intangible assets arising from acquisitions included:

- Inspecting the acquisition agreements in connection with the acquisitions and other relevant documents to identify the key transaction terms and conditions, including the purchase consideration and the completion date which are relevant in considering the accounting treatment for the acquisitions;
- Engaging our internal valuation experts to assist us in evaluating the valuation methodologies used by the directors and the key assumptions adopted in the valuation models, with reference to the requirements of the prevailing accounting standards;
- Challenging the key assumptions adopted in the valuation models for the contingent consideration and intangible assets; and
- Checking the accuracy of the management’s calculation of fair values of intangible assets.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The audit and risk management committee of the Company assists the directors in discharging their responsibility in this regard.

INDEPENDENT AUDITOR'S REPORT *(Continued)*

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our 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.

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

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

OTHER MATTER

The consolidated financial statements of the Group for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on March 30, 2020.

BDO Limited

Certified Public Accountants

Alfred Lee

Practising Certificate no. P04960

Hong Kong, March 29, 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2020

	NOTES	2020 US\$'000	2019 US\$'000
Revenue	5	125,811	100,415
Cost of services		<u>(84,326)</u>	<u>(63,124)</u>
Gross profit		41,485	37,291
Other income	7	6,261	5,545
Other gains and losses, net	8	(139)	1,937
Research and development expenses		(1,841)	(1,530)
Impairment losses (recognised)/reversal on			
– trade receivables		80	(1,064)
– note receivables		–	1,072
– others		(165)	(12)
Selling and marketing expenses		(5,066)	(3,864)
Administrative expenses		(18,829)	(16,368)
Listing expenses		–	(1,564)
Gain on disposal of associates	14	–	27
Share of (loss)/profit of associates	21	(68)	625
Finance costs	9	<u>(2,196)</u>	<u>(1,232)</u>
Profit before tax	10	19,522	20,863
Income tax expense	11	<u>(2,107)</u>	<u>(2,431)</u>
Profit for the year		<u><u>17,415</u></u>	<u><u>18,432</u></u>
Other comprehensive income/(expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		<u>3,219</u>	<u>(421)</u>
Total comprehensive income for the year		<u><u>20,634</u></u>	<u><u>18,011</u></u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the year ended December 31, 2020

	NOTES	2020 US\$'000	2019 US\$'000
Profit for the year attributable to:			
Owners of the Company		17,150	18,424
Non-controlling interests		265	8
		<u>17,415</u>	<u>18,432</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		20,310	17,996
Non-controlling interests		324	15
		<u>20,634</u>	<u>18,011</u>
Earnings per share	15		
– Basic (US\$)		<u>0.0085</u>	<u>0.0102</u>
– Diluted (US\$)		<u>0.0083</u>	<u>0.0099</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2020

	<i>NOTES</i>	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Non-current Assets			
Property, plant and equipment	<i>17</i>	42,445	28,258
Right-of-use assets	<i>18</i>	39,836	21,086
Goodwill	<i>19</i>	22,108	6,250
Intangible assets	<i>20</i>	14,993	7,581
Interests in associates	<i>21</i>	473	541
Deferred tax assets	<i>22</i>	5,154	8,322
Restricted bank deposits	<i>27</i>	300	300
Other long-term deposits		417	417
Long-term note receivable	<i>23</i>	–	105
		125,726	72,860
Current Assets			
Inventories		724	173
Trade and other receivables and prepayments	<i>24</i>	27,251	24,927
Unbilled revenue	<i>25</i>	7,736	7,821
Structured deposits	<i>26</i>	2,452	–
Tax recoverable		4,131	1,287
Restricted bank deposits	<i>27</i>	8	448
Cash and cash equivalents	<i>27</i>	212,087	207,752
		254,389	242,408
Current Liabilities			
Trade and other payables	<i>28</i>	19,601	10,393
Advances from customers	<i>29</i>	17,870	12,845
Bank borrowings	<i>30</i>	–	500
Income tax payable		2,475	1,355
Amounts due to shareholders	<i>32</i>	210	210
Lease liabilities	<i>33</i>	5,191	3,773
		45,347	29,076
Net Current Assets		209,042	213,332
Total Assets less Current Liabilities		334,768	286,192

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at December 31, 2020

	<i>NOTES</i>	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Non-current Liabilities			
Deferred tax liabilities	<i>22</i>	3,126	1,359
Lease liabilities	<i>33</i>	35,431	16,629
Other long-term liabilities	<i>34</i>	7,339	2,926
		<u>45,896</u>	<u>20,914</u>
Net Assets		<u>288,872</u>	<u>265,278</u>
Capital and Reserves			
Share capital	<i>35</i>	20	20
Reserves		<u>287,849</u>	<u>264,579</u>
Equity attributable to owners of the Company		287,869	264,599
Non-controlling interests		<u>1,003</u>	<u>679</u>
Total Equity		<u>288,872</u>	<u>265,278</u>

The consolidated financial statements on pages 112 to 243 were approved and authorised for issue by the board of directors on March 29, 2021 and are signed on its behalf by:

Dr. Song Li, DIRECTOR

Dr. Zhihe Li, DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020

	Reserves										Total
	Share capital US\$'000	Share premium US\$'000	Statutory reserve US\$'000 (/Note)	Foreign currency translation reserve US\$'000	Equity-settled share-based compensation reserve US\$'000	Reorganisation reserve US\$'000	Capital reserve US\$'000	Accumulated profit US\$'000	Total reserves US\$'000	Non-controlling interests US\$'000	
As at January 1, 2019	2	28,419	1,938	(301)	1,889	(9,531)	3,050	18,168	43,632	-	43,634
Profit for the year	-	-	-	-	-	-	-	18,424	18,424	8	18,432
Exchange differences arising from translation of foreign operations	-	-	-	(428)	-	-	-	-	(428)	7	(421)
Total comprehensive income for the year	-	-	-	(428)	-	-	-	18,424	17,996	15	18,011
Transfer from statutory reserve (Note)	-	-	629	-	-	-	-	(629)	-	-	-
Capitalisation issue (Note 35)	13	(13)	-	-	-	-	-	-	(13)	-	-
Ordinary shares issued (Note 35)	5	204,470	-	-	-	-	-	-	204,470	-	204,475
Transaction costs attributable to issue of shares	-	(11,262)	-	-	-	-	-	-	(11,262)	-	(11,262)
Recognition of deferred tax assets related to equity-settled share-based compensation (Note 22)	-	-	-	-	6,487	-	-	-	6,487	-	6,487
Recognition of equity-settled share-based compensation (Note 36)	-	-	-	-	3,269	-	-	-	3,269	-	3,269
Recognition of non-controlling interests related to acquisition (Note 43)	-	-	-	-	-	-	-	-	-	664	664
As at December 31, 2019 and January 1, 2020	20	221,614	2,567	(729)	11,645	(9,531)	3,050	35,963	264,579	679	265,278

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the year ended December 31, 2020

	Reserves								Total		
	Share capital US\$'000	Share premium US\$'000	Statutory reserve US\$'000 <i>(Note)</i>	Foreign currency translation reserve US\$'000	Equity-settled share-based compensation reserve US\$'000	Reorganisation reserve US\$'000	Capital reserve US\$'000	Accumulated profit US\$'000		Total reserves US\$'000	Non-controlling interests US\$'000
As at January 1, 2020	20	221,614	2,567	(729)	11,645	(9,531)	3,050	35,963	264,579	679	265,278
Profit for the year	-	-	-	-	-	-	-	17,150	17,150	265	17,415
Exchange differences arising from translation of foreign operations	-	-	-	3,160	-	-	-	-	3,160	59	3,219
Total comprehensive income for the year	-	-	-	3,160	-	-	-	17,150	20,310	324	20,634
Transfer from statutory reserve <i>(Note)</i>	-	-	5	-	-	-	-	(5)	-	-	-
Exercise of share options <i>(Note 36)</i>	-	4,849	-	-	(1,454)	-	-	-	3,395	-	3,395
<i>(Reversal)/recognition of deferred tax assets related to equity-settled share-based compensation (Note 22)</i>	-	(2,371)	-	-	1,001	-	-	-	(1,370)	-	(1,370)
Recognition of equity-settled share-based compensation <i>(Note 36)</i>	-	-	-	-	935	-	-	-	935	-	935
As at December 31, 2020	20	224,092	2,572	2,431	12,127	(9,531)	3,050	53,108	287,849	1,003	288,872

Note: 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
OPERATING ACTIVITIES		
Profit before tax	<u>19,522</u>	<u>20,863</u>
Adjustments for:		
Depreciation of property, plant and equipment	5,591	4,058
Depreciation of right-of-use assets	4,313	3,229
Amortisation of intangible assets	2,427	226
Impairment losses recognised/(reversal) on		
– trade receivables	(80)	1,064
– note receivables	–	(1,072)
– others	165	12
Share of loss/(profit) of associates	68	(625)
Gain arising from fair value change of previously held interest in an associate	–	(1,841)
Fair value change on financial liabilities measured at fair value through profit or loss (“FVTPL”)	(18)	–
Interest income	(4,143)	(3,267)
Finance costs	2,196	1,232
Net foreign exchange loss/(gain)	133	(2)
Share-based payment expense	935	3,269
Gain on disposal of associates	–	(27)
Loss on disposal of property, plant and equipment	<u>53</u>	<u>32</u>
Operating cash flows before movements in working capital	31,162	27,151
Increase in inventories	(551)	(71)
Increase in long-term note receivable	–	(105)
Increase in trade and other receivables and prepayments and unbilled revenue	(2,771)	(1,171)
Increase/(decrease) in trade and other payables and advances from customers	<u>7,296</u>	<u>(2,076)</u>
Cash generated from operations	35,136	23,728
Income tax paid	<u>(3,482)</u>	<u>(5,000)</u>
NET CASH GENERATED FROM OPERATING ACTIVITIES	<u><u>31,654</u></u>	<u><u>18,728</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended December 31, 2020

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
INVESTING ACTIVITIES		
Net proceeds from disposal of associates	–	4,297
Settlement of consideration from disposal of associates in prior year	3,600	–
Purchase of property, plant and equipment	(14,576)	(12,895)
Proceeds from disposal of property plant and equipment	110	9
Purchase of intangible assets	(528)	(976)
Rental deposits paid	–	(297)
Interest received	4,241	2,517
Acquisition of subsidiaries, net of cash acquired	(16,731)	(5,009)
Placement of structured deposits	(2,448)	–
Placement of restricted bank deposits	–	(1,370)
Withdrawal of restricted bank deposits	440	937
	(25,892)	(12,787)
NET CASH USED IN INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Proceeds from bank borrowings	–	3,000
Repayment of bank borrowings	(500)	(5,667)
Interest paid on bank borrowings	(6)	(117)
Repayment of lease liabilities	(3,612)	(3,375)
Interest paid on lease liabilities	(2,190)	(1,100)
Repayment of loan from a related party	–	(1,500)
Interest paid on loan from a related party	–	(15)
Proceeds from exercise of share options	3,395	–
Proceeds from issuance of ordinary shares	–	204,475
Issue costs paid	–	(9,978)
	(2,913)	185,723
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,849	191,664
CASH AND CASH EQUIVALENTS		
AT THE BEGINNING OF THE YEAR	207,752	16,306
EFFECT OF EXCHANGE RATE CHANGES	1,486	(218)
	212,087	207,752
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR REPRESENTED BY BANK BALANCES AND CASH	212,087	207,752

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

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 Hongkong Limited (the “Stock Exchange”) since May 30, 2019 (“Listing Date”). The immediate holding company of the Company is Hongkong Tigermed Co., Limited (“Hong Kong Tigermed”), a company incorporated under the laws of Hong Kong with limited liability. The ultimate holding company of the Company is Hangzhou Tigermed Consulting Co., Ltd. (“Hangzhou Tigermed”), a company established in Hangzhou, the PRC and whose shares have been listed on the ChiNext market of the Shenzhen Stock Exchange and the Main Board of The Stock Exchange.

The Company is a holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are to provide laboratory and related services to pharmaceutical and agrochemical companies as well as bioequivalence and chemistry services. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The principal place of business in the United States of America (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 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 consolidated financial statements is US\$, which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

(a) Adoption of new/revised IFRSs – effective January 1, 2020

In the current year, 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 Standards Board (the “IASB”) for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2020 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
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 amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements. The Group has not early applied any new or amended IFRSs that is not yet effective for the current accounting year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(Continued)*

(b) New/revised IFRSs that have been issued but are not yet effective

The following new or amended IFRSs, potentially relevant to the Group’s consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁵
Amendments to IAS 16	Proceeds before Intended Use ³
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³
Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendment to IFRS 16	Covid-19-Related Rent Concessions ¹
IFRS 17	Insurance Contracts ⁴
Annual Improvements to IFRSs 2018-2020 ³	

¹ Effective for annual periods beginning on or after June 1, 2020.

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

³ Effective for annual periods beginning on or after January 1, 2022.

⁴ Effective for annual periods beginning on or after January 1, 2023.

⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(Continued)*

(b) New/revised IFRSs that have been issued but are not yet effective *(Continued)*

Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to IAS 16 “Proceeds before Intended Use”

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors are currently assessing the impact that the application of the amendments will have on the Group’s consolidated financial statements.

Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors are currently assessing the impact that the application of the amendments will have on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(Continued)*

(b) New/revised IFRSs that have been issued but are not yet effective *(Continued)*

Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “Reform”). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors do not anticipate that the application of the amendments in the future will have an impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(Continued)*

(b) New/revised IFRSs that have been issued but are not yet effective *(Continued)*

Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The directors anticipate that the application of these amendments may have an impact on the Group’s consolidated financial statements in future periods should such transaction arise.

Amendment to IFRS 16 “Covid-19-Related Rent Concessions”

IFRS 16 “Leases” was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in IFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) the reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(Continued)*

(b) New/revised IFRSs that have been issued but are not yet effective *(Continued)*

Amendment to IFRS 16 “Covid-19-Related Rent Concessions” (Continued)

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of IFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The directors are currently assessing the impact that the application of the amendments will have on the Group’s consolidated financial statements.

IFRS 17 “Insurance Contracts”

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 “*Insurance Contracts*”. The standard outlines a ‘General Model’, which is modified for insurance contracts with direct participation features, described as the ‘Variable Fee Approach’. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors do not anticipate that the application of this standard in the future will have an impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) *(Continued)*

(b) New/revised IFRSs that have been issued but are not yet effective *(Continued)*

Annual Improvements to IFRSs 2018-2020

The annual improvements amends a number of standards, including:

- IFRS 1 “*First-time Adoption of International Financial Reporting Standards*”, which permit a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to IFRSs.
- IFRS 9 “*Financial Instruments*”, which clarify the fees included in the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other’s behalf are included.
- IFRS 16, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- IAS 41 “*Agriculture*” which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The directors do not anticipate that the application of the amendments in the future will have an impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on historical cost basis except for certain financial instrument that is measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “*Share-based Payment*”, leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 “*Inventories*” or value in use in IAS 36 “*Impairment of Assets*”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 “*Income Taxes*” and IAS 19 “*Employee Benefits*”, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 “*Share-based Payment*” at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 “*Non-current Assets Held for Sale and Discontinued Operations*” are measured in accordance with that standard;
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms; and
- Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combinations *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3(b)) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the CGU within group of CGUs in which the Group monitors goodwill). When the Group disposes of an operation within the CGUs (or group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the CGUs disposed of and the portion of the CGUs (or group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under equity method, an interest in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associates other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net interest in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An interest in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the interest an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Interests in associates *(Continued)*

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(e) Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Revenue is recognised when, or as, obligations under the terms of a contract are satisfied, which occurs when control of the promised products or services is transferred to customers. Revenue is measured as the amount of consideration the Group expects to receive in exchange for transferring products or services to a customer ("transaction price").

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Revenue from contracts with customers *(Continued)*

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

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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 recognised in excess of billings are recognised as unbilled revenue and disclosed in the consolidated statement of financial position as unbilled revenue. Amounts billed in accordance with contracted payment schedules but in excess of revenues earned are recognised as contract liabilities and disclosed in the consolidated statement of financial position as advances from customers.

Contracts are terminable by the customers either immediately or upon proper notice specified within the contracts, generally 30 days. A termination fee is generally assessed in addition to the Group being entitled to compensation equivalent to the efforts and costs incurred to satisfy any performance obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Revenue from contracts with customers *(Continued)*

To the extent the transaction price includes variable consideration, the Group estimates the amount of variable consideration that should be included in the transaction price utilising the most likely amount to which the Group expects to be entitled. Variable consideration is included in the transaction price if, in the Group's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Group's anticipated performance and all information (historical, current and forecasted) that is reasonably available. Sales, value added, and other taxes collected on behalf of third parties are excluded from revenue.

The transaction price also includes reimbursable expenses (i.e. out-of-pocket expenses, outside consultants and other reimbursable expenses). Reimbursable expenses which do not represent a transfer of goods or services to the customer are not distinct. Such reimbursable expenses are included in total transaction price for the contract and allocated to individual performance obligations which are satisfied over time.

Contracts with customers may contain multiple performance obligations. For such arrangements, the transaction price is allocated to each performance obligation based on the estimated relative standalone selling prices of the promised products or services underlying each performance obligation, inclusive of reimbursable expenses.

When the sum of the stand-alone transaction prices of those products or services exceeds the promised consideration in a contract, the Group recognises a discount on that particular contract. If the entity does not have observable evidence that the entire discount relates to one or more, but not all performance obligations under the specific contract, the discount is proportionately applied to all performance obligations under a contract.

Contracts are often modified to account for changes in contract specifications and requirements. Contract modifications exist when the modification either creates new, or changes existing, enforceable rights and obligations. Generally, the modification is considered to be a separate contract and revenue is recognised prospectively.

For the services delivered to the customer based on the extent of progress towards completion of the performance obligation, the Group's performance does not create an asset with an alternative future use and the contract terms specify the Group has an enforceable right to payment for performance completed to date, revenue generated from such performance is recognised over time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Revenue from contracts with customers *(Continued)*

The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, the Group generally measures its progress using either cost-to-cost (input method) or units produced/services transferred to the customer to date (output method). The Group uses the known cost measure of progress when it best depicts the transfer of value to the customer which occurs as the Group incurs costs on its contract, generally related to fixed fee service contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is recorded proportionally as costs are incurred. The units produced/services transferred to the customer to date measure of progress is generally related to rate per unit contracts or contracts for the delivery of services, as the extent of progress towards completion is measured based on discrete service or time-based increments, such as samples tested or services transferred.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued for each period, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(f) Leases

Definition of a lease

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

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leases *(Continued)*

Definition of a lease (Continued)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

The Group as a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings and machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leases *(Continued)*

The Group as a lessee (Continued)

Right-of-use assets *(Continued)*

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leases *(Continued)*

The Group as a lessee (Continued)

Lease liabilities *(Continued)*

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group re-measures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leases *(Continued)*

The Group as a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group re-measures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(g) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used.

Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(h) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred. There were no borrowing costs eligible to be capitalised into property, plant and equipment for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expense the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire property, plant and equipment are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(j) Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The Group participates in two defined contribution schemes:

- a) A state-managed retirement benefit scheme in the PRC pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the scheme.
- b) A defined contribution plan in the USA pursuant to which the Group matches 50 cents for every dollar contributed by each qualifying member of staff up to 4% of their salary. The maximum match is 2% of the qualifying member of staff's gross pay.

Payments to such retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

(l) Share-based payment transactions

Equity-settled share-based payments to employees (including directors) are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based transaction (without taking into consideration all non-market vesting condition) is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (equity-settled share-based compensation reserve). At the end of each reporting period, the Group revises its estimates of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the equity-settled share-based compensation reserve.

When the share options are exercised, the amount previously recognised in the equity-settled share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the equity-settled share-based compensation reserve will be transferred to accumulated profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries or associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Taxation *(Continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 “*Income Taxes*” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any.

Freehold lands are not depreciated and are measured at cost less accumulated impairment losses.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property, plant and equipment other than the construction in progress and the land are depreciated on a straight-line basis after taking into account of the residual value as follows:

Furniture, fixtures and equipment (including experiment equipment)	14% – 33% per annum
Transportation equipment	20% per annum
Leasehold improvement	Over the shorter of the lease term or ten years
Buildings	7% per annum

Depreciation is recognised so as to write off the cost of assets other than freehold land and properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. There were no costs incurred in relation to projects in the development phase, as defined by IAS 38 “*Intangible assets*”, during both years.

(p) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The intangible assets recognised by the Group and their useful economic life are as follows:

Intangible assets	Useful economic life
Trade name	1 year
Customer relationship	4-10 years
Software	5-10 years
Customer backlog	1-3 years
Non-competition clause	3-5 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual CGUs, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows of the tangible asset (or the CGU) are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or the CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(s) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 "*Revenue from customers with customers*". Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial assets is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model, whereby changes in fair value, interest income calculated using the effective interest rate method and foreign exchange gains and losses are recognised in profit or loss. Notwithstanding the criteria for debt instruments to be classified at amortised cost, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including long-term note receivable, trade and other receivables, restricted bank deposits and cash and cash equivalents) and other items (unbilled revenue) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and unbilled revenue. The ECL on these assets are assessed collectively using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 *(Continued)*

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, for example, a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets (Continued)

Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default to have occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets (Continued)

Measurement and recognition of ECL *(Continued)*

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables, other receivables are each assessed as a separate group. Long-term note receivable is assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration of an acquirer in a business combination to which IFRS 3 applies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities subsequently measured at amortised cost

Financial liabilities, including trade and other payables, bank borrowings, amounts due to shareholders and lease liabilities, are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and further periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

(a) Judgements in determining the performance obligations and timing of satisfaction of performance obligations for revenue recognition

(i) *Performance obligation determination:*

In making their judgements, the directors consider the detailed criteria for recognition of revenue set out in IFRS 15. In determining performance obligations, the directors consider whether the customer benefits from each service on its own and whether it is distinct in the context of the contract. Specifically, when concluding a contract has multiple performance obligations, the directors consider that the individual performance obligation is regularly sold separately and the service is separately identifiable from other promises within the contract.

(ii) *Timing of satisfaction of performance obligations:*

Significant judgement is required by the directors in determining the timing of satisfaction of performance obligations. In making their judgement, the directors have considered the detailed criteria for recognition of revenue set out in IFRS 15 and in particular, whether the Group has satisfied the performance obligation over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers. The Group has also considered the relevant local laws that apply to those relevant contracts. Based on the assessment of the directors, the terms of the relevant sales contracts create an enforceable right to payment for the Group. Accordingly, the services provided by the Group with no alternative use are considered to be performance obligation satisfied over time.

For the performance obligations that are satisfied over time and the Group uses the output method to determine revenue recognition, the key judgement is that the units produced or services transferred to date relative to the remaining units or services promised under the contract best depict the Group's performance in transferring control of goods or services.

For the performance obligations that are satisfied over time and the Group uses the input method to determine revenue recognition, management has a judgment that the use of known cost measure of progress best depicts the transfer of value of goods or services to the customer. This key judgement involves calculation of performance to date. On partially completed contracts, the Group recognises revenue based on stage of completion of the project which is estimated by comparing the costs incurred on the project with the total costs expected to complete the project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

(a) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU (or group of CGUs) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGU (or a group of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. As at December 31, 2020, the carrying amount of goodwill was US\$22,108,000 (2019: US\$6,250,000).

(b) Estimated loss allowance of trade receivables and unbilled revenue

Upon the application of IFRS 9, management estimates the amount of loss allowance for ECL on trade receivables and unbilled revenue based on the credit risk of trade receivables and unbilled revenue. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the trade receivables and unbilled revenue. The assessment of the credit risk of the trade receivables and unbilled revenue involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly. As at December 31, 2020, the carrying amounts of trade receivables and unbilled revenue were US\$22,827,000 (net of allowance for ECL of US\$3,006,000) and US\$7,736,000 (net of allowance for ECL of US\$459,000), respectively (2019: US\$16,554,000 (net of allowance for ECL of US\$3,353,000) and US\$7,821,000 (net of allowance for ECL of US\$253,000), respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

Key sources of estimation uncertainty *(Continued)*

- (c) *Estimated impairment of property, plant and equipment, right-of-use assets and intangible assets*

Property, plant and equipment, right-of-use assets and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the CGU to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at December 31, 2020, the carrying amounts of property, plant and equipment, right-of-use assets and intangible assets are US\$42,445,000, US\$39,836,000 and US\$14,993,000 (2019: US\$28,258,000, US\$21,086,000 and US\$7,581,000) respectively, and no impairment in respect of property, plant and equipment, right-of-use assets and intangible assets have been recognised (2019: nil).

5. REVENUE

The Group's revenue streams are categorised 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 optimisation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

5. REVENUE *(Continued)*

- Bioequivalence services consist of bioequivalence studies designed, coordinated, and reported by the Group to the customers.
- Chemistry services consist of providing contract research and custom synthesis services for biopharmaceutical company specialising in drug discovery and development.

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Bioanalytical	61,916	53,797
CMC	22,576	16,035
DMPK	16,531	11,921
Safety and Toxicology	10,835	10,315
Bioequivalence	7,531	8,347
Chemistry	6,422	–
	<u>125,811</u>	<u>100,415</u>

All revenue of the Group listed above are recognised 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.

Transaction Price Allocated to Future Performance Obligations

IFRS 15 requires that the Group to disclose the aggregate amount of transaction price that is allocated to each performance obligation that has not yet been satisfied as at year-end. The guidance provides certain practical expedients that limit this requirement and, therefore, for the vast majority of contracts, the Group does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which revenue is recognised at the amount to which the Group has the right to invoice for services performed.

For the service contracts for which the Group does not recognise revenue at the amount to which the Group has the right to invoice for services performed, management has assessed whether there are any contracts with an original expected length greater than one year. While contracts do occasionally extend beyond one year, the timing of the services performed is contingent upon when the customer provides items for testing, and is not subject to a contractual term. Accordingly, for these contracts management is unable to determine whether the original contract term will exceed one year and has not disclosed the related unsatisfied performance obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

6. SEGMENT INFORMATION

Operating segments are determined based on the Group's internal reports which are submitted to 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 organised 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 performance assessment and resources allocation.

The following are the Group's reportable segments under IFRS 8 "*Operating Segments*":

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

6. 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 year ended December 31, 2020

	North America US\$'000	PRC US\$'000	Total US\$'000
Revenue			
– Bioanalytical	40,862	21,054	61,916
– CMC	17,635	4,941	22,576
– DMPK	16,502	29	16,531
– Safety and Toxicology	10,835	–	10,835
– Bioequivalence	–	7,531	7,531
– Chemistry	2,101	4,321	6,422
	<u>87,935</u>	<u>37,876</u>	<u>125,811</u>
Cost of services	(61,975)	(22,351)	(84,326)
Other income	4,190	2,071	6,261
Other gains and losses, net	59	(198)	(139)
Research and development expenses	–	(1,841)	(1,841)
Impairment losses recognised			
on trade receivables and others	(83)	(2)	(85)
Selling and marketing expenses	(4,216)	(850)	(5,066)
Administrative expenses	(14,528)	(4,301)	(18,829)
Share of loss of associates	(68)	–	(68)
Finance costs	(1,665)	(531)	(2,196)
Profit before tax	<u>9,649</u>	<u>9,873</u>	<u>19,522</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

6. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended December 31, 2019

	North America <i>US\$'000</i>	PRC <i>US\$'000</i>	Total <i>US\$'000</i>
Revenue			
– Bioanalytical	35,261	18,536	53,797
– CMC	15,263	772	16,035
– DMPK	11,921	–	11,921
– Safety and Toxicology	10,315	–	10,315
– Bioequivalence	–	8,347	8,347
	<u>72,760</u>	<u>27,655</u>	<u>100,415</u>
Cost of services	(48,770)	(14,354)	(63,124)
Other income	3,495	2,050	5,545
Other gains and losses, net	96	1,841	1,937
Research and development expenses	–	(1,530)	(1,530)
Impairment losses recognised on trade receivables, note receivables and others	–	(4)	(4)
Selling and marketing expenses	(2,941)	(923)	(3,864)
Administrative expenses	(13,916)	(2,452)	(16,368)
Gain/(loss) on disposal of associates	56	(29)	27
Share of profit of associates	236	389	625
Finance costs	(774)	(458)	(1,232)
Segment profit	<u>10,242</u>	<u>12,185</u>	22,427
Unallocated listing expenses			<u>(1,564)</u>
Profit before tax			<u>20,863</u>

The accounting policies of reportable segments are the same as the Group's accounting policies described in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

6. SEGMENT INFORMATION *(Continued)*

Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended December 31, 2020

	North America <i>US\$'000</i>	PRC <i>US\$'000</i>	Total <i>US\$'000</i>
Depreciation of property, plant and equipment	(3,435)	(2,156)	(5,591)
Depreciation of right-of-use assets	(2,997)	(1,316)	(4,313)
Amortisation of intangible assets	(1,857)	(570)	(2,427)
Interest income	3,835	308	4,143
Loss on disposal of property, plant and equipment	—	(53)	(53)

For the year ended December 31, 2019

	North America <i>US\$'000</i>	PRC <i>US\$'000</i>	Total <i>US\$'000</i>
Depreciation of property, plant and equipment	(2,541)	(1,517)	(4,058)
Depreciation of right-of-use assets	(2,201)	(1,028)	(3,229)
Amortisation of intangible assets	(137)	(89)	(226)
Interest income	3,032	235	3,267
Loss on disposal of property, plant and equipment	(29)	(3)	(32)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

6. 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, analysed by the customer's respective country/region of operation, is presented below:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Revenue from external customers		
– USA	78,082	58,982
– PRC	33,984	30,284
– Rest of the world	<u>13,745</u>	<u>11,149</u>
	<u><u>125,811</u></u>	<u><u>100,415</u></u>

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Non-current assets excluding financial assets and deferred tax assets		
– North America	89,339	38,851
– PRC	<u>30,516</u>	<u>24,865</u>
	<u><u>119,855</u></u>	<u><u>63,716</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

6. SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

Information about major customers

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Company A	<u>19,710</u>	<u>19,452</u>

7. OTHER INCOME

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Interest income	4,143	3,267
Government grants related to income <i>(note)</i>	942	454
Income from rendering service	<u>1,176</u>	<u>1,824</u>
	<u>6,261</u>	<u>5,545</u>

Note: During the year ended December 31, 2020, the Group recognised government grants of US\$286,000 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\$230,000 relates to Bureau of Workman's Compensation provided by the USA 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

8. OTHER GAINS AND LOSSES, NET

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Net foreign exchange (loss)/gain	(133)	2
Gain arising on fair value change of previously held interest in an associate	–	1,841
Fair value change on financial liabilities measured at FVTPL <i>(Note 34(b))</i>	18	–
Loss on disposal of property, plant and equipment	(53)	(32)
Others	29	126
	<u>(139)</u>	<u>1,937</u>

9. FINANCE COSTS

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Interest expense on lease liabilities	2,190	1,100
Interest expense on bank borrowings	6	117
Interest expense on loans from a related party	–	15
	<u>2,196</u>	<u>1,232</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Staff costs (including directors' emoluments):		
– Salaries and other benefits	49,803	43,287
– Share-based payment expense	935	3,269
– Retirement benefit scheme contributions	1,404	1,107
	<u>52,142</u>	<u>47,663</u>
Auditors' remuneration	<u>217</u>	<u>880</u>

11. INCOME TAX EXPENSE

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Current tax:		
– PRC Enterprise Income Tax ("EIT")	1,578	1,153
– US Federal Tax	(214)	3,120
– US State Tax	(13)	1,312
Over provision of EIT, US Federal Tax and US State Tax in prior year	<u>(249)</u>	<u>(712)</u>
	<u>1,102</u>	<u>4,873</u>
Deferred tax:		
– Current year	<u>1,005</u>	<u>(2,442)</u>
Total income tax expense	<u>2,107</u>	<u>2,431</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

11. INCOME TAX EXPENSE *(Continued)*

Frontage Laboratories, Inc. (“Frontage Labs”) is subject to Federal and State Income taxes, the effective combined income tax rate is 24.27% for the year ended December 31, 2020 (2019: 25.20%). The Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on 22 December 2017. The 2017 Tax Act includes a tax on the mandatory deemed repatriation of accumulated previously untaxed foreign earnings (the “Transition Tax”). The USA entities are subject to Transition Tax for the years ended December 31, 2020 and December 31, 2019, which is included in the Federal tax expense above.

BRI Biopharmaceutical Research, Inc. (“BRI”), as a non-Canadian-controlled private corporation (“CCPC”) and engaged in active business in British Columbia, has been subject a flat tax rate of 27% since December 13, 2019.

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 the beginning of 2017. Frontage Shanghai renewed its status in November 2020, and entitled to a preferential tax rate of 15% for another three-year period commencing from the beginning of 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.

Acme Biopharma Co. (Shanghai) Ltd. (“Acme Shanghai”), a wholly owned subsidiary of the Group in the PRC, was accredited as an “Advanced Technology Enterprise” in December 2019 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2019.

The group entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits for the year ended December 31, 2020. On March 21, 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The two-tiered profits tax rates regime is applicable to the Group’s Hong Kong subsidiaries with estimated assessable profits for its annual reporting periods ending on or after April 1, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

11. INCOME TAX EXPENSE *(Continued)*

The group entities incorporated in the Cayman Islands are not subject to income or capital gains tax under the law of the Cayman Islands.

The income tax expense for the year can be reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Profit before tax	<u>19,522</u>	<u>20,863</u>
Tax charge at effective combined income tax rate of 24.27% (2019: 25.20%)	4,738	5,257
Tax effect of share of loss/(profit) of associates	17	(158)
Tax effect of income that is exempted from taxation	(181)	(493)
Tax effect of expenses not deductible for tax purpose	631	840
Utilisation of tax losses and deductible temporary difference previously not recognised	(464)	(523)
Over provision in respect of prior year	(249)	(712)
Effect of research and development expenses that are additionally deducted	(335)	(290)
Tax at concessionary rate	(1,013)	(1,179)
Effect on deferred tax assets or liabilities resulting from change in applicable tax rate	753	(298)
Effect of different tax rate of subsidiaries operating in other jurisdiction	(4)	(13)
Excess deduction from stock-based compensation	<u>(1,786)</u>	<u>–</u>
Income tax expense	<u>2,107</u>	<u>2,431</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the emoluments paid or payable to the directors and the chief executive officer of the Company (including emoluments for their services as managerial level employees of group entities prior to becoming the directors) for the services provided to the Group during the year are as follows:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Executive Director and Chief Executive Officer:		
Dr. Zhihe Li <i>(note)</i>		
– director's fee	–	–
– salaries and other benefits	340	340
– performance-based bonus	51	68
– retirement benefits scheme contributions	4	3
– share-based compensation	66	188
	<u>461</u>	<u>599</u>
Non-executive Director:		
Mr. Jun Gao		
– director's fee	22	13
– salaries and other benefits	–	–
– performance-based bonus	–	–
– retirement benefits scheme contributions	–	–
– share-based compensation	29	84
	<u>51</u>	<u>97</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Independent Non-executive Directors:		
Mr. Yifan Li		
– director's fee	45	26
– salaries and other benefits	–	–
– performance-based bonus	–	–
– retirement benefits scheme contributions	–	–
– share-based compensation	–	–
	<u>45</u>	<u>26</u>
Mr. Erh Fei Liu		
– director's fee	45	26
– salaries and other benefits	–	–
– performance-based bonus	–	–
– retirement benefits scheme contributions	–	–
– share-based compensation	–	–
	<u>45</u>	<u>26</u>
Dr. Jingsong Wang		
– director's fee	45	26
– salaries and other benefits	–	–
– performance-based bonus	–	–
– retirement benefits scheme contributions	–	–
– share-based compensation	–	–
	<u>45</u>	<u>26</u>

Note:

Dr. Song Li was appointed as executive director and chief executive officer, and Dr. Zhihe Li resigned from such position but continues to serve as an executive director, on February 10, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

The performance-based bonus is discretionary based on the performance of the individual and the Group.

The executive director's emoluments shown above were for his service in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown above were for his services as director of the Company.

The independent non-executive directors' emoluments shown above were for their services as directors.

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in Note 36 to the Group's consolidated financial statements.

During the years ended December 31, 2020 and 2019, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments.

13. FIVE HIGHEST PAID INDIVIDUALS

The five individuals with the highest emoluments in the Group during the year do not include any director (2019: none) of the Company, details of whose remuneration are set out in Note 12 above. The emoluments of the five highest paid individuals during the year were as follows:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Salaries and other benefits	1,748	1,737
Performance-based bonus	419	1,163
Retirement benefits scheme contributions	19	20
Share-based compensation	348	1,264
	<u>2,534</u>	<u>4,184</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

13. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The emoluments of the five highest paid individuals were within the following bands:

	Number of Individuals	
	2020	2019
HK\$3,000,001 to HK\$3,500,000	2	–
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$4,500,001 to HK\$5,000,000	1	–
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$6,000,001 to HK\$6,500,000	–	2
HK\$6,500,001 to HK\$7,000,000	–	1
HK\$7,500,001 to HK\$8,000,000	–	1
	<u>5</u>	<u>5</u>

Included in the five highest paid individuals is Dr. Song Li, a substantive shareholder of the Company. His emoluments during the year ended December 31, 2020 were US\$564,000 (2019: US\$815,000).

14. DISPOSAL OF ASSOCIATES

Disposal of Tigermed-BDM Inc. (“Tigermed-BDM”)

On June 30, 2019, the Group disposed all its 45% equity interests in Tigermed-BDM to Hong Kong Tigermed in consideration of US\$7,200,000. Before the disposal, Tigermed-BDM was accounted for as an interest in an associate using equity method. This transaction has resulted in the Group recognising a gain of US\$56,000 in profit or loss, calculated as follows:

	<i>US\$'000</i>
Proceeds	7,200
Less: carrying amount of the 45% equity interests on the date of loss of significant influence of Tigermed-BDM	<u>7,144</u>
Gain recognised in profit or loss	<u>56</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

14. DISPOSAL OF ASSOCIATES *(Continued)*

Disposal of Tigermed-BDM Inc. (“Tigermed-BDM”) *(Continued)*

On July 12, 2019, the Group received US\$3,600,000 cash from Hong Kong Tigermed, which representing 50% of the total consideration for the disposal of Tigermed-BDM.

On December 2, 2019, Hong Kong Tigermed, Hong Kong Tigermed Healthcare Technology Co., Ltd. (“Hong Kong Tigermed Healthcare”, a wholly owned subsidiary of Hong Kong Tigermed) and Frontage Labs entered into a tri-parties agreement, pursuant to which the three parties agreed to change the transferee of Tigermed-BDM from Hong Kong Tigermed to Hong Kong Tigermed Healthcare.

On January 8, 2020, the Group received the remaining 50% of the consideration of US\$3,600,000 which was recorded as note receivable as at December 31, 2019 from Hong Kong Tigermed Healthcare.

Disposal of Tigermed-Xinze Medical Technology (Jiaxing) Co., Ltd. (“Tigermed-Xinze”)

On July 22, 2019, the Group disposed all its 45% equity interests in Tigermed-Xinze to Hangzhou Tigermed in consideration of US\$697,000. Before the disposal, Tigermed-Xinze was accounted for as an interest in an associate using equity method. This transaction has resulted in the Group recognising a loss of US\$29,000 in profit or loss, calculated as follows:

	<i>US\$'000</i>
Proceeds	697
Less: carrying amount of the 45% equity interests on the date of loss of significant influence of Tigermed-Xinze	<u>726</u>
Loss recognised in profit or loss	<u><u>(29)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

15. 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:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	<u>17,150</u>	<u>18,424</u>
Number of Shares:		
	2020	2019
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,012,359,226	1,802,751,622
Effect of dilutive potential ordinary shares:		
Share options	<u>66,178,652</u>	<u>57,440,054</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>2,078,537,878</u>	<u>1,860,191,676</u>

The computation of basic and diluted earnings per share for the year ended December 31, 2019 is based on weighted average number of shares assumed to be in issue after taking into account the retrospective adjustments on the Capitalisation Issue as disclosed in Note 35 had been in effect on January 1, 2019.

The computation of diluted earnings per share for the year ended December 31, 2019 does not assume the exercise of the Company's over-allotment options granted pursuant to the listing of the Company's shares in the Hong Kong Stock Exchange as the exercise price of the options was higher than the average market price for the shares during the outstanding period.

16. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended December 31, 2020, nor has any dividend been proposed since the end of the reporting period (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

17. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>US\$'000</i>	Transportation equipment <i>US\$'000</i>	Leasehold improvement <i>US\$'000</i>	Buildings <i>US\$'000</i>	Land <i>US\$'000</i>	Construction in progress <i>US\$'000</i>	Total <i>US\$'000</i>
COST							
As at January 1, 2019	31,666	65	3,205	2,529	1,830	617	39,912
Additions	7,760	68	1,902	341	-	2,824	12,895
Acquisition of subsidiaries <i>(Note 43)</i>	1,659	19	196	-	-	-	1,874
Transferred from right-of-use assets upon exercise of purchase option <i>(Note 18)</i>	1,255	-	-	-	-	-	1,255
Disposals	(1,236)	(5)	-	-	-	-	(1,241)
Transferred from construction in progress	338	-	8	268	-	(614)	-
Exchange adjustments	(192)	(1)	(14)	-	-	-	(207)
As at December 31, 2019 and January 1, 2020	41,250	146	5,297	3,138	1,830	2,827	54,488
Additions	8,728	125	2,266	-	-	5,526	16,645
Acquisition of subsidiaries <i>(Note 43)</i>	1,054	-	224	-	-	-	1,278
Transferred from right-of-use assets upon exercise of purchase option <i>(Note 18)</i>	2,871	-	-	-	-	-	2,871
Disposals	(988)	(68)	-	-	-	-	(1,056)
Exchange adjustments	1,926	12	161	-	-	35	2,134
As at December 31, 2020	54,841	215	7,948	3,138	1,830	8,388	76,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Furniture, fixtures and equipment <i>US\$'000</i>	Transportation equipment <i>US\$'000</i>	Leasehold improvement <i>US\$'000</i>	Buildings <i>US\$'000</i>	Land <i>US\$'000</i>	Construction in progress <i>US\$'000</i>	Total <i>US\$'000</i>
DEPRECIATION AND IMPAIRMENT							
As at January 1, 2019	(20,247)	(51)	(2,327)	(124)	-	-	(22,749)
Provided for the year	(3,663)	(8)	(204)	(183)	-	-	(4,058)
Transferred from right-of-use assets upon exercise of purchase option <i>(Note 18)</i>	(703)	-	-	-	-	-	(703)
Eliminated on disposals	1,195	5	-	-	-	-	1,200
Exchange adjustments	86	1	(7)	-	-	-	80
As at December 31, 2019 and January 1, 2020	(23,332)	(53)	(2,538)	(307)	-	-	(26,230)
Provided for the year	(4,720)	(13)	(592)	(266)	-	-	(5,591)
Transferred from right-of-use assets upon exercise of purchase option <i>(Note 18)</i>	(1,872)	-	-	-	-	-	(1,872)
Eliminated on disposals	892	1	-	-	-	-	893
Exchange adjustments	(1,089)	(2)	(24)	-	-	-	(1,115)
As at December 31, 2020	(30,121)	(67)	(3,154)	(573)	-	-	(33,915)
NET BOOK VALUES							
As at December 31, 2020	24,720	148	4,794	2,565	1,830	8,388	42,445
As at December 31, 2019	17,918	93	2,759	2,831	1,830	2,827	28,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

18. RIGHT-OF-USE ASSETS

The Group as lessee

Right-of-use assets

	Leased properties <i>US\$'000</i>	Experiment equipment <i>US\$'000</i>	Office equipment <i>US\$'000</i>	Total <i>US\$'000</i>
As at January 1, 2019				
Carrying amount	12,924	5,721	94	18,739
As at December 31, 2019 and January 1, 2020				
Carrying amount	15,094	5,853	139	21,086
As at December 31, 2020				
Carrying amount	30,234	9,475	127	39,836
For the year ended December 31, 2019				
Depreciation charge	2,108	1,095	26	3,229
For the year ended December 31, 2020				
Depreciation charge	3,178	1,091	44	4,313
			2020	2019
			<i>US\$'000</i>	<i>US\$'000</i>
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16			13	7
Expense relating to leases of low-value assets, excluding short-term leases of low value assets			1	6
Total cash outflow for leases			5,816	4,488
Additions to right-of-use assets			22,385	6,237
Transferred to property, plant and equipment upon exercise of purchase option (<i>Note 17</i>)			(999)	(552)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

18. RIGHT-OF-USE ASSETS *(Continued)*

The Group as lessee *(Continued)*

Right-of-use assets (Continued)

For both years, the Group leases various offices equipment, and machineries for its operations. Lease contracts are entered into for fixed term of 3 years to 25 years (2019: 3 years to 5 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly enters into short-term leases for office equipment. As at December 31, 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Restrictions or covenants on lease

In addition, lease liabilities of US\$40,622,000 (2019: US\$20,402,000) are recognised with related right-of-use assets of US\$39,836,000 (2019: US\$21,086,000) as at December 31, 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases committed

As at December 31, 2020, the Group entered into a new lease for machineries that have not yet commenced, with non-cancellable period of 5 years (2019: 10 to 25 years), excluding period under extension options, the total future undiscounted cash flows over the non-cancellable period amounted to US\$664,000 (2019: US\$33,978,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

19. GOODWILL

	<i>US\$'000</i>
COST AND CARRYING VALUES	
At January 1, 2019	–
Arising on acquisition of subsidiaries	6,183
Exchange adjustments	<u>67</u>
At December 31, 2019 and January 1, 2020	6,250
Arising on acquisition of subsidiaries	15,573
Exchange adjustments	<u>285</u>
At December 31, 2020	<u><u>22,108</u></u>

Goodwill acquired through business combinations is allocated to the following CGUs for impairment testing:

- Acme Bioscience, Inc. (“Acme”) CGU;
- Frontage Suzhou CGU;
- Biotranex, LLC (“Biotranex”) CGU;
- RMI Laboratories, LLC (“RMI”) CGU; and
- BRI CGU.

The carrying amount of goodwill allocated to each of the CGUs are as follows:

	2020	2019
	<i>US\$'000</i>	<i>US\$'000</i>
Acme CGU	14,034	–
Frontage Suzhou CGU	4,237	3,963
Biotranex CGU	1,539	–
RMI CGU	1,273	1,273
BRI CGU	<u>1,025</u>	<u>1,014</u>
	<u><u>22,108</u></u>	<u><u>6,250</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

19. GOODWILL *(Continued)*

Apart from the recoverable amounts mentioned below which have been determined by their respective fair value less costs of disposal as at December 31, 2019, the recoverable amounts of other CGUs have been determined based on value-in-use calculations using pre-tax cash flow projections, which is based on financial budgets approved by management.

Frontage Suzhou, RMI and BRI were all acquired by the Group before the end of the year ended December 31, 2019. At December 31, 2019, the recoverable amounts of Frontage Suzhou CGU, RMI CGU and BRI CGU were determined by their fair value less costs of disposal with reference to respective sales and purchase agreements in connection with respective acquisitions. The directors are of the opinion that the considerations could be considered as fair value as the agreements were entered into with independent third parties on an arm's length basis. Please refer to Note 43 for details.

Assumptions were used in the value-in-use calculations of other CGUs as at December 31, 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

The cash flow projections were based on financial budgets covering a period approved by management as follows:

Acme CGU	5 years
Frontage Suzhou CGU	5 years
Biotranex CGU	5 years
RMI CGU	5 years
BRI CGU	5 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

19. GOODWILL *(Continued)*

The cash flow projections beyond the 5-year period are extrapolated using expected growth rates of revenue as follows:

	2020	2019
	%	%
Acme CGU	3	N/A
Frontage Suzhou CGU	3	N/A
Biotranex CGU	3	N/A
RMI CGU	3	N/A
BRI CGU	3	N/A

This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry.

The discount rates applied to the cash flow projections are as follows:

	2020	2019
	%	%
Acme CGU	20	N/A
Frontage Suzhou CGU	22	N/A
Biotranex CGU	20	N/A
RMI CGU	21	N/A
BRI CGU	20	N/A

The discount rates used are pre-tax and reflect specific risk relating to the relevant units.

The discount rate is the expected return of the Group's assets that reflects current market assessments of the time value of money and the specific risk associated with the CGU, after taking into account the weighted average cost of equity and debt.

Other key assumptions for the value-in-use calculations related to the estimation of cash inflows/outflows include budgeted sales and gross margins, such estimation is based on the CGU's past performance and management's expectations for the market development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

20. INTANGIBLE ASSETS

	Trade name <i>US\$'000</i>	Customer relationship <i>US\$'000</i>	Software <i>US\$'000</i>	Customer backlog <i>US\$'000</i>	Non- competition clause <i>US\$'000</i>	Total <i>US\$'000</i>
COST						
As at January 1, 2019	100	–	–	–	–	100
Additions	–	–	976	–	–	976
Acquisition of subsidiaries <i>(Note 43)</i>	–	4,173	926	881	776	6,756
Exchange adjustments	–	41	2	7	–	50
As at December 31, 2019 and January 1, 2020	100	4,214	1,904	888	776	7,882
Additions	–	–	528	–	–	528
Acquisition of subsidiaries <i>(Note 43)</i>	–	5,600	–	1,000	2,500	9,100
Exchange adjustments	–	110	92	48	1	251
As at December 31, 2020	100	9,924	2,524	1,936	3,277	17,761
AMORTISATION AND IMPAIRMENT						
As at January 1, 2019	(75)	–	–	–	–	(75)
Provided for the year	(25)	(48)	(49)	(65)	(39)	(226)
As at December 31, 2019 and January 1, 2020	(100)	(48)	(49)	(65)	(39)	(301)
Provided for the year	–	(700)	(493)	(720)	(514)	(2,427)
Exchange adjustments	–	(7)	(18)	(15)	–	(40)
As at December 31, 2020	(100)	(755)	(560)	(800)	(553)	(2,768)
NET BOOK VALUES						
As at December 31, 2020	–	9,169	1,964	1,136	2,724	14,993
As at December 31, 2019	–	4,166	1,855	823	737	7,581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

21. INTERESTS IN ASSOCIATES

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Cost of unlisted investments in associates	1,180	1,180
Share of post-acquisition losses	(707)	(639)
	<u>473</u>	<u>541</u>

The Group had interests in the following principal associates at the end of reporting period:

Name of associates	Place of incorporation/ establishment	Registered capital	Proportion of ownership interest/voting rights held by the Group as at December 31,		Principal Activities
			2020	2019	
FJ Pharma LLC	USA	US\$2,000,000	49%	49%	Contract pharmacology services
Frontage Clinical Services, Inc. ("Frontage Clinical")	USA	US\$1,500	11.91%	11.91%	Contract development organisation services

All of these associates are accounted for using the equity method in these consolidated financial statements.

Aggregate information of associates that are not individually material

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Aggregate carrying amount of the Group's associates in the consolidated financial statements	<u>473</u>	<u>541</u>
	<u>2020 <i>US\$'000</i></u>	<u>2019 <i>US\$'000</i></u>
Share of (losses)/profits and total comprehensive income of associates	<u>(68)</u>	<u>625</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

22. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is a summary of the deferred tax balances for financial reporting purposes:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Deferred tax assets	5,154	8,322
Deferred tax liabilities	<u>(3,126)</u>	<u>(1,359)</u>
	<u>2,028</u>	<u>6,963</u>

The followings are the major deferred tax assets and liabilities recognised and movements thereon before offsetting:

	Impairment allowance <i>US\$'000</i>	Stock compensation <i>US\$'000</i>	Accelerated tax depreciation <i>US\$'000</i>	Advances from customers <i>US\$'000</i>	Intangible assets <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
As at January 1, 2019	858	408	(1,846)	-	-	(119)	(699)
Credited/(charged) to profit or loss	33	416	(208)	523	27	1,651	2,442
Credited to reserves	-	6,487	-	-	-	-	6,487
Acquisition of subsidiaries <i>(Note 43)</i>	8	-	-	-	(1,380)	114	(1,258)
Exchange adjustments	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6)</u>	<u>(1)</u>	<u>(9)</u>
As at December 31, 2019 and January 1, 2020	897	7,311	(2,054)	523	(1,359)	1,645	6,963
(Charged)/credited to profit or loss	(137)	34	(2,007)	(179)	361	923	(1,005)
Charged to reserves	-	(1,370)	-	-	-	-	(1,370)
Acquisition of subsidiaries <i>(Note 43)</i>	-	-	(12)	-	(2,005)	(537)	(2,554)
Exchange adjustments	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(11)</u>	<u>(6)</u>
As at December 31, 2020	<u>767</u>	<u>5,975</u>	<u>(4,073)</u>	<u>344</u>	<u>(3,005)</u>	<u>2,020</u>	<u>2,028</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

22. DEFERRED TAXATION *(Continued)*

As at December 31, 2020, the Group had unused tax losses of US\$2,590,000 (2019: US\$1,968,000) available to offset against future profits. As at December 31, 2020, unused tax losses of US\$2,590,000 (2019: US\$1,968,000) had been recognised in deferred tax assets.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to US\$36,383,000 as at December 31, 2020 (2019: US\$25,294,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

23. LONG-TERM NOTE RECEIVABLE

Long-term note receivable represents a note receivable due from a third party, which was issued with principal amount of US\$332,000. The note receivable will be collected according to its payment schedule from January 1, 2020 to May 31, 2021, and carried interest at 6% per annum. Current portion of the balance is US\$145,000 (2019: US\$227,000), while the non-current portion of the balance is nil (2019: US\$105,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

24. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Trade receivables		
– third parties	25,522	19,784
– related parties	311	123
Less: loss allowance for trade receivables	<u>(3,006)</u>	<u>(3,353)</u>
	<u>22,827</u>	<u>16,554</u>
Other receivables		
– third parties	1,149	1,426
– related parties	1,012	1,030
Less: loss allowance for other receivables	<u>(70)</u>	<u>(70)</u>
	<u>2,091</u>	<u>2,386</u>
Note receivables		
– third parties	584	508
– related parties	<u>–</u>	<u>3,795</u>
	<u>584</u>	<u>4,303</u>
Prepayments		
– third parties	<u>1,727</u>	<u>1,386</u>
Value added tax recoverable	<u>22</u>	<u>298</u>
	<u><u>27,251</u></u>	<u><u>24,927</u></u>

Details of the trade and other receivables due from related parties are set out in Note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

24. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Within 90 days	19,672	13,595
91 to 180 days	1,475	1,472
181 days to 1 year	910	709
Over 1 year	770	778
	<u>22,827</u>	<u>16,554</u>

As at December 31, 2020, included in the Group's trade receivables balance are debtors with aggregate gross carrying amount of US\$11,729,000 (2019: US\$10,883,000) which are past due at the reporting date. Out of the past due balances, US\$2,203,000 (2019: US\$1,851,000) has been past due 90 days or more and is considered as recoverable based on historical receivable experience on the past due status of these customers and no evidence indicating that these customers were in a significant financial difficulty.

Movements in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9 for the year are set out below:

	<i>US\$'000</i>
As at January 1, 2019	(2,315)
ECL provided	(1,108)
Reversal of ECL <i>(note)</i>	44
Write off	17
Exchange adjustments	<u>9</u>
As at December 31, 2019 and January 1, 2020	(3,353)
Reversal of ECL <i>(note)</i>	80
Write off	305
Exchange adjustments	<u>(38)</u>
As at December 31, 2020	<u><u>(3,006)</u></u>

Note: Reversal of allowance of ECL is due to the Group's recovery of receivables.

Details of impairment assessment of trade and other receivables are set out in Note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

24. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

Trade and other receivables that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
US\$	946	421
Euro ("EUR")	—	4

25. UNBILLED REVENUE

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Unbilled revenue		
– third parties	7,786	7,723
– related parties	409	351
Less: loss allowance for unbilled revenue	(459)	(253)
	<u>7,736</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 recognised in excess of billings are recognised as contract assets and disclosed in the consolidated statement of financial position as unbilled revenue.

Details of the unbilled revenue due from related parties are set out in Note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

25. UNBILLED REVENUE *(Continued)*

Movements in lifetime ECL that has been recognised for unbilled revenue in accordance with the simplified approach set out in IFRS 9 for the year are set out below:

	<i>US\$'000</i>
As at January 1, 2019	(322)
Reversal of ECL	58
Exchange adjustments	<u>11</u>
As at December 31, 2019 and January 1, 2020	(253)
ECL provided	(165)
Exchange adjustments	<u>(41)</u>
As at December 31, 2020	<u><u>(459)</u></u>

Details of the impairments assessment are set out in Note 38.

Unbilled revenue that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	<i>2020</i> <i>US\$'000</i>	<i>2019</i> <i>US\$'000</i>
US\$	<i>780</i>	286
EUR	<u><i>—</i></u>	<u>28</u>

26. STRUCTURED DEPOSITS

The Group entered into series of structured contracts with banks and other financial institutions in the PRC. The investments are yield enhancement deposits with expected but not guaranteed rates of return. The expected rates of return ranged from 1.5% to 3.147% per annum for the year ended December 31, 2020, which were determined by reference to the returns of the underlying investments. The directors considered the structured deposits shall be classified as financial assets at FVTPL and the amount paid for the structured deposits approximates its fair value at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

27. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

Cash and cash equivalents comprise of cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry interest at market rates which ranged from 0.15% to 0.35% per annum as at December 31, 2020 (2019: from 0.30% to 0.385% per annum).

During 2015, the Group entered into a lease agreement for the property at Secaucus, NJ, as part of the lease agreement, a cash deposit of US\$550,000 was required as a guarantee over the property and the required cash deposit was reduced to US\$300,000 in 2018. The deposit is required for the duration of the lease agreement, which ends in 2027. And thus the US\$300,000 remained on the consolidated statement of financial position as at December 31, 2020 and 2019 as other long-term deposits.

On August 20, 2019, the Group entered into an agreement to expand a lab in Pennsylvania, USA. 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, 2020, the remaining amount in the escrow account is US\$8,000 (2019: US\$448,000), which is included in restricted bank deposits.

Cash and cash equivalents that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
US\$	<u>1,075</u>	<u>241</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

28. TRADE AND OTHER PAYABLES

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Trade payables		
– third parties	7,113	4,241
– related parties	297	446
	<u>7,410</u>	<u>4,687</u>
Other payables		
– third parties	3,682	1,814
Contingent consideration payables <i>(Notes 34(a), 34(c), 34(d))</i>	2,220	–
Consideration payables <i>(Note 34(b))</i>	982	–
Salary and bonus payables	4,621	3,268
Other taxes payable	686	624
	<u>19,601</u>	<u>10,393</u>

Details of the trade and other payables due to related parties are set out in Note 42.

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

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Within 90 days	6,960	3,632
91 days to 1 year	219	657
Over 1 year	231	398
	<u>7,410</u>	<u>4,687</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

28. TRADE AND OTHER PAYABLES *(Continued)*

Trade and other payables that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
US\$	<u>7</u>	<u>4</u>

29. ADVANCES FROM CUSTOMERS

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Advances from customers		
– third parties	17,499	12,341
– related parties	<u>371</u>	<u>504</u>
	<u>17,870</u>	<u>12,845</u>

Advances from customers that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
US\$	129	465
EUR	<u>–</u>	<u>6</u>

Amounts received in accordance with contracted payment schedules but in excess of revenues earned are recognised as contract liabilities and disclosed in the 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.

Details of the advances from customers which are related parties are set out in Note 42.

Revenue of US\$7,130,000 was recognised in 2020 (2019: US\$11,350,000) that were included in the advances from customers at the beginning of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

30. BANK BORROWINGS

Bank Loans

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Secured and unguaranteed bank loans	<u>—</u>	<u>500</u>

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Within one year and shown under current liabilities	<u>—</u>	<u>500</u>

As at December 31, 2019, the bank borrowings are secured by all assets of the Frontage Labs and all its existing and future USA subsidiaries and carry interest at a variable rate of London Interbank Offered Rate (“LIBOR”) plus 1.85% per annum.

Bank Facilities

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.

As of December 31, 2020, the Group had utilised nil (2019: US\$130,000) from the banking facilities for letter of credit issued to the State of Ohio as guarantee for application of radioactive material license. The secured and unguaranteed unutilised banking facilities was nil (2019: US\$3,870,000) as of December 31, 2020.

31. LOANS FROM A RELATED PARTY

The amount as at January 1, 2019 represented the loan from Dr. Song Li, a substantive shareholder of the Company, and the amount was paid off during the year 2019.

32. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders as at December 31, 2020 and 2019 represent dividend payable that the then shareholders declared prior to the year 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

33. LEASE LIABILITIES

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Within one year	5,191	3,773
Within a period of more than one year but not exceed two years	4,774	2,790
Within a period of more than two years but not exceed five years	12,251	6,519
More than five years	<u>18,406</u>	<u>7,320</u>
	40,622	20,402
Less: Amounts due for settlement with 12 months shown under current liabilities	<u>(5,191)</u>	<u>(3,773)</u>
Amounts due for settlement after 12 months shown under non-current liabilities	<u><u>35,431</u></u>	<u><u>16,629</u></u>

34. OTHER LONG-TERM LIABILITIES

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Contingent consideration payables related to:		
– Acquisition of Acme <i>(Note (a))</i>	5,364	–
– Acquisition of RMI <i>(Note (b))</i>	1,279	2,279
– Acquisition of Biotranex <i>(Note (c))</i>	358	–
– Acquisition of BRI <i>(Note (d))</i>	<u>338</u>	<u>647</u>
	<u><u>7,339</u></u>	<u><u>2,926</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

34. OTHER LONG-TERM LIABILITIES *(Continued)*

Notes:

- (a) As at December 31, 2020, the amount represented contingent consideration payable arising from the acquisition of Acme in an amount of US\$5,364,000 (see Note 43). Further, an amount of US\$1,845,000 was recorded as short-term payable as this amount falls due within one year (see Note 28). The directors considered that there was no material change in fair value of the contingent consideration payable as there was no significant change in Acme's operations and market environment since the acquisition.
- (b) As at December 31, 2019, the amount represented contingent consideration payable arising from the acquisition of RMI in an amount of US\$2,279,000 (see Note 43). As at December 31, 2020, the contingent consideration payable was re-measured at fair value and a fair value gain of US\$18,000 was recorded (see Note 8). Further, as at December 31, 2020, an amount of US\$982,000 was reclassified as consideration payable under short-term payable as this amount falls due within one year (see Note 28). The balance of US\$1,279,000 remained as long-term payable.
- (c) As at December 31, 2020, the amount represented contingent consideration payable arising from the acquisition of Biotranex in an amount of US\$358,000 (see Note 43). Further, an amount of US\$60,000 was recorded as short-term payable as this amount falls due within one year (see Note 28). The directors considered that there was no material change in fair value of the contingent consideration payable as there was no significant change in Biotranex's operations and market environment since the acquisition.
- (d) As at December 31, 2019, the amount represented contingent consideration payable arising from the acquisition of BRI in an amount of CAD832,000 (equivalent to US\$647,000) (see Note 43). As at December 31, 2020, an amount of CAD402,000 (equivalent to US\$315,000) was reclassified as contingent consideration payable under short-term payable as this amount falls due within one year (see Note 28). The balances of CAD430,000 (equivalent to US\$338,000) remained as long-term payable. The directors considered that there were no material change in fair value of the contingent consideration payable as there was no material change in BRI's operations and market environment since the acquisition.

35. SHARE CAPITAL

	Number of shares	Amount <i>US\$'000</i>
Ordinary shares of US\$0.00001 each		
Authorised:		
As at January 1, 2019, December 31, 2019, January 1, 2020 and December 31, 2020	5,000,000,000	50,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

35. SHARE CAPITAL *(Continued)*

	Number of shares	Amount <i>US\$</i>	Shown in the consolidated financial statements as <i>US\$'000</i>
Issued and Fully Paid:			
As at January 1, 2019	150,573,091	1,506	2
Capitalisation 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 December 31, 2019 and January 1, 2020	2,007,640,910	20,078	20
Exercise of share options <i>(Note iii)</i>	<u>29,837,000</u>	<u>298</u>	<u>–</u>
As at December 31, 2020	<u>2,037,477,910</u>	<u>20,376</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 capitalisation of certain sums standing to the credit of the share premium account of the Company (the "Capitalisation Issue").
- ii) On the Listing Date, 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").
- iii) During the year ended December 31, 2020, 29,837,000 share options were exercised, with a deduction from equity-settled share based compensation reserve of US\$1,454,000 (2019: nil) and an increase of US\$4,849,000 (2019: nil) in share premium. Please refer to Note 36 for details.

36. SHARE OPTION PAYMENT

Pre-IPO share incentive plans

Frontage Labs adopted 2 Pre-IPO share incentive plans respectively in 2008 and 2015 (collectively referred 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 the calendar one year after grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

36. SHARE OPTION PAYMENT *(Continued)*

Pre-IPO share incentive plans *(Continued)*

On April 17, 2018, the Company, Frontage Labs and corresponding employees have entered into an agreement pursuant to which Frontage Labs has assigned, and the Company has assumed, the rights and obligations of Frontage Labs under the Pre-IPO share incentive plans.

On February 28, 2019, the Company granted a total 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 Capitalisation Issue (see Note 35), the number of options granted to an eligible employee under the Pre-IPO share incentive plans was 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 years ended December 31, 2020 and 2019 by taking into account of the Capitalisation Issue:

	2020		2019	
	Weighted average exercise price (US\$)	Number	Weighted average exercise price (US\$)	Number
Outstanding as at beginning of year	0.15	115,650,000	0.05	40,350,000
Granted during the year	–	–	0.20	79,900,000
Forfeited during the year	0.20	(4,275,000)	0.12	(4,600,000)
Exercised during the year	0.11	(29,837,000)	–	–
Lapsed during the year	0.20	(75,000)	–	–
Outstanding as at end of year	0.16	81,463,000	0.15	115,650,000
Options exercisable		64,150,500		76,750,000
Weighted average contractual life (years)		2.05		5.50

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

The weighted average closing price of the shares of the Company immediately before the dates on which the option were exercised was HK\$4.51 (equivalent to US\$0.65).

Each option granted generally vests over a three-year period with an agreed award vesting on the anniversary one year after grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

36. SHARE OPTION PAYMENT *(Continued)*

Pre-IPO share incentive plans *(Continued)*

The estimated fair value of the share options granted under the 2015 share incentive plan in 2019 is approximately US\$5,001,000. The fair value is calculated using the Black-Scholes model. The major inputs into the model are as follows:

Grant date	February 28, 2019
Share price (US\$)	0.22
Exercise price (US\$)	0.20
Expected volatility	30.0%
Expected life (years)	5
Risk-free interest rate	2.5%
Expected dividend yield	—

Share price is determined as the total fair value of the Company's equity divided by the total number of shares. To determine the fair value of the Company's equity value as of grant date, the Group used primarily the discounted cash flow method under the income approach, using cash flow projections based on financial forecasts approved by management covering a five-year period as appropriate and a discount rate of 18% for the options granted on February 28, 2019. Management assessment is that the Group will arrive at a stable growth stage after a five-year period. Cash flows beyond that five-year period has been extrapolated using a steady 3% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates. The result from the income approach was cross checked with the market approach, which incorporates certain assumptions, including the market performance of comparable listed companies, as well as the financial results and growth trends of the Group, to derive the total equity of the Group.

The risk-free interest rate was based on market yield rate of US government bonds with the term corresponding to the contractual life of the options. Expected volatility was determined by using the historical volatility of the comparable companies.

Changes in variables and assumptions may result in changes in the fair values of the share options.

The Group recognised total expenses of approximately US\$935,000 for the year ended December 31, 2020 (2019: US\$3,269,000) in relation to share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

36. SHARE OPTION PAYMENT *(Continued)*

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, included 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 of the Company. No awards have been granted under the 2018 share incentive plan by December 31, 2020 (2019: nil).

37. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities comprising the Group will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of loans from a related party, consideration payable on acquisition of subsidiaries, bank borrowings (net of cash and cash equivalents), lease liabilities and equity attributable to owners of the Company (comprising capital and reserves).

The directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital.

The Group monitors the following key covenant ratios which were applied to the credit facilities in use during the relevant periods, to ensure compliance with the agreed target ratios as required by the underlying agreements:

For the year ended December 31, 2019 – Net worth, Maximum leverage ratio (which was defined as Total Funded Debt to earnings before interest, taxes, depreciation and amortisation (“EBITDA”), tested quarterly on a rolling four quarter basis) and Debt Service Coverage (which was defined as EBITDA less cash distributions less maintenance capital expenditures (15% of additions in property, plant and equipment)).

For the year ended December 31, 2020, the Group had no such requirement after the settlement of borrowings.

The Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

38. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Financial assets		
Financial assets at amortised cost	237,897	231,574
Financial assets at FVTPL	<u>2,452</u>	<u>—</u>
Financial liabilities		
Financial liabilities at amortised cost	52,906	27,613
Financial liabilities at FVTPL	<u>9,559</u>	<u>2,926</u>

Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and other receivables, restricted bank deposits, structure deposits, cash and cash equivalents, other long-term deposits, long-term note receivable, trade and other payables, bank borrowings, other long-term liabilities, amounts due to shareholders and lease liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There had been no change in the Group's exposure to these risks or the manner in which it managed and measured the risks during each of the reporting period.

Currency risk

As disclosed in Note 1, the functional currency of the PRC operating subsidiaries is RMB. The PRC operating subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk. The carrying amounts of relevant group entities' assets and liabilities other than their functional currency are disclosed in the respective notes.

The PRC operating subsidiaries are mainly exposed to foreign currency of US\$ and EUR. The Group does not use any derivative contracts to hedge against its exposure to currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

38. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets (trade receivables, cash and cash equivalents and unbilled revenue) and liabilities (trade payables and advances from customers) at the end of each reporting period are as follows:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Assets		
US\$	1,726	948
EUR	—	32
Liabilities		
US\$	136	469
EUR	—	6

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US\$, the foreign currency with which the Group may have a material exposure. No sensitivity analysis has been disclosed for the EUR denominated assets/liabilities as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rate. A positive (negative) number below indicates an increase (a decrease) in profit where RMB strengthens 5% against US\$. For a 5% weakening of RMB against US\$, there would be an equal and opposite impact on profit.

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Impact on profit or loss		
US\$	(80)	(6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

38. FINANCIAL INSTRUMENTS *(Continued)*

Sensitivity analysis *(Continued)*

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to restricted bank deposits, long-term note receivable, lease liabilities, loans from a related party and consideration payables on acquisition of subsidiaries. Borrowing agreements include a mix of fixed and variable rate loans, the exposure in relation to fixed rate agreements is considered to be minimal.

The Group is also exposed to cash flow interest rate risk in relation to variable rate bank borrowings. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Prime Rate and LIBOR benchmark rates. For the variable rate bank borrowings, the Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

If the interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by nil for the year ended December 31, 2020 (2019: US\$3,000).

Credit risk and impairment assessment

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of each reporting period, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, the Group has tasked its finance team to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default.

Management uses publicly available financial information and the Group's own historical repayment records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate exposure is spread amongst approved counterparties.

For trade receivables and unbilled revenue, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix within lifetime ECL (not credit impaired) estimated based on the financial quality of debtors and historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The Group's current credit risk grading framework comprises the following categories:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

38. FINANCIAL INSTRUMENTS *(Continued)*

Sensitivity analysis *(Continued)*

Credit risk and impairment assessment (Continued)

Category	Description
Current	The counterparty has an invoice that is current at reporting date
Within 90 days	The counterparty has an invoice that is past due within 90 days of the reporting date
91 to 180 days	The counterparty has an invoice that is past due within 91 to 180 days of the reporting date
181 days to 1 year	The counterparty has an invoice that is past due within 181 days to 1 year at reporting date
Over 1 year	The counterparty has an invoice that is past due over 1 year at reporting date

The following table details the risk profile of trade receivables and unbilled revenue:

As at December 31, 2020

	Not credit impaired		Credit impaired			Total
	Current	Within 90 days	91 to 180 days	181 days to 1 year	Over 1 year	
North America operation						
ECL rate	2.54%	4.02%	23.81%	31.85%	82.50%	10.29%
Gross carrying amount (US\$'000)	15,612	5,752	1,424	829	1,663	25,280
Lifetime ECL (US\$'000)	(396)	(231)	(339)	(264)	(1,372)	(2,602)
	<u>15,216</u>	<u>5,521</u>	<u>1,085</u>	<u>565</u>	<u>291</u>	<u>22,678</u>
PRC operation						
ECL rate	4.19%	4.70%	12.70%	40.00%	78.70%	9.87%
Gross carrying amount (US\$'000)	6,687	1,276	126	30	629	8,748
Lifetime ECL (US\$'000)	(280)	(60)	(16)	(12)	(495)	(863)
	<u>6,407</u>	<u>1,216</u>	<u>110</u>	<u>18</u>	<u>134</u>	<u>7,885</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

38. FINANCIAL INSTRUMENTS *(Continued)*

Sensitivity analysis *(Continued)*

Credit risk and impairment assessment (Continued)

As at December 31, 2019

North America operation	Not credit impaired		Credit impaired		Over 1 year	Total
	Current	Within 90 days	91 to 180 days	181 days to 1 year		
ECL rate	2.14%	7.45%	24.72%	49.42%	72.62%	13.90%
Gross carrying amount (US\$'000)	11,010	5,755	614	1,031	2,101	20,511
Lifetime ECL (US\$'000)	<u>(236)</u>	<u>(429)</u>	<u>(152)</u>	<u>(510)</u>	<u>(1,526)</u>	<u>(2,853)</u>
	<u>10,774</u>	<u>5,326</u>	<u>462</u>	<u>521</u>	<u>575</u>	<u>17,658</u>

PRC operation	Not credit impaired		Credit impaired		Over 1 year	Total
	Current	Within 90 days	91 to 180 days	181 days to 1 year		
ECL rate	3.96%	4.95%	27.75%	61.22%	77.95%	10.08%
Gross carrying amount (US\$'000)	6,088	607	227	49	499	7,470
Lifetime ECL (US\$'000)	<u>(241)</u>	<u>(30)</u>	<u>(63)</u>	<u>(30)</u>	<u>(389)</u>	<u>(753)</u>
	<u>5,847</u>	<u>577</u>	<u>164</u>	<u>19</u>	<u>110</u>	<u>6,717</u>

For the purposes of impairment assessment, other receivables and other financial assets that are subject to impairment are considered to have low credit risk as the counterparties to these items have a high credit rating. Accordingly, for the purpose of impairment assessment for these assets, the loss allowance is measured at an amount equal to 12m ECL. In determining the ECL for other receivables and other financial assets that are subject to impairment, the directors have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of the other receivables and other financial assets that are subject to impairment occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors considered that the ECL allowance is insignificant as at December 31, 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

38. FINANCIAL INSTRUMENTS *(Continued)*

Sensitivity analysis *(Continued)*

Credit risk and impairment assessment (Continued)

In order to minimise the credit risk, management has designated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors review the recoverability of each significant trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk with respect to trade receivables as 22.38% of the total trade receivables was due from the Group's top five customers as at December 31, 2020 (2019: 26.74%).

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because majority of the counterparties are banks with good reputation or banks with good credit rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

38. FINANCIAL INSTRUMENTS *(Continued)*

Sensitivity analysis *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and unused banking facilities deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	On demand or less than one year US\$'000	One to five years US\$'000	Over five years US\$'000	Total undiscounted cash flows US\$'000	Carrying amount US\$'000
As at December 31, 2020						
Trade and other payables	N/A	14,294	–	–	14,294	14,294
Lease liabilities	5.49%	5,482	10,244	27,171	42,897	40,622
Amounts due to shareholders	N/A	210	–	–	210	210
Other long-term liabilities	N/A	–	7,339	–	7,339	7,339
Total		<u>19,986</u>	<u>17,583</u>	<u>27,171</u>	<u>64,740</u>	<u>62,465</u>
As at December 31, 2019						
Trade and other payables	N/A	6,501	–	–	6,501	6,501
Lease liabilities	5.8%	3,992	17,593	–	21,585	20,402
Bank borrowings	3.63%	518	–	–	518	500
Amounts due to shareholders	N/A	210	–	–	210	210
Other long-term liabilities	N/A	–	2,926	–	2,926	2,926
Total		<u>11,221</u>	<u>20,519</u>	<u>–</u>	<u>31,740</u>	<u>30,539</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

38. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements of financial instruments

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end each reporting period.

The fair value of structured deposit is determined using Level 2 inputs. The fair value of financial assets in Level 2 is determined by discounted cash flow as at the end of the reporting period.

The fair value of contingent consideration for business combination is determined using Level 3 inputs.

Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, based on an appropriate discount rate. The significant unobservable inputs are discount rate and probability-adjusted revenues and profits.

The only financial liability subsequently measured at fair value on Level 3 fair value measurement represents contingent consideration relating to the acquisition of Acme, Biotranex, RMI and BRI (see Note 43).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

38. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements of financial instruments *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Detail of reconciliation of financial liabilities at FVTPL measured at Level 3 fair value measurement are set out below:

	Contingent consideration for business combinations US\$'000
As at January 1, 2019	–
Acquisition through business combinations	2,909
Exchange adjustment	<u>17</u>
As at December 31, 2019 and January 1, 2020	2,926
Acquisition through business combinations	7,627
Changes in fair value	(18)
Transfer to consideration payables	(982)
Exchange adjustment	<u>6</u>
As at December 31, 2020	<u><u>9,559</u></u>

Financial instruments not measured at fair value on a recurring basis

Financial instruments not measured at fair value on a recurring basis includes cash and cash equivalents, trade and other receivables, restricted bank deposits, long-term note receivable, trade and other payables, bank borrowings, and amounts due to shareholders.

The fair value of these financial assets and financial liabilities measured at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings <i>(Note 30)</i> <i>US\$'000</i>	Loans from related parties <i>(Note 31)</i> <i>US\$'000</i>	Lease liabilities <i>(Note 33)</i> <i>US\$'000</i>	Amounts due to shareholders <i>(Note 32)</i> <i>US\$'000</i>	Accrued issue costs <i>US\$'000</i>	Total <i>US\$'000</i>
As at January 1, 2019	3,167	1,500	17,540	210	922	23,339
Financing cash flows						
- Proceeds from bank borrowings	3,000	-	-	-	-	3,000
- Repayment of bank borrowings	(5,667)	-	-	-	-	(5,667)
- Interest paid on bank borrowings	(117)	-	-	-	-	(117)
- Repayment of lease liabilities	-	-	(3,375)	-	-	(3,375)
- Interest paid on lease liabilities	-	-	(1,100)	-	-	(1,100)
- Repayment of loan from a related party	-	(1,500)	-	-	-	(1,500)
- Interest paid on loan from a related party	-	(15)	-	-	-	(15)
- Issue cost paid	-	-	-	-	(9,978)	(9,978)
Non-cash changes						
- Interest expenses	117	15	1,100	-	-	1,232
- Issue costs	-	-	-	-	9,056	9,056
- New leases	-	-	6,237	-	-	6,237
As at December 31, 2019 and January 1, 2020	500	-	20,402	210	-	21,112
Financing cash flows						
- Repayment of bank borrowings	(500)	-	-	-	-	(500)
- Interest paid on bank borrowings	(6)	-	-	-	-	(6)
- Repayment of lease liabilities	-	-	(3,612)	-	-	(3,612)
- Interest paid on lease liabilities	-	-	(2,190)	-	-	(2,190)
Non-cash changes						
- Acquisition of subsidiaries	-	-	1,447	-	-	1,447
- Interest expenses	6	-	2,190	-	-	2,196
- New leases	-	-	22,385	-	-	22,385
As at December 31, 2020	-	-	40,622	210	-	40,832

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

40. CAPITAL COMMITMENTS

The Group has capital commitments for equipment purchased under non-cancellable contracts at the end of each reporting period as follows:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Contracted but not provided for	<u>9,954</u>	<u>3,866</u>

41. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

A defined contribution plan in the USA pursuant to which the Group matches 50 cents for every dollar contributed by each qualifying member of staff up to 4% of their salary. The maximum match is 2% of the qualifying member of staff's gross pay.

The total cost charged to profit or loss in respect of the above-mentioned schemes amounted to approximately US\$1,404,000 for the year ended December 31, 2020 (2019: US\$1,107,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

42. RELATED PARTY TRANSACTIONS AND BALANCES

Other than as disclosed elsewhere in these consolidated financial statements, the Group has following transactions and balances with related parties:

(1) Related party transactions:

(a) Laboratory and Bioequivalence service income from related parties

		2020	2019
	Relationship	<i>US\$'000</i>	<i>US\$'000</i>
Hangzhou Tigermed	Ultimate holding company	359	1,978
Frontage Clinical	Associate	51	–
Taiwan TigerMed Consulting Co., Ltd. (“Taiwan TigerMed”)	Fellow subsidiary	9	51
Frontida BioPharm Inc. (“Frontida”) <i>(Note i)</i>	Entity controlled by a substantial shareholder	4	30
Shanghai Tigermed Technology Co., Ltd.	Fellow subsidiary	–	37
Tigermed-BDM <i>(Note ii)</i>	Fellow subsidiary/Associate	–	10
Frontage Suzhou	Associate until October 25, 2019	–	7
		<u>423</u>	<u>2,113</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

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

(1) Related party transactions: *(Continued)*

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

		2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
	Relationship		
Frontage Clinical	Associate	585	1,080
Tigermed-BDM <i>(Note ii)</i>	Fellow subsidiary/Associate	95	111
Jyton-Kannel Medical Technology Co., Ltd.	Fellow subsidiary	13	13
Hangzhou Tigermed	Ultimate holding company	1	–
Jiaxing Tigermed Data Management Co., Ltd.	Fellow subsidiary	1	–
Jiaxing EDC Computer Technology Co., Ltd.	Fellow subsidiary	–	146
FJ Pharma LLC	Associate	–	75
Frontida <i>(Note i)</i>	Entity controlled by a substantial shareholder	–	11
Hangzhou Simo Laboratories Co., Ltd.	Fellow subsidiary	–	8
		<u>695</u>	<u>1,444</u>

(c) *Interest expense on loans from related parties*

		2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
	Relationship		
Dr. Song Li	Substantive shareholder	<u>–</u>	<u>15</u>

(d) *Interest income on loan to a related party*

		2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
	Relationship		
Hong Kong Tigermed Healthcare	Fellow subsidiary	<u>–</u>	<u>195</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

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

(1) Related party transactions: *(Continued)*

(e) Administrative services provided to related parties

		2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
	Relationship		
Frontage Clinical	Associate	269	474
Frontida <i>(Note i)</i>	Entity controlled by a substantial shareholder	85	86
FJ Pharma LLC	Associate	3	230
Frontage Suzhou	Associate until October 25, 2019	-	1,583
Tigermed-BDM <i>(Note ii)</i>	Fellow subsidiary/Associate	-	152
Hangzhou Tigermed	Ultimate holding company	-	39
		<u>357</u>	<u>2,564</u>

(f) Reversal of impairment losses recognised on note receivables

In 2019, the Company reversed US\$1,072,000 impairment losses recognised in prior years on the note receivables due from Frontage Clinical, which included the principal amounts of US\$1,009,000 plus the accrued interests of US\$63,000, Frontage Clinical has settled the note receivables of US\$1,072,000 during the year ended December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

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

(2) Related party balances:

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

		2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Trade receivables			
Frontage Clinical	Fellow subsidiary	142	3
Frontida <i>(Note i)</i>	Entity controlled by a substantial shareholder	82	110
Hangzhou Tigermed	Ultimate holding company	78	–
Taiwan TigerMed	Fellow subsidiary	9	–
Tigermed-BDM <i>(Note ii)</i>	Fellow subsidiary/Associate	–	10
		<u>311</u>	<u>123</u>
Note receivable			
Hong Kong Tigermed Healthcare	Fellow subsidiary	–	3,795
		<u>–</u>	<u>3,795</u>
Other receivables			
Frontida <i>(Note i)</i>	Entity controlled by a substantial shareholder	606	526
Frontage Clinical	Associate	406	467
Tigermed-BDM <i>(Note ii)</i>	Fellow subsidiary/Associate	–	19
FJ Pharma LLC	Associate	–	18
		<u>1,012</u>	<u>1,030</u>
Unbilled revenue			
Hangzhou Tigermed	Ultimate holding company	407	349
Shanghai Tigermed Technology Co., Ltd.	Fellow subsidiary	2	2
		<u>409</u>	<u>351</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

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

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

Relationship	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Trade payables		
Tigermed-BDM <i>(Note ii)</i> Fellow subsidiary/Associate	281	424
Jyton-Kannel Medical Technology Co., Ltd. Fellow subsidiary	7	13
Hangzhou Simo Laboratories Co., Ltd. Fellow subsidiary	8	7
Hangzhou Tigermed Ultimate holding company	1	2
	297	446
Advances from customers		
Hangzhou Tigermed Ultimate holding company	369	423
Frontida <i>(Note i)</i> Entity controlled by a substantial shareholder	2	3
Shanghai Tigermed Technology Co., Ltd. Fellow subsidiary	-	78
	371	504

Notes:

- (i) Frontida is considered as a related party of the Group because Dr. Song Li, the substantive shareholder of the Company, is Frontida's controlling shareholder.
- (ii) Tigermed-BDM was an associate of the Company, and became the fellow subsidiary of the Company after it was disposed to Hong Kong Tigermed on June 30, 2019 (see Note 14).
- (iii) The English names of the entities registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.
- (iv) All the above balances with related parties are repayable on demand, unsecured and interest free.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

42. 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 and other members of key management of the Group during the years are as follows:

	2020 <i>US\$'000</i>	2019 <i>US\$'000</i>
Salaries and other benefits	3,000	2,778
Share-based compensation	496	1,662
Performance-based bonus	534	1,304
Retirement benefits scheme contributions	37	30
	<u>4,067</u>	<u>5,774</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES

Acquisition of Biotranex in 2020

On March 31, 2020, the Group acquired 100% equity interests in Biotranex for a consideration of US\$2,600,000 (the “Biotranex Acquisition”) 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.

The total consideration of the Biotranex Acquisition is subject to downward adjustment in respect of the guarantee to a maximum of US\$600,000 if:

- (a) the audited EBITDA for the nine months ending December 31, 2020 is less than US\$105,000 (the “Biotranex FY2020 Profit Target”);
- (b) the audited EBITDA of Biotranex in fiscal year of 2021 is less than US\$400,000 (the “Biotranex FY2021 Profit Target”); and
- (c) the audited EBITDA of Biotranex in fiscal year of 2022 is less than US\$500,000 (the “Biotranex FY2022 Profit Target”).

In case if the total audited EBITDA from April 1, 2020 to December 31, 2022 is less than US\$1,005,000 (the “Biotranex Profit Target”) but is equal to or exceeds US\$495,000, the total consideration of the Biotranex Acquisition is subject to downward adjustment based on the difference the audited profit and the Biotranex Profit Target.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Biotranex in 2020 *(Continued)*

The total consideration shall be satisfied by way of cash by the Group in the following manners:

- (a) initial consideration as to US\$1,250,000 payable by completion;
- (b) second consideration as to a maximum of US\$375,000 payable within 6 months after the completion of the Biotranex Acquisition;
- (c) third consideration as to a maximum of US\$200,000 (if the Biotranex FY2020 Profit Target is attained) is payable by March 31, 2021;
- (d) fourth consideration as to a maximum of US\$200,000 (if the Biotranex FY2021 Profit Target is attained) is payable by March 31, 2022;
- (e) fifth consideration as to a maximum of US\$200,000 (if the Biotranex FY2022 Profit Target is attained) is payable by March 31, 2023; and
- (f) final consideration as to a maximum of US\$375,000 if the payment is mutually agreed by the Group and the seller.

The expected future economic benefits that will flow out of the Group arising from such arrangement are considered as a contingent consideration. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in the business combination.

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. Management expects the purchase price allocation to be completed in the first quarter of 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Biotranex in 2020 *(Continued)*

Details of the preliminary fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill recognised are as follows:

	Fair value US\$'000
Property, plant and equipment	34
Intangible assets	600
Trade and other receivables	143
Bank balances and cash	137
Trade and other payables	<u>(35)</u>
Net assets acquired	<u>879</u>
Cash	2,000
Contingent consideration	<u>418</u>
Total transferred	2,418
Less: Fair value of net assets acquired	<u>(879)</u>
Goodwill arising on acquisition	<u>1,539</u>
Net cash outflows arising on acquisition of a subsidiary:	
Consideration paid in cash	2,000
Less: bank balances and cash acquired	<u>(137)</u>
	<u>1,863</u>

Acquisition-related costs amounting to US\$10,000 have been excluded from the consideration transferred and have been recognised directly as an expense in the current year within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Biotranex in 2020 *(Continued)*

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 recognised 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.

Included in the profit for the year is US\$180,000 attributable to the additional business generated by Biotranex. Revenue for the year includes US\$1,077,000 generated from Biotranex.

Had the acquisition been completed on January 1, 2020, revenue for the current year of the Group would have been US\$126,087,000, and profit for the current year of the Group would have been US\$17,556,000. 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 year, the directors calculated amortisation 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 recognised in the pre-acquisition financial statements.

Acquisition of Acme in 2020

On July 2, 2020, the Group acquired entire equity interests of Acme for consideration of US\$27,397,000 (the "Acme Acquisition") from independent third parties. Acme primarily provides contract research and custom synthesis services for biopharmaceutical companies specialising in drug discovery and development. In completing the Acme Acquisition, the Group will 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 acquisition has been accounted for as acquisition of business using acquisition method.

The total consideration of the Acme Acquisition is subject to downward adjustment in respect of the guarantee to a maximum of US\$11,000,000. For details, please refer to the announcement of the Company dated August 6, 2020.

The expected future economic benefits that will flow out of the Group arising from such arrangement are considered as a contingent consideration. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Acme in 2020 *(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. Management expects the purchase price allocation to be completed in the third quarter of 2021.

Details of the preliminary fair value of identifiable assets and liabilities, purchase consideration and goodwill recognised are as follows:

	Fair value US\$'000
Property, plant and equipment	1,244
Right-of-use assets	1,344
Intangible assets	8,500
Trade and other receivables	2,385
Unbilled revenue	72
Tax recoverable	2
Cash and cash equivalents	1,529
Trade and other payables	(944)
Advances from customers	(32)
Income tax payable	(527)
Lease liabilities	(1,447)
Deferred tax liabilities	(2,554)
Net assets acquired	<u>9,572</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Acme in 2020 *(Continued)*

	<i>US\$'000</i>
Cash consideration paid	16,397
Contingent consideration	<u>7,209</u>
Total transferred consideration	23,606
Less: Fair value of net assets acquired	<u>(9,572)</u>
Goodwill	<u><u>14,034</u></u>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	16,397
Less: Cash and cash equivalents acquired	<u>(1,529)</u>
	<u><u>14,868</u></u>

Acquisition-related costs amounting to US\$1,000 are excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The fair value of trade and other receivables at the date of acquisition amounted to US\$2,385,000. The gross contractual amounts of those trade and other receivables acquired amounted to US\$2,385,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected was nil.

Goodwill arose in the acquisition of Acme because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for the identifiable intangible assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Acme in 2020 *(Continued)*

Included in the profit for the year ended December 31, 2020 is loss of US\$23,000 attributable to the additional business generated by Acme. Revenue for the year ended December 31, 2020 includes US\$6,677,000 generated from Acme.

Had the acquisition been completed on January 1, 2020, revenue for the year ended December 31, 2020 of the Group would have been US\$133,637,000, and profit for the year ended December 31, 2020 of the Group would have been US\$18,841,000.

In determining the 'pro-forma' revenue and profit of the Group had Acme been acquired at the beginning of the current year, the directors have calculated amortisation 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 recognised in the pre-acquisition financial statements; and

Acquisition of Frontage Suzhou in 2019

On October 25, 2019, the Group entered into an agreement to acquire an additional 25.96% of the equity interests of Frontage Suzhou for a cash consideration of RMB14,434,000 (equivalent to US\$2,960,000) from the then equity owner. Such acquisition was made so as to expand the Group's CMC business in PRC. The acquisition has been accounted for as acquisition of business using the acquisition method.

The purchase price has been allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Frontage Suzhou in 2019 *(Continued)*

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill recognised are as follows:

	Fair Value US\$'000
Property, plant and equipment	1,378
Intangible assets	1,939
Trade and other receivables	1,392
Cash and cash equivalents	1,452
Deferred tax assets	122
Trade and other payables	(3,321)
Deferred tax liabilities	(287)
Current income tax liabilities	(18)
	<u>2,657</u>
Net assets acquired	<u>2,657</u>
Cash consideration	2,046
Fair value of the 49.04% owned equity investment	3,866
Plus: non-controlling interests (25% in Frontage Suzhou)	664
	<u>6,576</u>
Total transferred consideration	6,576
Less: Fair value of net assets acquired	(2,657)
	<u>3,919</u>
Goodwill arising on acquisition	<u>3,919</u>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	2,046
Less: Cash and cash equivalents acquired	(1,452)
	<u>594</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Frontage Suzhou in 2019 *(Continued)*

Acquisition-related costs amounting to US\$5,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The fair value of trade and other receivables at the date of acquisition amounted to US\$1,392,000. The gross contractual amounts of those trade and other receivables acquired amounted to US\$1,447,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amount to US\$55,000.

The non-controlling interests Frontage Suzhou recognised at the acquisition date was measured at 25% of the net assets acquired. The fair value of the 49.04% equity interests was estimated by applying an income approach. The following were the key model inputs used in determining the fair value:

- assumed discount rate of 21%;
- assumed long-term sustainable growth rate of 3%; and
- assumed adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interests in Frontage Suzhou.

Goodwill arose in the acquisition of Frontage Suzhou because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Frontage Suzhou. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Included in the profit for the year ended December 31, 2019 is US\$23,000 (NCI: US\$8,000) attributable to the additional business generated by Frontage Suzhou. Revenue for the year includes US\$769,000 generated from Frontage Suzhou.

Had the acquisition been completed on January 1, 2019, revenue for the year ended December 31, 2019 of the Group would have been US\$103,916,000, and profit for the year ended December 31, 2019 of the Group would have been US\$18,761,000. 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, 2019, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of Frontage Suzhou in 2019 *(Continued)*

In determining the 'pro-forma' revenue and profit of the Group had Frontage Suzhou been acquired at the beginning of the year ended December 31, 2019, the directors have:

- calculated amortisation 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 recognised in the pre-acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

Acquisition of RMI in 2019

On October 31, 2019, Frontage Labs entered into an equity purchase agreement to acquire the entire equity interests of RMI from the independent third party at US\$4,800,000 (the "RMI Acquisition").

RMI is a contract research organisation locating in Pennsylvania in the United States, and providing a full range of metabolite profiling and identification, and pre-clinical animal radiolabeled mass balance studies services to pharmaceutical and biotechnology companies. In acquiring RMI, the Group would expand its capacity provision of existing and novel services to its customers, effectively expand the current client base that the Group currently serves in this specific field, with the potential to increase the Group's revenue generated through this highly specialised service. The acquisition has been accounted for as acquisition of business using the acquisition method.

The total consideration of the RMI Acquisition is subject to downward adjustment in respect of the guarantee to a maximum of US\$2,500,000 if:

- (a) the audited EBITDA of RMI from November 1, 2019 to December 31, 2019 is less than US\$240,000 (the "RMI FY2019 Profit Target");
- (b) the audited EBITDA of RMI in fiscal year of 2020 is less than US\$1,600,000 (the "RMI FY2020 Profit Target");
- (c) the audited revenue of RMI in fiscal year of 2021 is less than US\$3,800,000 (the "RMI FY2021 Revenue Target"); and
- (d) the audited revenue of RMI in fiscal year of 2022 is less than US\$5,000,000 (the "RMI FY2022 Revenue Target").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of RMI in 2019 *(Continued)*

The total consideration shall be satisfied by way of cash by the Group in the following manners:

- (a) initial consideration as to US\$2,000,000 payable by completion;
- (b) second consideration as to a maximum of US\$300,000 (if the RMI FY2019 Profit Target is attained) is payable within 60 days after the completion of the RMI Acquisition;
- (c) third consideration as to a maximum of US\$1,000,000 (if the RMI FY2020 Profit Target is attained) is payable within 30 days from the fiscal year end of 2020;
- (d) fourth consideration as to a maximum of US\$750,000 (if the RMI FY2021 Revenue Target is attained) is payable within 30 days from the fiscal year end of 2021; and
- (e) final consideration as to a maximum of US\$750,000 (if the RMI FY2022 Revenue Target is attained) is payable within 30 days from the fiscal year ended of 2022.

The expected future economic benefits that will flow out of the Group arising from such arrangement are considered as a contingent consideration. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in the business combination.

The purchase price has been allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of RMI in 2019 *(Continued)*

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill recognised are as follows:

	Fair Value US\$'000
Property, plant and equipment	154
Intangible assets	3,300
Trade and other receivables	543
Cash and cash equivalents	95
Trade and other payables	(38)
Deferred tax liabilities	(748)
	<hr/>
Net assets acquired	<u>3,306</u>
Cash consideration	2,300
Contingent consideration	2,279
	<hr/>
Total consideration transferred	4,579
Less: Fair value of net assets acquired	(3,306)
	<hr/>
Goodwill arising on acquisition	<u>1,273</u>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	2,300
Less: Cash and cash equivalents acquired	(95)
	<hr/>
	<u>2,205</u>

Acquisition-related costs amounting to US\$16,000 have been excluded from the consideration transferred and recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The fair value of trade and other receivables at the date of acquisition amounted to US\$543,000. The gross contractual amounts of those trade and other receivables acquired amounted to US\$543,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected was nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of RMI in 2019 *(Continued)*

Goodwill arose in the acquisition of RMI because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of RMI. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Included in the profit for the year ended December 31, 2019 is US\$134,000 attributable to the additional business generated by RMI. Revenue for the year includes US\$411,000 generated from RMI.

Had the acquisition been completed on January 1, 2019, revenue for the year ended December 31, 2019 of the Group would have been US\$103,061,000, and profit for the year ended December 31, 2019 of the Group would have been US\$19,601,000. 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, 2019, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had RMI been acquired at the beginning of the year ended December 31, 2019, the directors have:

- calculated amortisation 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 recognised in the pre-acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

Acquisition of BRI in 2019

On December 13, 2019, the Group acquired entire equity interests of BRI in Canada from the independent third party for consideration of approximately CAD4,200,000 (equivalent to US\$3,193,000) (the "BRI Acquisition"). BRI is engaged in providing science-driven drug discovery and IND/NDA-enabling studies for pharmaceutical and biotechnology companies. In completing the BRI Acquisition, the combined resources upon the acquisition would enable the Group to expand the capacity in existing and new clients in pharmaceutical and agrochemical industries. The acquisition has been accounted for as acquisition of business being the acquisition method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of BRI in 2019 *(Continued)*

The total consideration of the BRI Acquisition is subject to downward adjustment in respect of the guarantee to a maximum of CAD1,200,000 (equivalent to US\$909,000) if:

- (a) the audited revenue of BRI in fiscal year of 2020 is less than CAD3,300,000 (equivalent to US\$2,501,000) (the “BRI FY2020 Revenue Target”);
- (b) the audited revenue of BRI in fiscal year of 2021 is less than CAD3,630,000 (equivalent to US\$2,751,000) (the “BRI FY2021 Revenue Target”); and
- (c) the audited revenue of BRI in fiscal year of 2022 is less than CAD3,990,000 (equivalent to US\$3,024,000) (the “BRI FY2022 Revenue Target”).

The total consideration shall be satisfied by way of cash by the Group in the following manners:

- (a) initial consideration as to CAD3,000,000 (equivalent to US\$2,273,000) payable by completion;
- (b) second consideration as to a maximum of CAD500,000 (equivalent to US\$379,000) (if the BRI FY2020 Revenue Target is attained) is payable within 95 days from the fiscal year end of 2020;
- (c) third consideration as to a maximum of CAD400,000 (equivalent to US\$303,000) (if the BRI FY2021 Revenue Target is attained) is payable within 95 days from the fiscal year end of 2021; and
- (d) final consideration as to a maximum of CAD300,000 (equivalent to US\$227,000) (if the BRI FY2022 Revenue Target is attained) is payable within 95 days from the fiscal year ended of 2022.

The expected future economic benefits that will flow out of the Group arising from such arrangement are considered as a contingent consideration. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in the business combination.

The purchase price has been allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of BRI in 2019 *(Continued)*

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill recognised are as follows:

	Fair Value US\$'000
Property, plant and equipment	342
Right-of-use assets	180
Intangible assets	1,517
Tax recoverable	370
Trade and other receivables	302
Unbilled revenue	174
Inventories	29
Cash and cash equivalents	63
Trade and other payables	(486)
Advances from customers	(54)
Deferred tax liabilities	(345)
Lease liabilities	(180)
Net assets acquired	<u>1,912</u>
Cash consideration	2,273
Contingent consideration	<u>630</u>
Total transferred consideration	2,903
Less: Fair value of net assets acquired	<u>(1,912)</u>
Goodwill arising on acquisition	<u>991</u>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	2,273
Less: Cash and cash equivalents acquired	<u>(63)</u>
	<u>2,210</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of BRI in 2019 *(Continued)*

Acquisition-related costs amounting to US\$57,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The fair value of trade and other receivables at the date of acquisition amounted to US\$302,000. The gross contractual amounts of those trade and other receivables acquired amounted to US\$302,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected was nil.

Goodwill arose in the acquisition of BRI because the consideration paid effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of BRI. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Included in the profit for the year ended December 31, 2019 is nil attributable to the additional business generated by BRI. Revenue for the year includes US\$71,000 generated from BRI.

Had the acquisition been completed on January 1, 2019, revenue for the year ended December 31, 2019 of the Group would have been US\$101,284,000, and profit for the year ended December 31, 2019 of the Group would have been US\$18,434,000. 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, 2019, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition of BRI in 2019 *(Continued)*

In determining the 'pro-forma' revenue and profit of the Group had BRI been acquired at the beginning of the year ended December 31, 2019, the directors have:

- calculated amortisation 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 recognised in the pre-acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

44.1 General information of subsidiaries

	As at December 31,	
	2020	2019
	US\$'000	US\$'000
Unlisted shares, at cost	<u>28,421</u>	<u>28,421</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

44.1 General information of subsidiaries *(Continued)*

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiaries	Place of incorporation/ establishment and business and nature of legal entity	Authorised share capital/ registered capital	Paid-up capital	Equity interest attributable to the Group as at December 31,		Principal activities
				2020 %	2019 %	
Directly held:						
Frontage Labs	USA, limited company	US\$20,000	US\$16,215	100	100	Bioanalytical, CMC and DMPK services
Indirectly held:						
Frontage Shanghai	PRC, limited liability company	US\$4,355,050	US\$4,355,050	100	100	Bioanalytical and bioequivalence services
Croley Martell Holdings, Inc.	USA, limited company	US\$2,000	US\$1,000	100	100	Investing holding
Concord Holdings, LLC	USA, limited liability company	-	-	100	100	Investing holding
Concord Biosciences, LLC	USA, limited liability company	-	-	100	100	Safety and Toxicology services
Frontage Laboratories (Luohe) Co., Ltd. ("Frontage Luohe") <i>(note (i))</i>	PRC, limited liability company	RMB50,000,000	-	100	100	CMC
Frontage Suzhou <i>(note (ii))</i>	PRC, limited liability company	RMB10,000,000	RMB10,000,000	75	75	CMC
RMI <i>(note (iii))</i>	USA, limited liability company	-	US\$100	100	100	DMPK
11736655 Canada Ltd. <i>(note (iv))</i>	Canada, limited company	Unlimited	CAD5,000,000	100	100	Investing holding
BRI <i>(note (v))</i>	Canada, limited company	-	CAD\$700	100	100	DMPK
Biotranex <i>(note (vi))</i>	USA, limited liability company	-	US\$712,531	100	-	DMPK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

44.1 General information of subsidiaries *(Continued)*

Name of subsidiaries	Place of incorporation/ establishment and business and nature of legal entity	Authorised share capital/ registered capital	Paid-up capital	Equity interest attributable to the Group as at December 31,		Principal activities
				2020 %	2019 %	
Suzhou Frontage New Drug Development Co., Ltd <i>(note (vii))</i>	PRC, limited liability company	US\$60,000,000	US\$18,000,000	100	–	DMPK
Acme <i>(note (viii))</i>	USA, limited company	US\$10,000	US\$10,000	100	–	Chemistry services
Acme Shanghai <i>(note (viii))</i>	PRC, limited liability company	US\$2,000,000	US\$750,000	100	–	Chemistry services
Hoya Global Limited <i>(note (viii))</i>	Hong Kong, limited company	US\$500,000	US\$500,000	100	–	Investing holding
Frontage International Limited <i>(note (ix))</i>	Hong Kong, limited company	HK\$10,000	HK\$10,000	100	–	Investing holding

Notes:

- (i) On October 29, 2019, the Group set up Frontage Luohe.
- (ii) Frontage Suzhou was a 49.04% owned associate of the Group as at December 31, 2018. In October 2019, the Group acquired an additional 25.96% equity interests of Frontage Suzhou and since then Frontage Suzhou has become a 75% owned subsidiary of the Group. Details are set out in Note 43.
- (iii) On October 31, 2019, the Group acquired 100% of the shares of RMI, details of which are set out in Note 43.
- (iv) On November 13, 2019, the Group set up 11736655 Canada Ltd.
- (v) On December 13, 2019, the Group acquired 100% of the shares of BRI, details of which are set out in Note 43.
- (vi) On March 31, 2020, the Group acquired 100% of the shares of Biotranex, details of which are set out in Note 43.
- (vii) On August 3, 2020, the Group set up Suzhou Frontage New Drug Development Co., Ltd.
- (viii) On July 2, 2020, the Group acquired 100% of the shares of Acme, details of which are set out in Note 43.
- (ix) On June 24, 2020, the Group set up Frontage International Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

44.2. Details of Non-Wholly Owned Subsidiaries That Have Material Non-Controlling Interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	2020	2019	2020	2019
				US\$'000	US\$'000	US\$'000	US\$'000
Frontage Suzhou	PRC	75%	75%	265	8	1,003	679

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2020 US\$'000	2019 US\$'000
Current assets	5,910	3,305
Non-current assets	4,141	3,960
Current liabilities	(5,692)	(4,074)
Non-current liabilities	(346)	(475)
Equity attributable to owners of the Company	3,010	2,037
Non-controlling interests of Frontage Suzhou	1,003	679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

44.2. Details of Non-Wholly Owned Subsidiaries That Have Material Non-Controlling Interests *(Continued)*

	January 1, 2020- December 31, 2020 <i>US\$'000</i>	October 31, 2019- December 31, 2019 <i>US\$'000</i>
Revenue	4,941	769
Expenses	(3,892)	(163)
Profit and total comprehensive income attributable to owners of the Company	972	22
Profit and total comprehensive income attributable to the non-controlling interests of Frontage Suzhou	324	8
Profit and total comprehensive income for the year/period	<u>1,296</u>	<u>30</u>
	January 1, 2020- December 31, 2020 <i>US\$'000</i>	October 31, 2019- December 31, 2019 <i>US\$'000</i>
Net cash inflow from operating activities	3,509	26
Net cash outflow used in investing activities	(3,208)	-
Net cash outflow used in financing activities	(36)	-
Net cash inflow	<u>265</u>	<u>26</u>

45. EVENTS AFTER REPORTING PERIOD

On January 22, 2021 (Hong Kong time), the Board approved the adoption of the share award scheme (“2021 Share Award Scheme”) to recognise the contributions by certain employees of the Group, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The 2021 Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules and is a discretionary scheme of the Company. No Shareholders’ approval is required for the adoption of the 2021 Share Award Scheme.

On January 25, 2021 (New York time), the Board has resolved to grant a total of 22,950,500 awarded shares to 184 award participants pursuant to the terms of the 2021 Share Award Scheme, in order to recognise the contributions of the award participants and retain them for the continual operation and development of the Group. Of the 22,950,500 awarded shares, (i) 19,850,500 awarded shares were granted to 182 non-connected award participants, all being employees of the Group who are not connected persons of the Company; and (ii) 3,100,000 awarded shares were granted to Dr. Song Li and Dr. Zhihe Li, the executive directors, which shall be subject to the approval by the independent shareholders and the fulfilment of the applicable requirements under Chapter 14A of the Listing Rules.

As at the date of the report, no awarded shares granted under the 2021 Share Award Scheme have vested. For further details of the 2021 Share Award Scheme, please refer to the Company’s announcements dated January 22, 2021, January 26, 2021 and February 5, 2020.

In January 2021, the chemistry unit initiated the construction of a new GMP kilo laboratory in its Shanghai site and the construction of the new facility is anticipated to be completed by the end of the second quarter of 2021. The new GMP kilo laboratory will enable the Group to provide GMP API manufacturing services to the customers, thereby enhancing the chemistry unit’s range of chemistry services from discovery to development, milligram to kilogram and medicinal chemistry to API synthesis.

On February 3, 2021, the Group expanded its capacity and capability of bioanalytical and central laboratory in China by way of renting a new laboratory facility of more than 67,000 sq. ft. The new laboratory is located at F3, 356 Zhengbo Road, Lin-Gang Special Area, Shanghai, China. It will be mainly used for bioanalytical in biologics, central laboratory services and drug activity screening. Currently, the management is in the midst of assessing the financial impacts of the expansion.

On February 10, 2021, Dr. Song Li was appointed as an executive Director and was elected as the Chairman of the Board and appointed as the Chief Executive Officer of the Company in place of Dr. Zhihe Li, who resigned from such positions and from his roles as a member of the remuneration committee of the Board and a member of the nomination committee of the Board but continues to serve as an executive Director and the Senior Vice President of Frontage Labs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at December 31,	
	2020	2019
	<i>US\$'000</i>	<i>US\$'000</i>
Non-current Assets		
Unlisted investments in subsidiaries	28,421	28,421
Deferred tax assets	3,620	2,144
	<u>32,041</u>	<u>30,565</u>
Current Assets		
Bank balances and cash	152,668	186,770
Trade and other receivables and prepayments	97	750
Amount due from subsidiaries	41,887	455
	<u>194,652</u>	<u>187,975</u>
Current Liabilities		
Trade and other payables	221	90
Income tax payable	870	802
	<u>1,091</u>	<u>892</u>
Net Current Assets	<u>193,561</u>	187,083
Total Assets less Current Liabilities	<u>225,602</u>	<u>217,648</u>
Capital and Reserves		
Share capital	20	20
Reserves	225,582	217,628
Total Equity	<u>225,602</u>	<u>217,648</u>

On behalf of the directors

Dr. Song Li, DIRECTOR

Dr. Zhihe Li, DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the year ended December 31, 2020

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Reserves movement of the Company	Share premium <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Equity-settled share-based compensation reserve <i>US\$'000</i>	Total <i>US\$'000</i>
At January 1, 2019	28,419	(6,386)	–	22,033
Loss and total comprehensive expense for the year	–	(2,644)	–	(2,644)
Recognition of deferred tax assets related to equity-settled share-based compensation	–	–	5,044	5,044
Capitalisation issue	(13)	–	–	(13)
Issue of shares	193,208	–	–	193,208
At December 31, 2019 and January 1, 2020	<u>221,614</u>	<u>(9,030)</u>	<u>5,044</u>	<u>217,628</u>
Profit and total comprehensive income for the year	–	2,623	–	2,623
Exercise of share options <i>(Note 36)</i>	4,157	–	(762)	3,395
Recognition of deferred tax assets related to equity-settled share-based compensation	–	–	1,001	1,001
Recognition of equity-settled share-based compensation <i>(Note 36)</i>	–	–	935	935
At December 31, 2020	<u><u>225,771</u></u>	<u><u>(6,407)</u></u>	<u><u>6,218</u></u>	<u><u>225,582</u></u>

DEFINITIONS

“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
“2017 Tax Act” or “Transition Tax”	The Tax Cuts and Jobs Act was signed into law on December 22, 2017, has resulted in significant changes to the U.S. corporate income tax system. These changes reduce tax rates and modify policies, credits and deductions for businesses. The 2017 Tax Act also transitions the U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which could result in subjecting certain earnings of Frontage Shanghai to U.S. taxation. These changes are effective beginning in 2018. The 2017 Tax Act also includes a tax on the mandatory deemed repatriation of accumulated previously untaxed foreign earnings of Frontage Shanghai (the “Transition Tax”)
“2018 Share Incentive Plan”	the post-IPO share incentive plan adopted by the Company on May 11, 2019
“2021 Share Award Scheme”	the “2021 Share Award Scheme” constituted by the rules adopted on January 22, 2021 (Hong Kong time), in its present form or as amended from time to time in accordance with the provisions therein
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Audit and Risk Management Committee”	the audit and risk management committee of the Board
“Awarded Share(s)”	the Shares granted by the Company to the selected participants pursuant to the terms of the 2021 Share Award Scheme
“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

“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
“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

DEFINITIONS *(Continued)*

“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
“GLP”	Good Laboratory Practice, a quality system of management controls for research laboratories and organizations to try to ensure the uniformity, consistency, reliability, reproducibility, quality and integrity of chemical and pharmaceuticals non-clinical safety tests
“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
“IFRSs”	International Financial Reporting Standards
“IND”	Investigational New Drug
“IPO”	initial public offering
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange

“Listing Date”	May 30, 2019, being on the date the Shares were listed on the Main Board
“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 Issues contained in Appendix 10 to the Listing Rules
“NDA”	New Drug Application
“Nomination Committee”	the nomination committee of the Board
“Non-connected Award Participants”	the selected participants who awarded the Awarded Shares under the 2021 Share Award Scheme but are not connected with the Company or connected persons of the Company
“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
“QWBA”	Quantitative Whole Body Autoradiography
“R&D”	research and development
“Remuneration Committee”	the remuneration committee of the Board
“Reporting Period”	the year ended December 31, 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

DEFINITIONS *(Continued)*

“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 shares(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” or “BDM”	Tigermed-BDM, Inc., a company incorporated under the laws of New Jersey, United States, and was a former associate of the Company
“Tigermed-Xinze” or “Xinze”	Tiger-Xinze Medical Technology (Jiaxing) Co., Ltd., a company established in the PRC on December 25, 2013 and a former associate of the Company
“US\$” or “US dollars”	Dollars, the lawful currency of the U.S.
“USA”, the “United States” or the “U.S.”	United States of America
“%”	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.