



Frontage Holdings Corporation

方達控股公司 *

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1521



2021 INTERIM REPORT

* For identification purpose only

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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)

AUTHORIZED REPRESENTATIVES

Dr. Zhihe Li
Ms. Karen Ying Lung Chang

AUDITOR

BDO Limited
Certified Public Accountants
Public Interest Entity Auditor registered in
accordance with the Financial Reporting
Council Ordinance

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

	Six months ended June 30,	
	2021	2020
	USD'000	USD'000
	(Unaudited)	(Unaudited)
Operating results		
Revenue	85,125	50,659
Gross profit	29,661	14,639
Profit before tax	11,470	5,291
Net profit	9,059	4,457
Adjusted net profit ⁽¹⁾	14,543	5,503
Profitability		
Gross profit margin (%)	34.8%	28.9%
Net profit margin (%)	10.6%	8.8%
Adjusted net profit margin (%) ⁽¹⁾	17.1%	10.9%
	As at	As at
	June 30,	December 31,
	2021	2020
	USD'000	USD'000
	(Unaudited)	(Audited)
		(Restated)
Financial position		
Total assets	408,600	382,714
Total equity	311,143	288,872
Total liabilities	97,457	93,842
Cash and cash equivalents	182,607	212,087

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2021.

- (1) Calculation of adjusted net profit is modified and calculated as net profit for the Reporting Period, excluding the share-based compensation expenses, amortization of acquired intangible assets from mergers and acquisitions and gain or loss arising from financial liabilities measured as fair value through profit or loss to better reflect the Company's current business and operations. In order to ensure comparability of the financial information, the adjusted net profit for the six months ended June 30, 2020 was restated.

FINANCIAL HIGHLIGHTS

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 and adjusted basic and diluted earnings per share (excluding the share-based compensation expenses, amortization of acquired intangible assets from mergers and acquisitions and gain or loss arising from financial liabilities measured as fair value through profit or loss) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

We are a fast-growing CRO engaged in the provision of research, analytical and development services throughout the product discovery and development continuum. We provide integrated, scientifically-driven support that enables 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 these markets. In North America and China, the Group provides a comprehensive portfolio of product discovery and development services throughout the discovery and development continuum, which includes chemistry, CMC, preclinical research (DMPK, safety and toxicology), laboratory testing (bioanalytical and biologics, and central laboratory). In addition, in China, the Group also provides a suite of bioequivalence and related services (such as pharmacology, medical writing and regulatory support) to support our customers with their regulatory submissions.

We are well-positioned to leverage our growing portfolio of expertise and capabilities to become a global CRO providing high-quality services to our customers, creating rewarding career opportunities for our employees, and delivering high investment returns to our investors. 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, India, Japan, South Korea, Israel, and Australia. We currently operate in 20 facilities in three countries and have over 1,000 employees worldwide.

During the Reporting Period, driven by the growing demand for our services as well as the normalization of our global operations at a stable utilization rate, we achieved significant growth in our operations both in North America and China. Revenue of the Group increased by 67.9% from approximately US\$50.7 million for the six months ended June 30, 2020 to approximately US\$85.1 million for the six months ended June 30, 2021. 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, achieved approximately US\$218.4 million as at June 30, 2021, representing an increase of 57.3% compared to approximately US\$138.8 million as at June 30, 2020 and an increase of 27.0% compared to approximately US\$172.0 million as at December 31, 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Enhanced Capabilities and Expertise

During the Reporting Period, we continued to enhance our capabilities and expertise through organic growth and strategic acquisitions in order to provide more comprehensive services for our clients on a global scale. In China, in addition to enhancing our existing capabilities and expertise in chemistry, CMC, DMPK, and bioequivalence, we are actively engaged in introducing new service offerings such as safety and toxicology and central laboratory to our comprehensive portfolio of services. Concurrently with our ongoing efforts to expand our bioanalytical and biologics unit, we have worked to develop our drug discovery and development services for innovative drugs. We are pleased to observe that the revenue from projects pertaining to innovative drugs has already contributed over 50% of our revenue for the six months ended June 30, 2021 in China, and contract future revenue from innovative drugs contributed over 60% of our total contract future revenue as at June 30, 2021 in China, compared to approximately 50% as at December 31, 2020 and approximately 45% as at June 30, 2020.

Chemistry

Our chemistry unit operates in two locations: Palo Alto, California (“CA”), USA, and Shanghai, China.

During the Reporting Period, the demand for our chemistry services continued to grow due to the growing momentum for drug discovery across the globe. We believe the growth in China was significantly driven by China’s innovative drug-related policies and reforms which have contributed to growth in a new era of drug innovation and development in China in recent years. There are currently over 30 research projects, of which China-based customers account for nearly 40% the Group is currently engaged in. The construction of the 7,000-square-foot good manufacturing practice (“GMP”) kilogram laboratory in Shanghai, which was initiated in January 2021, is near completion and expected to become operational in the second half of this year. The new GMP kilogram laboratory will enable us to provide our customers with GMP active pharmaceutical ingredient (“API”) manufacturing services, enhancing our chemistry unit’s discovery expertise from discovery to development, milligram to kilogram and medicinal chemistry to API synthesis. In addition, we also initiated the construction of a 17,000-square-foot medicinal chemistry facility in Shanghai, which is expected to be completed in the third quarter of 2021 and be operational by the fourth quarter of 2021. The new medicinal chemistry laboratory will enhance our current drug discovery experience and scope of capabilities of our chemistry unit.

BUSINESS REVIEW *(Continued)*

Chemistry, Manufacturing and Control

Our CMC unit operates in two locations: Exton, Pennsylvania (“**PA**”), USA and Suzhou, China.

During the Reporting Period, our CMC unit in the U.S. completed the construction and outfitting at our new microbiology laboratory at our 760 Pennsylvania Drive, Exton PA site. Our new microbiology laboratory will offer a comprehensive range of microbiological development and quality control testing services such as microbial limit test, endotoxin test, sterility test, and environmental monitoring test for drug products that support all phases of the product and process development and help to maintain product integrity.

During the Reporting Period, our CMC unit in China established a semi-solid formulation research and development (“**R&D**”) platform in order to improve its formulation R&D service capabilities. At the same time, we have also initiated the construction of an 89,000-square-foot facility in Suzhou. The facility will expand the manufacturing capacity of CMC and GMP clinical trial samples. More specifically, it will enhance our CMC unit’s manufacturing capacity for the production of various dosage forms such as oral solid preparations, injections, lyophilized powder for injections, semi-solid preparations, eye drops, etc. This facility will also have the manufacturing capacity for hygroscopic/photosensitive sensitive drugs, which can accommodate different types of clinical sample production requirements and help to ensure the quality, efficacy, and safety of the formulated products during manufacture, storage, and use. This facility is expected to be partially operational in the first half of 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Drug Metabolism and Pharmacokinetics

Our DMPK unit operates in seven locations, including (i) four cities in the USA: Exton, PA, North Wales, PA, Monmouth Junction, New Jersey (“**NJ**”) and Secaucus, NJ; (ii) one city in Canada: Vancouver; and (iii) two cities in China: Shanghai and Suzhou.

During the Reporting Period, our DMPK unit in Exton, PA, in partnership with Frontage Labs’ associate, Frontage Clinical Services, Inc. (“**Frontage Clinical**”) announced the availability of full-service human Absorption, Metabolism, and Excretion (“**hAME**”) studies with radiolabeled compounds at the clinical site in Secaucus, NJ. Our DMPK unit and Frontage Clinical have obtained full approval from the NJ Department of Environmental Protection to conduct studies evaluating radiolabeled drug candidates in humans. Frontage Clinical, an early phase clinical research organization, plans to begin healthy volunteer recruitment and conduct studies by the third quarter of 2021. The ability to execute the hAME studies at the 160-bed Phase 1 clinical facility complements the Group’s extensive experience in conducting radiolabeled studies, including Quantitative Whole-Body Autoradiography (“**QWBA**”)/dosimetry, mass balance, and metabolite identification, profiling. Frontage Labs, for many years, has been conducting mass balance and metabolite profiling studies for clients who had the hAME performed at other third-party facilities. Now, Frontage Labs can conduct entire hAME studies at our facility, including QWBA, facilitating us to conveniently provide comprehensive hAME packages to clients in a timely manner. HAME studies offers quantitative and comprehensive overall picture of the disposition of a drug, including excretion pattern and metabolite profiles in circulation and excreta. The data gathered from the hAME study are highly informative for developing a cohesive strategy for clinical pharmacology studies and serve as an essential component of successful New Drug Application (“**NDA**”) filing for new therapeutic agents.

During the Reporting Period, we expanded our DMPK unit in Shanghai and Suzhou, China, and began providing *in vivo* and *in vitro* DMPK research services to our customers. Through the construction of a 215,000-square-foot research facility in Suzhou, we intend to continue to broaden the scope of our DMPK and to improve capabilities in the development of our safety and toxicology unit in order to provide our customers with a more diverse portfolio of discovery services to increase the efficiency and effectiveness of their product selection processes and to facilitate our customers in making the appropriate decisions regarding the progression of potential therapeutic entities earlier in the development process. The construction of this facility is expected to be completed by the end of 2021. This facility will be used for DMPK and GLP and non-GLP toxicology services to support investigational research and regulatory submissions in China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Safety and Toxicology

Our safety and toxicology unit currently operates from our facility in Concord, Ohio (“OH”), USA and will operate in Suzhou, China after the construction of our 215,000-square-foot research facility is completed in Suzhou.

During the Reporting Period, our safety and toxicology unit in our Concord, OH, USA facility continued to develop and market our newly established service lines in (i) genetic toxicology which includes bacterial reverse mutation assays (i.e. the Ames assays), *in vitro* micronucleus assays using human lymphoblastoid cell line TK6, and *in vivo* micronucleus assays in both mice and rats; and (ii) safety pharmacology service offerings, which include *in vivo* cardiovascular telemetry in dogs, whole-body plethysmography respiratory studies in rodents, and central nerve system safety assessments in rodents.

Bioanalytical and Biologics Services

Our bioanalytical and biologics services unit operates in seven locations, including: (i) four cities in the USA: Exton, PA, Concord, OH, Hayward, CA, and Deerfield, Florida (“FL”); (ii) one city in Canada: Vancouver; and (iii) two cities in China: Shanghai and Suzhou.

During the Reporting Period, in the U.S., we further expanded our service capabilities by relocating our biomarker and biologics services teams from our headquarters located at 700 Pennsylvania Drive, Exton, PA to our new state-of-the-art facility at 760 Pennsylvania Drive, Exton, PA. This relocation is intended to address the growing demand for our services in biologics bioassays, biomarker research, and gene/cell therapy (GCT). In April 2021, we acquired the genomics business of Ocean Ridge Biosciences, Inc. (“**Ocean Ridge**”), a biotechnology company located in Deerfield Beach, FL. The acquired genomics service offerings include the development of novel therapeutics, such as services related to biofluid profiling, RNA sequencing, bioinformatics, exosomes, microbiomics, oncopanels, cell-free DNA bisulfite sequencing, gene expression microarray, multiplex protein profiling and formalin-fixed, paraffin embedded tissues. We expect this acquisition can help bolster the Group’s current genomic services by enabling us to provide accurate, affordable, and information-rich genomic services to the health care and life science industries and academic institutions. The assets we acquired will complement the wide variety of Investigational New Drug (“**IND**”)-enabling and clinical-trial related services offered by Frontage Labs, including our services for protein-, oligonucleotide-, gene-, and cell-based therapeutic discovery and development. We also finalized the design of the 25,000-square-foot facility in Hayward, CA and expect to commence construction in the latter half of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Bioanalytical and Biologics Services *(Continued)*

During the Reporting Period, we also continued to enhance our bioanalytical and biologics unit's capabilities in China by hiring highly qualified talent, procuring state-of-the-art instruments and equipment, and improving our integrated large molecular bioanalysis technology platform. With respect to our biologics services, our service offerings not only support clinical research of protein treatment products, but also provides comprehensive solutions for the high-growth cell and gene therapy markets, such as mRNA vaccine, siRNA drug, virus vaccine, oncolytic virus, CAR-T, TCR-T and other biological products. We have also completed the system development of an integrated electronic platform (Watson Plus), which has entered the validation stage. We will soon become one of the few bioanalysis service providers in China to fully adopt whole-process electronic records.

On February 3, 2021, the Group expanded its capacity and capability of bioanalytical and central laboratory in China by renting a new 67,000-square-foot research facility at 356 Zhengbo Road, Lin-Gang Special Area, Shanghai, China. This facility is expected to be operational in the first half of 2022, and will be primarily used for service offerings in bioanalysis in biologics, central laboratory and DMPK.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Central Laboratory

Our central laboratory unit operates in three locations: Exton, PA, USA, Secaucus, NJ, USA and Shanghai, China.

The primary central laboratory facility is located at our 760 Pennsylvania Drive, Exton, PA site and is a Clinical Laboratory Improvement Amendments (CLIA) certified laboratory. We are also currently collaborating with the College of American Pathologists (CAP) on laboratory testing and bio-repository accreditations. During the Reporting Period, our central laboratory unit continued to provide high-quality COVID-19 testing service to the local community and clinical trial sponsors with fast turnaround rates and positive client experience. The central laboratory logistics service has supported many of our customers with services such as lab manuals, kit design and build, site training, kits re-order, sample shipping, tracking, and specimen reconciliation. We also experienced a surge in demand for pathology tissue processing, Hematoxylin and Eosin (“**H&E**”) stain, immunohistochemistry (“**IHC**”) stain, and pathology diagnostic services. Our central laboratory unit also procured cutting-edge high-throughput equipment and laboratory information systems (“**LIS**”) with an emphasis on similar procedures across our central laboratory facilities to ensure laboratory data consistency both worldwide and over time. In the third quarter of 2021, our central laboratory unit plans to expand its safety and specialty testing services to include hematology, urinalysis, chemistry, coagulation, immunology, allergen and autoimmune, infectious disease, molecular, and flow cytometry assays. The cloud-based LIS system is being implemented and validated, soon supporting functions such as laboratory workflow, sample management, logistics, data regulatory compliance, and data analysis, including artificial intelligence-guided data mining. With regards to the project management system within our central laboratory unit, we have adopted a team-based approach (rather than the traditional individual-based method) to assure project continuity, operational agility, and the highest level of customer satisfaction.

During the Reporting Period, we made notable progress in the establishment of our central laboratory unit in China. We (i) completed the construction of our central laboratory facility in Zhangheng Road, Pudong New District, Shanghai; (ii) implemented quality system documents; and (iii) launched sample collection package supply and sample management services. This facility is equipped with state-of-the-art instruments and equipment. We expect to broaden our testing capabilities to include safety detection, flow cytometry detection and pathological detection by the fourth quarter of 2021. In addition, we plan to further expand our capacity and scale in providing central laboratory services in China after the 67,000-square-foot laboratory facility in Lin-Gang Special Area, Shanghai becomes operational.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Bioequivalence

During the Reporting Period, our bioequivalence services remain competitive in China, through our expertise, robust quality system and operational efficiency. We acquired advanced research expertise for complex formulation related studies, and have gained successful experience in research projects such as special formulations, transdermal patches, inhalation formulations, injections, enteric solvents formulations and other complex varieties. Additionally, we also participated formulating the guiding principles for ursodeoxycholic acid bioequivalence projects in China.

COVID-19 PANDEMIC AND EFFECTS ON OUR BUSINESS

On March 11, 2020, the World Health Organization 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. During the first half of 2020, the Group experienced pronounced disruptions in its global operations as a result of the COVID-19 pandemic.

Despite the unprecedented challenges presented by the COVID-19 pandemic, beginning from 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 work. This positively impacted revenue, operating income, operating income margins, and cash flows, which continued throughout the first half of 2021. As a result, our revenue for the Reporting Period of approximately US\$85.1 million has significantly increased from approximately US\$50.7 million for the same period of 2020.

We attribute the growth in business year over year to a combination of our mitigation measures, the ongoing efforts of our dedicated staff, and the effectiveness of our comprehensive business continuity plans. While we continue to operate globally, the pandemic continues to impact our business. The activity level at each of our locations varies depending on the local government requirements and guidelines which continue to evolve and change. Our office staff are either effectively working remotely or in the office, and our facilities and laboratories are fully operational with modifications made to ensure the safety of our personnel.

MANAGEMENT DISCUSSION AND ANALYSIS

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

During the Reporting Period, we continued to rely on our COVID-19 task force to navigate our organizational response to COVID-19, focusing on (i) the safety and well-being of our employees, customers and partners; (ii) the continuity of our business operations; and (iii) 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. Additionally, we have continued to employ various mitigation measures to minimize the adverse impacts of the COVID-19 pandemic on our ongoing projects, customer relationships, and procurement of supplies.

While the potential for further disruption of 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 have witnessed a recovery in all of our business units during the Reporting Period.

As we look ahead, the COVID-19 pandemic may continue to evolve rapidly, uncertainties remain as to the duration of the pandemic, the geographic location of specific outbreaks, and the length and scope of travel restrictions and business closures imposed by the governments of impacted countries. The COVID-19 pandemic has had, and a continuing outbreak or future outbreaks may have, several important impacts on our business, including: (i) reduction of transportation services and disruption of the manufacturing and logistics network in the United States, which could adversely affect our suppliers' and our customers' suppliers' abilities to manufacture drug candidates and other supplies necessary for our services in the United States; (ii) medical staff and facility resources may not be fully available for the conduct of clinical trials as hospitals and clinical sites may have to divert significant healthcare resources away from the conduct of clinical trials to focus on mitigating the impacts of the COVID-19 pandemic; and (iii) our facilities may be required to operate at a reduced utilization rate to the extent necessary to comply with local health authorities and requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The extent to which COVID-19 pandemic impacts our future results will depend on future developments. National, state, and local governments may impose, and have imposed additional restrictions in certain areas, 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 pandemic 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 pandemic also could impact us in a number of other ways including, but not limited to, additional reductions to our business 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 assets.

THE GROUP'S FACILITIES

As of June 30, 2021, the Group had eleven (11) facilities in North America, consisting of:

- three (3) facilities in Exton, PA, USA;
- two (2) facilities in Hayward, CA, USA;
- one (1) facility in North Wales, PA, USA;
- one (1) facility in Concord, OH, USA;
- one (1) facility in Monmouth Junction, NJ, USA;
- one (1) facility in Deerfield, FL, USA;
- one (1) facility in Palo Alto, CA, USA; and
- one (1) facility in Vancouver, Canada.

THE GROUP'S FACILITIES *(Continued)*

In addition, as of June 30, 2021, the Group had nine (9) facilities in China, consisting of:

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

QUALITY ASSURANCE

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 inspections; namely, in June 2021, our safety and toxicology unit hosted a successful AAALAC (Association for Assessment and Accreditation of Laboratory Animal Care) audit in our Concord, OH facility. Our CMC unit also hosted DEA (Drug Enforcement Administration) inspections at our two CMC sites in Exton, PA. Our facilities in Shanghai and Suzhou, China were also inspected nearly 10 times by the NMPA (National Medical Products Administration of the PRC) and no material and adverse issues were identified in any of the said inspections.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Awards

During the Reporting Period, Frontage Labs has once again won the annual 2021 CRO Leadership Awards in multiple categories (Capabilities, Compatibility, Expertise, Reliability and Quality) issued by the magazines *Life Science Leader* and *Clinical Leader*.

The magazines *Life Science Leader* and *Clinical Leader* teamed up with the Industry Standard Research (“ISR”) to determine the award recipients. They assessed sixty CROs on over 20 performance metrics in ISR’s annual CRO Quality Benchmarking survey. Survey participants were recruited from pharma and biopharma companies of all sizes and were screened for decision-making influence related to working with CROs. Primary market research by ISR is the basis of the awards. ISR is able to identify outsourcing trends, CRO selection drivers, and CRO performance.

We are pleased to have been recognized with CRO Leadership Awards. These awards are recognition of Frontage Lab’s diverse, high-quality service offerings that allow our customers, peers, partners, and investors to gain insights into our impressive performance on a granular level.

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 set forth below:

Acquisition of Certain Assets of Ocean Ridge Biosciences, Inc.

On April 13, 2021 (New York time), Frontage Labs, Ocean Ridge, a biotechnology company located in Deerfield Beach, FL, and its controlling shareholder, entered into an asset purchase agreement, pursuant to which Frontage Labs agreed to, among other things, acquire certain related assets of Ocean Ridge’s genomics business at the consideration of US\$1,000,000. The aforesaid assets included, among others, genomics service offerings, such as services related to biofluid profiling, RNA sequencing, bioinformatics, exosomes, microbiomics, oncopanels, cell-free DNA bisulfite sequencing, gene expression microarray, multiplex protein profiling and formalin-fixed, paraffin embedded tissues.

MANAGEMENT DISCUSSION AND ANALYSIS

Acquisitions *(Continued)*

Acquisition of Certain Assets of Ocean Ridge Biosciences, Inc. (Continued)

We expect this acquisition to bolster the Group's current genomic services by enabling us to provide accurate, affordable, and information-rich genomic services to the health care and life science industries and academic institutions. The assets we acquired will complement the wide variety of IND-enabling and clinical-trial related services offered by Frontage Labs, including our services for protein-, oligonucleotide-, gene-, and cell-based therapeutic discovery and development.

Acquisition of Quintara Discovery, Inc.

On June 26, 2021 (Hong Kong time), Frontage Labs entered into an Agreement and Plan of Merger (the "**Merger Agreement**") by and among Frontage CA Merger Sub, Inc., a wholly-owned subsidiary of Frontage Labs ("**Merger Sub**"), Quintara, the shareholders of Quintara and the shareholders' representative, pursuant to which the parties agreed, among other things, to effect a reverse triangular merger in accordance with the California Corporation Code. Pursuant to the terms and conditions of the Merger Agreement, upon the closing, Merger Sub shall be merged with and into Quintara (the "**Merger**" and, collectively with the other transactions contemplated by the Merger Agreement, the "**Transactions**"), whereupon the separate corporate existence of Merger Sub shall cease and Quintara shall be the surviving entity in the Merger and continue as a wholly-owned subsidiary of Frontage Labs. The consideration of the Merger is up to US\$72,000,000 in cash (equivalent to approximately HK\$559,174,000 and consisting of (i) closing base amount of US\$44,100,000 in cash (equivalent to approximately HK\$342,494,000) payable upon the closing; (ii) Earnout Consideration of US\$18,900,000 in cash (equivalent to approximately HK\$146,783,000); and (iii) contingent bonus payment at the maximum of US\$9,000,000 (equivalent to approximately HK\$69,897,000) in cash to be payable subject to the satisfaction of certain performance targets for the three years after the closing date as set out in the Merger Agreement). Quintara provides contract research organization services, including *in vitro* absorption, distribution, metabolism and excretion ("**ADME**") profiling, bioanalysis services, assay development and compound screening services, to the pharmaceutical, biotechnology, medical device or diagnostic industries. The Merger will expand the Group's capabilities in providing ADME profiling services. It will enable the Group to capture growth opportunities on the west coast of the U.S., where the Company currently has limited market coverage. The Board believes that the business outlook and prospects in the U.S. are positive and that the acquisition will also potentially accelerate the Group's market penetration on the west coast of the U.S., potentially resulting in a strong presence of the Group in that region. For further details, please refer to the Company's announcements dated June 28, 2021 and July 29, 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Acquisitions *(Continued)*

Acquisition of Quintara Discovery, Inc. (Continued)

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 also 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.

Prospects

Although the global economy faced unprecedented challenges due to the COVID-19 pandemic which started last year, it has raised public awareness of disease control and healthcare management, highlighted the significance of innovative drugs and medical devices, and generated additional market opportunities. In addition, with the growth of the aging population and the progress of science and technology, the global pharmaceutical market and the global pharmaceutical R&D investment are both expected to maintain a sustained growth. Driven by the complexity of the R&D process, cost saving and risk management initiatives from an increasing number of pharmaceutical companies, as well as numerous biotech companies generating additional demands for CRO services, we continue to anticipate the long-term growth of the global and China pharmaceutical CRO market.

As a fast-growing CRO operating in a large growing market and well positioned to capitalize on strong industry growth drivers, 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, as well as strategically extend the range of its services to offer customers a more integrated solution through organic growth and potential acquisitions, so as to pursue opportunities from anticipated increase in outsourcing of the pharmaceutical industry and the related demand for its services.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 67.9% from approximately US\$50.7 million for the six months ended June 30, 2020 to approximately US\$85.1 million for the six months ended June 30, 2021. Revenue from operations in North America increased by 53.8% from approximately US\$36.6 million for the six months ended June 30, 2020 to approximately US\$56.3 million for the six months ended June 30, 2021. Excluding the impact of currency translation, the revenue from operations in China increased by 88.4% from approximately RMB99.1 million (equivalent to approximately US\$14.1 million) for the six months ended June 30, 2020 to approximately RMB186.7 million (equivalent to approximately US\$28.8 million) for the six months ended June 30, 2021. The Group's revenue is mainly benefited from the gradual recovery from the COVID-19 pandemic and the successful implementation of the Company's strategies to extend the range of its services to offer its customers more integrated solutions through organic growth and potential acquisition. Specifically, 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; (ii) positive synergistic effect in the preclinical segment brought by the acquisition of RMI, BRI and Biotranex; and (iii) newly acquired chemistry segment brought by the acquisition of ACME. The increase in operational revenue in the China market was mainly due to (i) the expansion of CMC capabilities and business in China; (ii) a thrive in bioanalytical service, particularly bioanalytical in large molecules business in China; and (iii) the newly acquired chemistry segment brought by the acquisition of ACME.

The revenue of the Group recorded strong growth during the Reporting Period. The Group derived a vast majority of its revenue from providing services to customers headquartered in the United States and China. In particular, revenue from customers in the U.S. and China substantially increased for the six months ended June 30, 2021 compared to that for the six months ended June 30, 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

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

	For the six months ended June 30,	
	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Laboratory testing	39,374	26,631
CMC	14,289	9,298
Preclinical research	17,992	11,877
Bioequivalence clinical	5,762	2,853
Chemistry	7,708	—
	<u>85,125</u>	<u>50,659</u>

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

Revenue	For the six months ended June 30,			
	2021 <i>US\$'000</i>	%	2020 <i>US\$'000</i>	%
– USA	53,477	62.8	30,947	61.1
– China	25,578	30.0	12,467	24.6
– Rest of the world ^(Note)	6,070	7.2	7,245	14.3
Total	<u>85,125</u>	<u>100.0</u>	<u>50,659</u>	<u>100.0</u>

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

Top 5 customers' revenue increased by 61.4% from approximately US\$13.2 million for the six months ended June 30, 2020 to approximately US\$21.3 million for the six months ended June 30, 2021, accounting for 25.0% of total revenue for the six months ended June 30, 2021 as compared to 26.0% for the six months ended June 30, 2020.

FINANCIAL REVIEW *(Continued)*

Revenue *(Continued)*

Top 10 customers' revenue increased by 56.7% from approximately US\$17.1 million for the six months ended June 30, 2020 to approximately US\$26.8 million for the six months ended June 30, 2021, accounting for 31.5% of total revenue for the six months ended June 30, 2021, as compared to 33.7% for the six months ended June 30, 2020.

Cost of Services

The cost of services of the Group increased by 54.2% from approximately US\$36.0 million for the six months ended June 30, 2020 to approximately US\$55.5 million for the six months ended June 30, 2021. The increase of the cost of services was mainly attributed to the mergers and acquisitions and 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.

The cost of services of the Group consists of direct labor costs, cost of raw materials and overhead. Direct labor costs primarily consist of salaries, bonuses and social security costs for the employees in the Group's business units. Cost of raw materials primarily consists of costs incurred for the purchase of raw materials used in rendering of our services. Overhead primarily consists of depreciation charges of the facilities and equipment used in rendering the Group's services, utilities and maintenance.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 103.4% from approximately US\$14.6 million for the six months ended June 30, 2020 to approximately US\$29.7 million for the six months ended June 30, 2021. The Group's gross profit margin increased from approximately 28.9% for the six months ended June 30, 2020 to approximately 34.8% for the six months ended June 30, 2021, which is primarily due to the gradual recovery from the COVID-19 pandemic and the successful implementation of the Company's strategies to extend the range of its services to offer its customers more integrated solutions through organic growth and potential acquisition. In particular, gross profit margin in North America increased from approximately 24.6% for the six months ended June 30, 2020 to approximately 34.3% for the six months ended June 30, 2021. Whereas gross profit margin in China decreased from approximately 40.0% for the six months ended June 30, 2020 to approximately 35.8% for the six months ended June 30, 2021, effected by (i) a relatively lower gross profit margin contributed by the Group's newly acquired chemistry service in the second half of 2020; (ii) the expansion of our capacity in both our professional teams and our new lab facilities; and (iii) the investment in establishing our pre-clinical business.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Other Income

The other income of the Group decreased by 44.1% from approximately US\$3.4 million for the six months ended June 30, 2020 to approximately US\$1.9 million for the six months ended June 30, 2021, primarily due to the decrease of interest income as a result of the Group's active utilization of proceeds from the Global Offering and internal resources to finance our expansion, investments and business operation.

Selling and Marketing Expenses

Selling and marketing expenses of the Group increased by 40.0% from approximately US\$2.0 million for the six months ended June 30, 2020 to approximately US\$2.8 million for the six months ended June 30, 2021, which demonstrated our continuous efforts in enhancing our capabilities in business development to capture the growing demand in the CRO industry.

Administrative Expenses

The Group's administrative expenses increased by 56.2% from approximately US\$8.9 million for the six months ended June 30, 2020 to approximately US\$13.9 million for the six months ended June 30, 2021. Excluding share-based compensation expense and amortization of intangible assets acquired from mergers and acquisitions, the Group's administrative expenses increased by 20.8% from approximately US\$7.7 million for the six months ended June 30, 2020 to approximately US\$9.3 million for the six months ended June 30, 2021, primarily due to (i) workforce expansion to facilitate the smooth operation and support the Group's growing business and its long-term development; and (ii) an increase in office administration costs and other operational costs, which are in line with the Group's business growth and headcount growth.

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 25.0% from approximately US\$0.8 million for the six months ended June 30, 2020 to approximately US\$1.0 million for the six months ended June 30, 2021, primarily due to our efforts in enhancing investment in new technologies and platforms.

FINANCIAL REVIEW *(Continued)*

Finance Costs

The Group's finance costs increased by 20.0% from approximately US\$1.0 million for the six months ended June 30, 2020 to approximately US\$1.2 million for the six months ended June 30, 2021, primarily due to interest expenses on lease liabilities, as a result of expansion of leasing space during the Reporting Period.

Income Tax Expense

The income tax expense of the Group increased by 200.0% from approximately US\$0.8 million for the six months ended June 30, 2020 to approximately US\$2.4 million for the six months ended June 30, 2021, primarily due to a combined increase in pretax income and effective tax rate. The Company's effective income tax rates were 21.1% and 15.8% for the six months ended June 30, 2021 and 2020, respectively.

On March 27, 2020, the U.S. government passed the Coronavirus Aid, Relief and Economic Security Act (the "**CARES Act**") in response to the COVID-19 pandemic. The CARES Act provides wide-ranging economic relief, including significant changes to the U.S. business tax provisions. These changes include, in summary, (i) modifications to limitations on the deductibility of net operating losses; (ii) modifications to limitations on the deductibility of business interest; (iii) alternative minimum tax credit acceleration; and (iv) the expensing of qualified improvement property. The most significant impact to the Company from the CARES Act relates to the modification to limitations on the deductibility of business interest and net operating losses, and the expensing of qualified improvement property. The Company has accounted for the impact of the CARES Act in its interim effective tax rate and income tax for the six months ended June 30, 2021 and 2020. The Company is continuing to assess the income tax impact of the CARES Act and other legislative changes enacted and being considered by governments around the world in response to the COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Net Profit and Net Profit Margin

The net profit of the Group increased by 102.2% from approximately US\$4.5 million for the six months ended June 30, 2020 to approximately US\$9.1 million for the six months ended June 30, 2021. The net profit margin of the Group for the six months ended June 30, 2021 was 10.6%, compared to 8.8% for the six months ended June 30, 2020. The higher net profit and net profit margin compared to the six months ended June 30, 2020 was primarily due to the solid revenue growth as a result of the Group's continuing position as a leader in the CRO industry and competitive execution track record, coupled with efficiency in business operations and enhanced capacity utilization. This was partially offset by (i) the decrease in other income as a result of the Group's active utilization of proceeds from the Global Offering and internal resources to finance the expansion, investment and business operation, and (ii) expansion of sales and marketing expenses and administrative expenses in line with the Group's business growth.

Adjusted Net Profit

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

	For the six months ended June 30,	
	2021	2020
	US\$'000	US\$'000 (Restated)
Net Profit	9,059	4,457
Add: Share-based compensation expense	3,291	436
Amortization of acquired intangible assets from mergers and acquisitions ^(Note)	1,349	756
Loss/(gain) arising from financial liabilities measured as fair value through profit or loss ^(Note)	844	(146)
Adjusted Net Profit	14,543	5,503
Adjusted Net Profit Margin	17.1%	10.9%

Note: Amortization of acquired intangible assets from mergers and acquisitions and gain or loss arising from financial liabilities measured as fair value through profit or loss are taken into consideration in the reconciliation of adjusted net profit for the six months ended June 30, 2021. In order to ensure comparability of the financial information, the adjusted net profit for the six months ended June 30, 2020 was restated.

FINANCIAL REVIEW *(Continued)*

Adjusted Net Profit *(Continued)*

The adjusted net profit of the Group increased by 163.6% from approximately US\$5.5 million for the six months ended June 30, 2020 to approximately US\$14.5 million for the six months ended June 30, 2021. The adjusted net profit margin of the Group for the six months ended June 30, 2021 was 17.1%, compared to 10.9% for the six months ended June 30, 2020. The higher adjusted net profit margin of the Group for the six months ended June 30, 2021 follows the same set of reasons as disclosed in the above paragraph.

EBITDA

The EBITDA¹ of the Group increased by 80.7% from approximately US\$11.9 million for the six months ended June 30, 2020 to approximately US\$21.5 million for the six months ended June 30, 2021. The EBITDA margin of the Group for the six months ended June 30, 2021 was 25.3%, compared to 23.4% for the six months ended June 30, 2020. The higher EBITDA margin of the Group for the six months ended June 30, 2021 was primarily due to a higher net profit margin as discussed above.

Adjusted EBITDA

The adjusted EBITDA² of the Group increased by 112.4% from approximately US\$12.1 million for the six months ended June 30, 2020 to approximately US\$25.7 million for the six months ended June 30, 2021. The adjusted EBITDA margin of the Group increased from 24.0% for the six months ended June 30, 2020 to 30.1% for the six months ended June 30, 2021. The increase of the adjusted EBITDA margin follows the same set of reasons as discussed in the EBITDA.

Basic and Diluted Earnings Per Share

The basic earnings per share of the Group increased by 95.5% from US\$0.0022 for the six months ended June 30, 2020 to US\$0.0043 for the six months ended June 30, 2021. The diluted earnings per share of the Group increased by 100.0% from US\$0.0021 for the six months ended June 30, 2020 to US\$0.0042 for the six months ended June 30, 2021. The increase in the basic and diluted earnings per share was primarily due to the increase in the net profit as discussed above.

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, and gain or loss arising from financial liabilities measured as fair value through profit or loss to better reflect the Company's current business and operations.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Basic and Diluted Earnings Per Share *(Continued)*

The adjusted basic earnings per share for the six months ended June 30, 2021 amounted to US\$0.0070, representing an increase of 159.3% as compared with that of US\$0.0027 for the six months ended June 30, 2020. The adjusted diluted earnings per share of the Group for the six months ended June 30, 2021 amounted to US\$0.0068 when compared with that of US\$0.0026 for the six months ended June 30, 2020. The increase in both the adjusted basic and the adjusted diluted earnings per share was primarily due to the increase in the adjusted net profit as discussed in the above section headed “Net Profit and Net Profit Margin”.

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 basic and diluted earnings per share (excluding the share-based compensation expenses, amortization of acquired intangible assets from mergers and acquisitions and gain or loss arising from financial liabilities measured as fair value through profit or loss) 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.

Property, Plant and Equipment

The plant and equipment of the Group increased by 54.2% from approximately US\$42.4 million as at December 31, 2020 to approximately US\$65.4 million as at June 30, 2021, primarily as a result of the expansion of research, development and manufacturing capacities.

FINANCIAL REVIEW *(Continued)*

Right-of-Use Assets

The Group recorded approximately US\$43.5 million right-of-use assets as at June 30, 2021, which increased by 9.3% from approximately US\$39.8 million as at December 31, 2020. The increase was mainly due to new leases entered into in order to support business growth.

Goodwill

The goodwill of the Group increased by 1.2% from approximately US\$24.9 million as at December 31, 2020 to approximately US\$25.2 million as at June 30, 2021, which was primarily due to the goodwill arising from the Ocean Ridge Acquisition.

Intangible Assets

The Group recorded approximately US\$14.1 million intangible assets for the year ended June 30, 2021, primarily includes customer relationship and customer backlog acquired through business combinations (for the year ended December 31, 2020: approximately US\$14.8 million).

Trade and Other Receivables and Prepayment

The trade and other receivables and prepayment of the Group increased by 32.2% from approximately US\$27.3 million as at December 31, 2020 to approximately US\$36.1 million as at June 30, 2021, primarily due to the growth of the Group's business.

Unbilled Revenue

The Group has recorded 29.9% increase in unbilled revenue to approximately US\$10.0 million as at June 30, 2021, primarily due to the growth of the Group's business.

Structured Deposits

As at June 30, 2021, the Group recorded approximately US\$9.3 million structured deposits to improve the return of available cash balance.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Trade and Other Payables

The trade and other payables of the Group decreased by 6.6% from approximately US\$19.8 million as at December 31, 2020 to approximately US\$18.5 million as at June 30, 2021, primarily due to the payments for purchase of property, plant and equipment related to capability expansion in both North America and China.

Advances from Customers

The Group has recorded an increase of 19.6% in advance from customers along with its business growth.

Liquidity and Capital Resources

The Group's bank balances and cash amounted to approximately US\$182.6 million in total as at June 30, 2021, as compared to approximately US\$212.1 million as at December 31, 2020, as a result of payments for purchase of property, plant and equipment and payments related to acquisition of subsidiaries. The cash and cash equivalents held by the Company are composed of RMB, HK\$, CAD and US\$. Currently, the Group follows a set of funding and treasury policies to manage its capital resources and prevent risks involved.

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

	For the six months ended June 30,	
	2021	2020
	US\$'000	US\$'000
Net cash generated from operating activities	12,424	9,318
Net cash used in investing activities	(40,815)	(1,689)
Net cash used in financing activities	(1,443)	(1,252)
Net (decrease)/increase in cash and cash equivalents	(29,834)	6,377
Cash and cash equivalents at the beginning of the period	212,087	207,752
Effect of exchange rate changes	354	(338)
Cash and cash equivalents at the end of the period	182,607	213,791

FINANCIAL REVIEW *(Continued)*

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 and software used in providing our services. Approximately US\$28.6 million of capital expenditures were incurred for the six months ended June 30, 2021, which was increased by 460.8% when compared to approximately US\$5.1 million for the six months ended June 30, 2020, primarily due to the expansion and enhancement of our facilities and purchases of laboratory equipment to support our services.

Indebtedness

Borrowings

As at June 30, 2021, 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\$45.2 million lease liabilities as at June 30, 2021, compared to approximately US\$40.6 million as at December 31, 2020 due to expansion of leasing space to support the business growth.

Contingent Liabilities and Guarantees

As at June 30, 2021, the Group did not have any material contingent liabilities or guarantees.

Currency Risk

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

The functional currency of the Company and the operating subsidiaries incorporated in the USA 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Indebtedness *(Continued)*

Currency Risk (Continued)

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

Gearing Ratio

The gearing ratio is calculated using interest-bearing borrowings less cash and cash equivalents and structured deposits divided by total equity and multiplied by 100%. Our gearing ratios were negative as at June 30, 2021 and December 31, 2020, because our cash and cash equivalents and structured deposits exceeded our interest-bearing borrowings.

Employees and Remuneration Policies

As at June 30, 2021, the Group had a total of 1,133 employees, of whom 503 employees were located in the U.S. and Canada, and 630 employees were located in China; 927 were scientific and technical support staff and 206 were sales, general & administrative staff. Approximately 91% of employees hold a bachelor's degree or above, and we have 423 employees that hold an advanced degree (a master's level degree or higher such as Ph.D, M.D. or other doctorate level degrees). The staff costs, including Directors' emoluments but excluding any contributions to retirement benefit scheme contributions and share-based compensation expenses, were approximately US\$33.1 million for the six months ended June 30, 2021, as compared to approximately US\$22.9 million for the six months ended June 30, 2020. 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 interim report, the Group has adopted the Pre-IPO Share Incentive Plans, the 2018 Share Incentive Plan and the 2021 Share Award Scheme to provide incentives or rewards to eligible participants for their contribution or potential contribution to the Group.

FINANCIAL REVIEW *(Continued)*

Employees and Remuneration Policies *(Continued)*

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

2021 Share Award Scheme

The Company adopted the 2021 Share Award Scheme on January 22, 2021. The purposes of the 2021 Share Award Scheme are to recognize the contributions by certain employees of the Company, 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.

The total number of the Shares to be awarded pursuant to the 2021 Share Award Scheme shall not exceed 204,782,591 Shares, being 10% of the total issued share capital of the Company as at its adoption date. The maximum number of Shares which may be awarded to a selected grantee shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date. Details of the 2021 Share Award Scheme are set out in the announcement of the Company dated January 22, 2021.

On January 25, 2021, the Board 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. 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 two Connected Award Participants, namely Dr. Zhihe Li and Dr. Song Li and were approved by the independent Shareholders at the 2021 AGM (as defined below). Please refer to the section headed "Corporate Governance and Other Information – Share Option Scheme – 2021 Share Award Scheme" below for further details.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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\$104.7 million as at June 30, 2021.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to June 30, 2021:

Use of proceeds	Adjusted on a pro rata basis based on the actual net proceeds (US\$ million)	Percentage of total net proceeds	Actual use of proceeds as at June 30, 2021 (US\$ million)	Net proceeds brought forward for the Reporting Period (US\$ million)	Unutilized net proceeds as at June 30, 2021 (US\$ million)	Expected timeline of utilizing the utilized proceeds
Expand and enhance existing capacities to meet anticipated increased demand for services	38.6	20%	30.5	24.0	8.1	On or before December 31, 2022
Expand and broaden range of capabilities and services organically	77.3	40%	14.8	74.8	62.5	On or before December 31, 2022
Expand capacity and/or capabilities through potential acquisitions	58.0	30%	39.4	24.8	18.6	On or before December 31, 2022
Working capital and general corporate purposes	19.3	10%	3.8	16.8	15.5	On or before December 31, 2022
Total	193.2	100%	88.5	140.4	104.7	

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2021 (six months ended June 30, 2020: nil).

MATERIAL ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT

As at June 30, 2021, save for the Quintara acquisition, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period. The details of the Quintara acquisition are set out in the section headed “Management Discussion and Analysis – Acquisitions” in this interim report.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended June 30, 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiries with all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during the six months ended June 30, 2021.

CORPORATE GOVERNANCE CODE

During the six months ended June 30, 2021, the Company has followed the principles and complied with the code provisions set out in the CG Code, except for the deviation from code provisions A.2.1 and E.1.2 of the CG Code.

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

CORPORATE GOVERNANCE CODE *(Continued)*

Pursuant to code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Dr. Song Li, the chairman of the Board, was unable to attend the annual general meeting of the Company held on May 27, 2021 (the “**2021 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 2021 AGM. The Board considered that such arrangement was sufficient to ensure that a member of the Board was available to answer any questions at the 2021 AGM. Barring any extraordinary circumstances or any new restrictions arising from COVID-19, Dr. Song Li will use his best endeavors to attend all future Shareholders’ meetings of the Company.

CHANGES IN INFORMATION OF DIRECTORS

Changes in the information of Directors since the publication of the annual report of the Company for the year ended December 31, 2020, which are required to be disclosed under Rule 13.51B(1) of the Listing Rules are set out below:–

- Mr. Yifan Li, an independent non-executive Director, has resigned as independent director of Zhejiang Tiantie Industry Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300587) since April 2021.

AUDIT AND RISK MANAGEMENT COMMITTEE

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

REVIEW BY AUDIT AND RISK MANAGEMENT COMMITTEE

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

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

As at June 30, 2021, 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:

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

Long Positions in the Shares and underlying Shares

Name of director	Capacity/Nature of Interest	Number of Shares and underlying Shares	Approximate percentage of shareholding interest ⁽⁴⁾
Dr. Song Li ⁽¹⁾	Beneficial owner/Trustee	168,441,320	8.21%
Dr. Zhihe Li ⁽²⁾	Beneficial owner	21,833,187	1.06%
Mr. Jun Gao ⁽³⁾	Beneficial owner	2,000,000	0.10%

Notes:

- (1) Dr. Song Li was granted 4,700,000 share options pursuant to the 2015 Share Incentive Plan on February 28, 2019. In addition, on January 25, 2021, 1,850,000 Awarded Shares were granted to Dr. Song Li pursuant to the 2021 Share Award Scheme. As at June 30, 2021, 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 at June 30, 2021, hold 45,600,090 Shares, 45,602,090 Shares and 45,606,090 Shares respectively.
- (2) 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, 1,250,000 Awarded Shares were granted to Dr. Zhihe Li pursuant to the 2021 Share Award Scheme.
- (3) Mr. Jun Gao was granted 2,000,000 share options pursuant to the 2015 Share Incentive Plan on February 28, 2019.
- (4) The percentage is for illustrative purpose only, subject to rounding error, and is calculated based on the number of 2,051,280,410 Shares in issue as at June 30, 2021.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

Long Positions in the Shares and underlying Shares *(Continued)*

Save as disclosed above and to the best knowledge of the Directors, as at June 30, 2021, 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/or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at June 30, 2021, 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 ⁽⁴⁾
Hongkong Tigermed ⁽¹⁾	Beneficial owner/Other ⁽²⁾	1,032,964,090	50.36%
Hangzhou Tigermed ⁽¹⁾	Interest of controlled corporation	1,032,964,090	50.36%
HHLR Advisors, Ltd. ⁽³⁾	Investment manager	122,632,000	5.98%
HHLR Fund, L.P. ⁽³⁾	Beneficial owner	115,152,000	5.61%

Notes:

- (1) Hangzhou Tigermed is deemed to be interested in the 1,032,964,090 Shares which Hongkong Tigermed, its wholly-owned subsidiary, is interested in as beneficial owner of Hongkong Tigermed.
- (2) Hongkong Tigermed is the beneficial owner of 1,032,964,090 Shares.
- (3) HHLR Advisors, Ltd. (formerly known as Hillhouse Capital Advisors, Ltd.) is the sole investment manager and the general partner of HHLR Fund, L.P. (formerly known as Gaoling Fund, L.P.) and YHG Investment, L.P. respectively. HHLR Advisors, Ltd. is deemed to be interested in the aggregate number of 122,632,000 Shares held by HHLR Fund, L.P. and YHG Investment, L.P.
- (4) The percentage is for illustrative purpose only, subject to rounding error, and is calculated based on the number of 2,051,280,410 Shares in issue as at June 30, 2021.

Save as disclosed above and to the best knowledge of the Directors, as at June 30, 2021, no other persons (other than a Director or chief executive of the Company) or entities had any interests or short positions in the Shares or underlying shares of the Company, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

Pre-IPO Share Incentive Plans

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

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

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME (Continued)

Pre-IPO Share Incentive Plans (Continued)

Set out below are details of the movements of the outstanding options granted during the Reporting Period:

Category of participants	Date of grant	Exercise price per Share (US\$)	Outstanding as at January 1, 2021	Granted during the Reporting Period	Exercised during the Reporting Period	Forfeited/ Lapsed during the Reporting Period	Outstanding as at June 30, 2021	Vesting period
Directors								
Dr. Song Li	February 28, 2019	0.200	4,700,000	-	-	-	4,700,000	<ul style="list-style-type: none"> • 50% on December 31, 2019; • 25% on December 31, 2020; and • 25% on December 31, 2021⁽¹⁾
Dr. Zhihe Li	February 28, 2019	0.200	4,500,000	-	-	-	4,500,000	<ul style="list-style-type: none"> • 50% on December 31, 2019; • 25% on December 31, 2020; and • 25% on December 31, 2021⁽¹⁾
Mr. Jun Gao	February 28, 2019	0.200	2,000,000	-	-	-	2,000,000	<ul style="list-style-type: none"> • 50% on December 31, 2019; • 25% on December 31, 2020; and • 25% on December 31, 2021⁽¹⁾

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME (Continued)

Pre-IPO Share Incentive Plans (Continued)

Category of participants	Date of grant	Exercise price per Share (US\$)	Outstanding as at January 1, 2021	Granted during the Reporting Period	Exercised during the Reporting Period	Forfeited/ Lapsed during the Reporting Period	Outstanding as at June 30, 2021	Vesting period
Senior management and other employees	March 31, 2010	0.016	-	-	-	-	-	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	-	-	-	-	-	exercisable at any time ⁽²⁾
	January 21, 2014	0.016	130,000	-	-	-	130,000	exercisable at any time ⁽²⁾
	June 16, 2016	0.049	7,550,000	-	900,000	-	6,650,000	exercisable at any time ⁽²⁾
	September 14, 2017	0.057	13,584,000	-	3,234,000	-	10,350,000	exercisable at any time ⁽²⁾
	February 28, 2019	0.200	48,999,000	-	9,668,500	262,500	39,068,000	<ul style="list-style-type: none"> • 50% on December 31, 2019; • 25% on December 31, 2020; and • 25% on December 31, 2021⁽¹⁾
Total			81,463,000	-	13,802,500	262,500	67,398,000	

Notes:

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

SHARE OPTION SCHEME *(Continued)*

Pre-IPO Share Incentive Plans *(Continued)*

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

The Group recognized total expenses of approximately US\$3,291,000 for the six months ended June 30, 2021 (six months ended June 30, 2020: approximately US\$436,000) 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 9.79% of the Shares in issue as at the date of this interim report. No awards have been granted under the 2018 Share Incentive Plan as at June 30, 2021.

2021 Share Award Scheme

The Company adopted the 2021 Share Award Scheme on January 22, 2021 (Hong Kong time). The purposes of the 2021 Share Award Scheme are to recognize the contributions by certain employees of the Company, 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.

The total number of the Shares to be awarded pursuant to the 2021 Share Award Scheme shall not exceed 204,782,591 Shares, being 10% of the total issued share capital of the Company as at its adoption date. The maximum number of Shares which may be awarded to a selected grantee shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date. Details of the 2021 Share Award Scheme are set out in the announcement of the Company dated January 22, 2021.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME *(Continued)*

2021 Share Award Scheme *(Continued)*

On January 25, 2021 (New York time), the Board 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. 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 two Connected Award Participants, namely Dr. Zhihe Li and Dr. Song Li and were approved by the independent Shareholders at the 2021 AGM. Please refer to the announcements of the Company dated January 26, 2021 and May 27, 2021 for further details.

The table below shows the details of movements of the Awarded Shares granted under the 2021 Share Award Scheme during the Reporting Period:

Category of Participants	Date of Grant	Number of Awarded Shares				As at June 30, 2021	Vesting Period <i>(Note)</i>
		As at January 22, 2021	Granted during the Reporting Period	Vested during the Reporting Period	Forfeited during the Reporting Period		
Directors							
Dr. Song Li	January 25, 2021	-	1,850,000	-	-	1,850,000	<ul style="list-style-type: none"> • 25% on January 24, 2022; • 25% on January 24, 2023; • 25% on January 24, 2024; and • 25% on January 24, 2025
Dr. Zhihe Li	January 25, 2021	-	1,250,000	-	-	1,250,000	<ul style="list-style-type: none"> • 25% on January 24, 2022; • 25% on January 24, 2023; • 25% on January 24, 2024; and • 25% on January 24, 2025

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME *(Continued)*

2021 Share Award Scheme *(Continued)*

Category of Participants	Date of Grant	Number of Awarded Shares				As at June 30, 2021	Vesting Period ^(Note)
		As at January 22, 2021	Granted during the Reporting Period	Vested during the Reporting Period	Forfeited during the Reporting Period		
Other grantees							
182 employees	January 25, 2021	-	19,850,500	-	-	19,850,500	<ul style="list-style-type: none"> • 25% on January 24, 2022; • 25% on January 24, 2023; • 25% on January 24, 2024; and • 25% on January 24, 2025
		-	22,950,000	-	-	22,950,000	

Note:

- (1) The vesting of the Awarded Shares is subject to the conditions as set out in the 2021 Share Award Scheme and the fulfillment of such conditions as specified by the Board.



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TO THE BOARD OF DIRECTORS OF FRONTAGE HOLDINGS CORPORATION

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements set out on page 47 to page 95 which comprise the condensed consolidated statement of financial position of Frontage Holdings Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as of June 30, 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes (the “condensed consolidated financial statements”). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The directors of the Company are responsible for the preparation and presentation of the condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on the condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OTHER MATTER

The condensed consolidated financial statements of the Group for the six months period ended June 30, 2020 were reviewed by another auditor who expressed an unmodified conclusion on those statements on August 28, 2020.

BDO Limited

Certified Public Accountants

Alfred Lee

Practising Certificate Number P04960

Hong Kong, August 25, 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2021

	NOTES	Six months ended	
		6/30/2021 US\$'000 (Unaudited)	6/30/2020 US\$'000 (Unaudited)
Revenue	3	85,125	50,659
Cost of services		(55,464)	(36,020)
Gross profit		29,661	14,639
Other income	5	1,895	3,356
Other gains and losses, net	6	(858)	133
Research and development expenses		(965)	(751)
Impairment losses recognized on			
– trade receivables		(268)	(125)
– unbilled revenue		(95)	(21)
– others		–	(4)
Selling and marketing expenses		(2,786)	(1,968)
Administrative expenses		(13,904)	(8,909)
Share of loss of associates		–	(15)
Finance costs	7	(1,210)	(1,044)
Profit before tax	8	11,470	5,291
Income tax expense	9	(2,411)	(834)
Profit for the period		9,059	4,457
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		815	(673)
Total comprehensive income for the period		9,874	3,784
Profit for the period attributable to:			
Owners of the Company		8,836	4,399
Non-controlling interests		223	58
		9,059	4,457
Total comprehensive income for the period attributable to:			
Owners of the Company		9,641	3,737
Non-controlling interests		233	47
		9,874	3,784
Earnings per share	10		
– Basic (US\$)		0.0043	0.0022
– Diluted (US\$)		0.0042	0.0021

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2021

	<i>NOTES</i>	As at 6/30/2021 US\$'000 (Unaudited)	As at 12/31/2020 US\$'000 (Audited) (Restated)
Non-current Assets			
Property, plant and equipment	12	65,418	42,445
Right-of-use assets	12	43,541	39,836
Goodwill	13	25,218	24,907
Intangible assets		14,112	14,793
Interests in associates		–	473
Deferred tax assets		11,124	5,154
Restricted bank deposits	16	300	300
Other long-term deposits		436	417
Other non-current assets		3,474	–
Financial assets at fair value through profit or loss		1,548	–
		<u>165,171</u>	<u>128,325</u>
Current Assets			
Inventories		855	724
Trade and other receivables and prepayment	14	36,081	27,251
Unbilled revenue	15	9,981	7,736
Structured deposits		9,288	2,452
Tax recoverable		4,454	4,131
Restricted bank deposits	16	163	8
Bank balances and cash	16	182,607	212,087
		<u>243,429</u>	<u>254,389</u>
Current Liabilities			
Trade and other payables	17	18,539	19,781
Advances from customers	18	21,385	17,870
Income tax payable		2,690	2,475
Amounts due to shareholders		210	210
Lease liabilities		5,874	5,191
		<u>48,698</u>	<u>45,527</u>
Net Current Assets		<u>194,731</u>	<u>208,862</u>
Total Assets less Current Liabilities		<u>359,902</u>	<u>337,187</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at June 30, 2021

		As at 6/30/2021 US\$'000 (Unaudited)	As at 12/31/2020 US\$'000 (Audited) (Restated)
	<i>NOTES</i>		
Non-current Liabilities			
Deferred tax liabilities		3,024	3,081
Lease liabilities		39,300	35,431
Other long-term liabilities	19	6,435	9,803
		<u>48,759</u>	<u>48,315</u>
Net Assets		<u>311,143</u>	<u>288,872</u>
Capital and Reserves			
Share capital	20	20	20
Reserves		<u>309,887</u>	<u>287,849</u>
Equity attributable to owners of the Company		309,907	287,869
Non-controlling interests		<u>1,236</u>	<u>1,003</u>
Total Equity		<u>311,143</u>	<u>288,872</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2021

	Reserves								Total US\$ '000		
	Share capital US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Foreign currency translation reserve US\$ '000	Equity-settled share based compensation reserve US\$ '000	Reorganization reserve US\$ '000	Capital reserve US\$ '000	Accumulated profit US\$ '000		Subtotal reserves US\$ '000	Non-controlling interests US\$ '000
As at December 31, 2020 (Audited)	20	224,092	2,572	2,431	12,127	(9,531)	3,050	53,108	287,849	1,003	288,872
Profit for the period	-	-	-	-	-	-	-	8,836	8,836	223	9,059
Other comprehensive expense for the period	-	-	-	805	-	-	-	-	805	10	815
Total comprehensive income for the period	-	-	-	805	-	-	-	8,836	9,641	233	9,874
Exercise of share options	-	3,034	-	-	(797)	-	-	-	2,237	-	2,237
Recognition of deferred tax assets related to equity-settled share-based compensation	-	-	-	-	6,869	-	-	-	6,869	-	6,869
Recognition of equity-settled share-based compensation	-	-	-	-	3,291	-	-	-	3,291	-	3,291
As at June 30, 2021 (Unaudited)	20	227,126	2,572	3,236	21,490	(9,531)	3,050	61,944	309,887	1,236	311,143

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

For the six months ended June 30, 2021

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

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2021

	Six months ended	
	6/30/2021	6/30/2020
	<i>US\$'000</i>	<i>US\$'000</i>
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	12,424	9,318
NET CASH USED IN INVESTING ACTIVITIES		
Proceeds from disposal of an associate	75	3,600
Purchase of property, plant and equipment	(28,228)	(5,111)
Increase in prepayment for acquisition of property, plant and equipment	(269)	–
Proceeds from disposal of property, plant and equipment	–	10
Interest received	959	535
Purchase of financial assets at fair value through profit or loss	(1,548)	–
Placement of structured deposits	(6,812)	–
Acquisition of a subsidiary, net of cash acquired	(1,000)	(1,113)
Payment for prior year acquisition of subsidiaries	(3,685)	–
(Placement)/withdrawal of restricted bank deposits	(155)	440
Purchase of intangible assets	(152)	(50)
	(40,815)	(1,689)
NET CASH USED IN FINANCING ACTIVITIES		
Repayment of bank borrowings	–	(500)
Interest paid on bank borrowings	–	(6)
Repayment of lease liabilities	(2,470)	(2,337)
Interest paid on lease liabilities	(1,210)	(772)
Proceeds from exercise of share options	2,237	2,363
	(1,443)	(1,252)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(29,834)	6,377
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	212,087	207,752
Effects of exchange rate changes	354	(338)
CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY BANK BALANCES AND CASH	182,607	213,791

1. GENERAL INFORMATION

Frontage Holdings Corporation (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on April 16, 2018 under the Company Law of the Cayman Islands, and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since May 30, 2019. The immediate holding company of the Company is Hongkong Tigermed Co., Limited, a company incorporated under the laws of Hong Kong with limited liability (“Hongkong Tigermed”). The ultimate holding company of the Company is Hangzhou Tigermed Consulting Co., Ltd. (“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 the “Group”) are to provide laboratory and related services to pharmaceutical and agrochemical companies as well as bioequivalence clinical and chemical services. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The principle place of business in the 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 condensed consolidated financial statements is US\$, which is the same as the functional currency of the Company.

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

For the six months ended June 30, 2021

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation of the financial statements

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

Except as described below, these condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended December 31, 2020.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognized in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognized in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as fair value through profit or loss, whereby changes in fair value, dividends and interest income are recognized in profit or loss.

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2021 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2020.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Application of amendments to IFRSs – effective for annual period beginning on or after January 1, 2021

In the current interim period, the Group has applied the following amendments to IFRSs issued by the International Accounting Standard Board, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to IFRS 16	COVID-19-Related Rent Concessions

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 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 derecognize 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.

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

For the six months ended June 30, 2021

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Application of amendments to IFRSs – effective for annual period beginning on or after January 1, 2021 *(Continued)*

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.

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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Application of amendments to IFRSs have been issued but are not yet effective

The following new or amended IFRSs, potentially relevant to the Group's condensed 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 in the date they become effective:

Amendment to IFRS 16	COVID-19-Related Rent Concessions beyond June 30, 2021 ¹
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¹ Effective for annual periods beginning on or after April 1, 2021.

In March 2021, the IASB amended IFRS 16 Leases, extending the practical expedient in order to permit lessees to apply it to rent concessions for which reductions in lease payments affect payments originally due on or before June 30, 2022. This amendment is applicable for annual reporting periods beginning on or after April 1, 2021, with early application permitted, including in financial statements not authorized for issue at April 9, 2021.

The Group has not early adopted this amendment for its annual reporting period beginning on January 1, 2021.

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

For the six months ended June 30, 2021

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Adjustments to provisional values for business combination in 2020

Pursuant to IFRS 3 “Business Combinations”, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. As further disclosed in Note 24, on July 2, 2020, the Group acquired entire equity interests of Acme Bioscience, Inc. (“ACME”) for consideration of US\$27,397,000 (the “ACME Acquisition”) of which the valuations have not been completed and the respective fair values of the identifiable net assets and goodwill were determined provisionally. During the six months ended June 30, 2021 (within measurement period), the Group made certain fair value adjustments, with reference to the finalized independent valuation, to the carrying amounts of the identifiable assets and liabilities of ACME as a result of completing the initial accounting. As at December 31, 2020, the impact arising from the adjustments to the fair values at the acquisition date of the identifiable net assets as if initial accounting had been completed on the acquisition date are as follows:

	As previously reported	Adjustments	As restated
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Goodwill	22,108	2,799	24,907
Intangible assets	14,993	(200)	14,793
Trade and other payables	(19,601)	(180)	(19,781)
Deferred tax liabilities	(3,126)	45	(3,081)
Other long term liabilities	(7,339)	(2,464)	(9,803)

The amortization of the respective assets subsequent to the ACME Acquisition date was not adjusted as the financial impact is not material. Accordingly no restated retained earnings is presented.

The above restatements relate to ACME Acquisition were effected during the year ended December 31, 2020 and hence have no financial impact on the consolidated financial position as at January 1, 2020. Accordingly no restated consolidated statement of financial position as at January 1, 2020 is presented.

3. REVENUE

The Group's revenue streams are categorized as follows:

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

The financial information of “Safety and Toxicology” as disclosed in the comparative figures have been combined with DMPK to conform with the presentation of the current interim period, for the purpose of reporting to the chief operating decision makers.

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

For the six months ended June 30, 2021

3. REVENUE *(Continued)*

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

	Six months ended	
	6/30/2021	6/30/2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Laboratory testing	39,374	26,631
CMC	14,289	9,298
Preclinical research	17,992	11,877
Bioequivalence clinical	5,762	2,853
Chemistry	7,708	—
	<u>85,125</u>	<u>50,659</u>

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

4. SEGMENT INFORMATION

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

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

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

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

- North America segment, including laboratory testing, CMC, preclinical research and chemistry services in the USA and Canada.
- PRC segment, including laboratory testing, CMC, preclinical research, bioequivalence clinical and chemistry services in the PRC.

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

For the six months ended June 30, 2021

4. SEGMENT INFORMATION *(Continued)*

Segment revenues and results

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

For the six months ended June 30, 2021 (Unaudited)

	North America <i>US\$'000</i>	PRC <i>US\$'000</i>	Total <i>US\$'000</i>
Revenue			
– Laboratory testing	25,397	13,977	39,374
– CMC	10,903	3,386	14,289
– Preclinical research	17,710	282	17,992
– Bioequivalence clinical	–	5,762	5,762
– Chemistry	2,283	5,425	7,708
	<u>56,293</u>	<u>28,832</u>	<u>85,125</u>
Cost of services	(36,959)	(18,505)	(55,464)
Other income	776	1,119	1,895
Other gains and losses, net	(827)	(31)	(858)
Research and development expenses	–	(965)	(965)
Impairment losses recognized on trade receivables and unbilled revenue	(130)	(233)	(363)
Selling and marketing expenses	(2,247)	(539)	(2,786)
Administrative expenses	(11,593)	(2,311)	(13,904)
Finance costs	(920)	(290)	(1,210)
	<u>4,393</u>	<u>7,077</u>	<u>11,470</u>
Segment profit			
	<u>4,393</u>	<u>7,077</u>	<u>11,470</u>
Profit before tax			<u>11,470</u>

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

For the six months ended June 30, 2021

4. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

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

	North America <i>US\$'000</i>	PRC <i>US\$'000</i>	Total <i>US\$'000</i>
Revenue			
– Laboratory testing	17,276	9,355	26,631
– CMC	7,408	1,890	9,298
– Preclinical research	11,877	–	11,877
– Bioequivalence clinical	–	2,853	2,853
	<u>36,561</u>	<u>14,098</u>	<u>50,659</u>
Cost of services	(27,559)	(8,461)	(36,020)
Other income	2,693	663	3,356
Other gains and losses, net	103	30	133
Research and development expenses	–	(751)	(751)
Impairment losses recognized on trade and other receivables and unbilled revenue	(132)	(18)	(150)
Selling and marketing expenses	(1,634)	(334)	(1,968)
Administrative expenses	(7,534)	(1,375)	(8,909)
Share of loss of associates	(15)	–	(15)
Finance costs	(828)	(216)	(1,044)
Segment profit	<u>1,655</u>	<u>3,636</u>	<u>5,291</u>
Profit before tax			<u>5,291</u>

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

For the six months ended June 30, 2021

4. SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

	Six months ended	
	6/30/2021	6/30/2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Revenue from external customers		
– USA	53,477	30,947
– PRC	25,578	12,467
– Rest of the world	6,070	7,245
	85,125	50,659

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

	6/30/2021	12/31/2020
	US\$'000	US\$'000
	(Unaudited)	(Audited)
		(Restated)
Non-current assets excluding financial assets and deferred tax assets		
– North America	108,791	91,938
– PRC	42,972	30,516
	151,763	122,454

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

For the six months ended June 30, 2021

4. SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

Information about major customers

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

	Six months ended	
	6/30/2021	6/30/2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Company A	<u>12,784</u>	<u>7,949</u>

5. OTHER INCOME

	Six months ended	
	6/30/2021	6/30/2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Interest income	959	2,710
Government grants related to income <i>(Note)</i>	258	585
Income from rendering technical support service	<u>678</u>	<u>61</u>
	<u>1,895</u>	<u>3,356</u>

Note: During the period ended June 30, 2020, the Group recognized government grants of US\$103,000 in respect of COVID-19-related subsidies, of which US\$56,000 relates to Canada Emergency Wage Subsidy program provided by the Canadian government and US\$47,000 relates to Bureau of Workman's Compensation provided by the U.S. government. The remaining government grants have been received for the Group's contribution to the local high-tech industry and economy. These grants are unconditional and accounted for as immediate financial support with neither future related costs expected to be incurred nor related to any assets.

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

For the six months ended June 30, 2021

6. OTHER GAINS AND LOSSES, NET

	Six months ended	
	6/30/2021	6/30/2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
<hr/>		
(Loss)/gain arising on financial liabilities measured as fair value through profit or loss	(844)	146
Gain on disposal of property, plant and equipment	2	5
Net foreign exchange loss	(146)	(30)
Others	130	12
	<hr/>	<hr/>
	(858)	133
	<hr/> <hr/>	<hr/> <hr/>

7. FINANCE COSTS

	Six months ended	
	6/30/2021	6/30/2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
<hr/>		
Interest expense on lease liabilities	1,210	1,038
Interest expense on bank borrowings	–	6
	<hr/>	<hr/>
	1,210	1,044
	<hr/> <hr/>	<hr/> <hr/>

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

For the six months ended June 30, 2021

8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended	
	6/30/2021 <i>US\$'000</i> (Unaudited)	6/30/2020 <i>US\$'000</i> (Unaudited)
Staff cost (including directors' emoluments):		
– Salaries and other benefits	33,054	22,820
– Retirement benefit scheme contributions	601	319
– Share-based payment expense	3,291	436
	<u>36,946</u>	<u>23,575</u>
Depreciation of property, plant and equipment	4,478	3,320
Depreciation of right-of-use assets	2,836	1,377
Amortization of intangible assets	1,533	822
	<u>8,847</u>	<u>5,529</u>

9. INCOME TAX EXPENSE

	Six months ended	
	6/30/2021 <i>US\$'000</i> (Unaudited)	6/30/2020 <i>US\$'000</i> (Unaudited)
Current tax:		
– PRC Enterprise Income Tax (“EIT”)	1,070	358
– U.S. Federal Tax	67	(1,194)
– U.S. State Tax	297	126
Under-provision of EIT, U.S. Federal Tax and U.S. State Tax in prior year	151	439
	<u>1,585</u>	<u>(271)</u>
Deferred tax:		
– Current period	826	1,105
Total income tax expense	<u>2,411</u>	<u>834</u>

9. INCOME TAX EXPENSE *(Continued)*

The Company and U.S. subsidiaries are subject to U.S. Federal and State Income taxes, with the combined income tax rate being 25.50% for the six months ended June 30, 2021 (the six months ended June 30, 2020: 31.69%). The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law on March 27, 2020, and includes several key changes to U.S. Federal tax. The impact of the CARES Act is reflected in the Federal tax expense above for the six months ended June 30, 2021 and June 30, 2020.

BRI Biopharmaceutical Research, Inc. (“BRI”), a wholly owned subsidiary of the Group and as a non-Canadian-controlled private corporation (“CCPC”) and engaged in active business in British Columbia, Canada, has been subject a flat tax rate of 27%.

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

Frontage Laboratories (Shanghai) Co., Ltd. (“Frontage Shanghai”), a wholly owned subsidiary of the Group in the PRC, was accredited as a “High and New Technology Enterprise” in November 2017 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from 2017. Frontage Shanghai renewed its status in November 2020, and is therefore 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. Tax rate of 15% was applied for current interim period as management was confident to renew the “High and New Technology Enterprise” upon expiry in 2021.

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 is therefore entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2019.

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

For the six months ended June 30, 2021

9. INCOME TAX EXPENSE *(Continued)*

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.

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

10. EARNINGS PER SHARE

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

	Six months ended	
	6/30/2021	6/30/2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	<u>8,836</u>	<u>4,399</u>

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

For the six months ended June 30, 2021

10. EARNINGS PER SHARE *(Continued)*

Number of Shares:

	Six months ended	
	6/30/2021 (Unaudited)	6/30/2020 (Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,047,270,202	2,017,539,448
Effect of dilutive potential ordinary shares:		
Share options	54,180,109	71,764,867
Share awards	10,466,061	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>2,111,916,372</u>	<u>2,089,304,315</u>

11. DIVIDENDS

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

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

For the six months ended June 30, 2021

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

During the current interim period, the Group acquired approximately US\$7,306,000 (six months ended June 30, 2020: US\$1,762,000) for furniture, fixtures and equipment, US\$9,407,000 (six months ended June 30, 2020: US\$3,349,000) for constructions in progress, and US\$9,951,000 (six months ended June 30, 2020: nil) for leasehold improvement.

In prior year, the Group entered into several new lease agreements with lease terms ranged from 3 to 25 years and began during the current interim period, for the use of laboratory equipment and buildings. On commencement date of the leases, the Group recognized right-of-use assets and lease liabilities amounting to US\$7,022,000 (six months ended June 30, 2020: US\$20,162,000).

13. GOODWILL

	<i>US\$'000</i>
	(Restated)
<hr/>	
COST AND CARRYING VALUE	
At January 1, 2020	6,250
Arising on acquisition of subsidiaries (restated)	18,372
Exchange adjustments	<u>285</u>
At December 31, 2020 (restated) and January 1, 2021	24,907
Arising on acquisition of subsidiaries	241
Exchange adjustments	<u>70</u>
At June 30, 2021 (unaudited)	<u><u>25,218</u></u>

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

For the six months ended June 30, 2021

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	6/30/2021 <i>US\$'000</i> (Unaudited)	12/31/2020 <i>US\$'000</i> (Audited)
Trade receivables		
– third parties	33,743	25,522
– related parties	486	311
Less: loss allowance for trade receivables	<u>(3,360)</u>	<u>(3,006)</u>
	<u>30,869</u>	<u>22,827</u>
Other receivables		
– third parties	1,137	1,149
– related parties	726	1,012
Less: loss allowance for other receivables	<u>(70)</u>	<u>(70)</u>
	<u>1,793</u>	<u>2,091</u>
Notes receivables		
– third parties	<u>290</u>	<u>584</u>
Prepayments		
– third parties	2,385	1,727
– related parties	<u>3</u>	<u>–</u>
	<u>2,388</u>	<u>1,727</u>
Value-added tax recoverable	<u>741</u>	<u>22</u>
	<u><u>36,081</u></u>	<u><u>27,251</u></u>

Details of the trade and other receivables due from related parties are set out in Note 25.

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

For the six months ended June 30, 2021

14. 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 age analysis of trade receivables (net of loss allowance), presented based on the invoice dates, at the end of the reporting period:

	6/30/2021 <i>US\$'000</i> (Unaudited)	12/31/2020 <i>US\$'000</i> (Audited)
Within 90 days	26,261	19,672
91 to 180 days	4,164	1,475
181 days to 1 year	231	910
Over 1 year	213	770
	<u>30,869</u>	<u>22,827</u>

15. UNBILLED REVENUE

	6/30/2021 <i>US\$'000</i> (Unaudited)	12/31/2020 <i>US\$'000</i> (Audited)
Unbilled revenue		
– third parties	10,440	7,786
– related parties	–	409
Less: loss allowance for unbilled revenue	<u>(459)</u>	<u>(459)</u>
	<u>9,981</u>	<u>7,736</u>

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

Details of the unbilled revenue due from related parties are set out in Note 25.

16. BANK BALANCES AND CASH/RESTRICTED BANK DEPOSITS

At the end of each reporting period, cash and cash equivalents of the Group comprised of bank balances and cash held. Bank balances held in the PRC carried interest at prevailing market interest rates which ranged from 0.3% to 1.725% per annum as at June 30, 2021 (December 31, 2020: from 0.3% to 0.35% per annum).

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

On August 20, 2019, the Group entered into an agreement to expand a lab in Pennsylvania, 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 June 30, 2021, the remaining amount in the escrow account was US\$8,000 (December 31, 2020: US\$8,000), which has been included in restricted bank deposits.

On March 3, 2021, a cash deposit of RMB1,000,000, (equivalent to approximately US\$155,000) was required by Shanghai Customs District P.R. China in the PRC for import value-added tax in China, and the amount is restricted. As at June 30, 2021, the remaining amount in the escrow account was RMB1,000,000 (equivalent to approximately US\$155,000) (December 31, 2020: Nil), which has been included in restricted bank deposits.

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

For the six months ended June 30, 2021

17. TRADE AND OTHER PAYABLES

	6/30/2021 <i>US\$'000</i> (Unaudited)	12/31/2020 <i>US\$'000</i> (Audited) (Restated)
Trade payables		
– third parties	7,996	7,113
– related parties	188	297
	<u>8,184</u>	<u>7,410</u>
Other payables		
– third parties	1,257	3,682
– related parties	19	–
	<u>1,276</u>	<u>3,682</u>
Contingent consideration payables <i>(Note 19)</i>	3,926	2,400
Consideration payable <i>(Note 19(b))</i>	–	982
Salary and bonus payables	4,588	4,621
Other taxes payable	565	686
	<u>18,539</u>	<u>19,781</u>

Details of the trade and other payable due to related parties are set out in Note 25.

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

	6/30/2021 <i>US\$'000</i> (Unaudited)	12/31/2020 <i>US\$'000</i> (Audited)
Within 90 days	7,577	6,960
91 days to 1 year	607	219
Over 1 year	–	231
	<u>8,184</u>	<u>7,410</u>

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

For the six months ended June 30, 2021

18. ADVANCES FROM CUSTOMERS

	6/30/2021 <i>US\$'000</i> (Unaudited)	12/31/2020 <i>US\$'000</i> (Audited)
Advances from customers		
– third parties	20,943	17,499
– related parties	442	371
	<u>21,385</u>	<u>17,870</u>

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

Details of the advances from customers which are related parties are set out in Note 25.

19. OTHER LONG-TERM LIABILITIES

	6/30/2021 <i>US\$'000</i> (Unaudited)	12/31/2020 <i>US\$'000</i> (Audited) (Restated)
Contingent consideration payables related to:		
– Acquisition of ACME <i>(Note (a))</i>	5,325	7,828
– Acquisition of RMI Laboratories, LLC. ("RMI") <i>(Note (b))</i>	629	1,279
– Acquisition of Biotranex LLC. ("Biotranex") <i>(Note (c))</i>	187	358
– Acquisition of BRI <i>(Note (d))</i>	294	338
	<u>6,435</u>	<u>9,803</u>

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

For the six months ended June 30, 2021

19. OTHER LONG-TERM LIABILITIES *(Continued)*

Notes:

- (a) As at June 30, 2021, the amount represented contingent consideration payable arising from the acquisition of ACME in an amount of US\$5,325,000 (December 31, 2020: US\$7,828,000 (restated)). The contingent consideration payable was re-measured at fair value and a fair value loss of US\$464,000 was recorded (see Note 6). Further, an amount of US\$2,892,000 (December 31, 2020: US\$2,025,000(restated)) was recorded as short-term payable as this amount falls due within one year (see Note 17).
- (b) As at June 30, 2021, the amount represented contingent consideration payable arising from the acquisition of RMI in an amount of US\$629,000 (December 31, 2020: US\$1,279,000). Further, an amount of US\$650,000 was reclassified as contingent consideration payable (December 31, 2020: US\$982,000 as consideration payable) under short-term payable as this amount falls due within one year (see Note 17). The directors considered that there was no material change in fair value of the contingent consideration payable as this was no significant change in RMI's operations and market environment since the acquisition.
- (c) As at June 30, 2021, the amount represented contingent consideration payable arising from the acquisition of Biotranex in an amount of US\$187,000 (December 31, 2020: US\$358,000). The contingent consideration payable was re-measured at fair value and a fair value loss of US\$169,000 was recorded (see Note 6). Further, an amount of US\$200,000 (December 31, 2020: US\$60,000) was recorded as short-term payable as this amount falls due within one year (see Note 17).
- (d) As at June 30, 2021, the amount represented contingent consideration payable arising from the acquisition of BRI in an amount of CAD365,000 (equivalent to US\$294,000) (December 31, 2020: CAD430,000 (equivalent to US\$338,000)). The contingent consideration payable was re-measured at fair value and a fair value loss of CAD261,000 (equivalent to US\$211,000) was recorded (see Note 6). Further, an amount of CAD228,000 (equivalent to US\$184,000) (December 31, 2020: CAD402,000 (equivalent to US\$315,000)) was recorded as contingent consideration payable under short-term payable as this amount falls due within one year (see Note 17).

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

For the six months ended June 30, 2021

20. SHARE CAPITAL

	Number of shares	Amount <i>US\$</i>	
Ordinary shares of US\$0.00001 each			
Authorized:			
As at June 30, 2021, January 1, 2021, December 31, 2020, and January 1, 2020	5,000,000,000	50,000	
	Number of shares	Amount <i>US\$</i>	Show in the financial statements as <i>US\$' 000</i>
Issued and fully paid:			
As at January 1, 2020	2,007,640,910	20,078	20
Exercise of share options	29,837,000	298	–
As at December 31, 2020 (Audited) and January 1, 2021	2,037,477,910	20,376	20
Exercise of share options	13,802,500	138	–
As at June 30, 2021 (Unaudited)	2,051,280,410	20,514	20

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

For the six months ended June 30, 2021

21. 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 valuation.

Fair value of the Group's financial assets and 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 of each reporting period.

Financial assets at fair value

The financial assets subsequently measured at fair value represents structured deposits and unlisted equity investment.

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 unlisted equity investment is determined using Level 3 inputs.

Latest transaction prices/consideration for shares transfer in similar equity interest was used to capture the fair value of the financial assets. The significant unobservable input is consideration due to timing, condition of sale and terms of agreements, size and nature of similar business to derive estimated value.

Financial liability at fair value

The financial liability subsequently measured at fair value represents contingent consideration relating to the acquisition of ACME, Biotranex, RMI and BRI (see Note 19).

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.

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis *(Continued)*

Detail of reconciliation of financial assets and financial liabilities at fair value through profit and loss measured at Level 3 fair value measurement are set out below:

	Unlisted equity investment <i>US\$'000</i>	Contingent consideration for business combinations <i>US\$'000</i>
As at January 1, 2020	–	2,926
Acquisition through business combinations (restated)	–	10,271
Changes in fair value	–	(18)
Transfer to consideration payables	–	(982)
Exchange adjustment	–	6
As at December 31, 2020 (restated) and January 1, 2021	–	12,203
Changes in fair value	–	844
Acquisition	1,548	–
Payment of contingent consideration	–	(2,703)
Exchange adjustment	–	17
As at June 30, 2021	<u>1,548</u>	<u>10,361</u>

Notes:

(i) Discount rate

A 1% increase/decrease in the discount rate while holding all other variables constant would decrease/increase the fair value of the contingent consideration for business combination by nil as at June 30, 2021 (December 31, 2020: nil) in the Group.

(ii) Probability-adjusted revenues

A 5% increase/decrease in the probability-adjusted revenues while holding all other variables constant would increase/decrease the fair value of the contingent consideration for business combination by US\$32,000 as at June 30, 2021 (December 31, 2020: US\$28,000) in the Group.

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

For the six months ended June 30, 2021

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

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, trade and other payables, lease liabilities and amounts due to shareholders.

The fair value of these financial assets and financial liabilities measured at amortized 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 amortized cost in the condensed consolidated financial statements approximate their fair values.

22. SHARE-BASED PAYMENTS

2021 Share awards scheme

On January 22, 2021 (the “Adoption Date”), the board of directors approved the adoption of the share award scheme (“2021 Frontage 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. Under the 2021 Frontage Share Award Scheme, the directors may grant up to 1% of the issued share capital of the Company on the Adoption Date of the 2021 Frontage Share Award Scheme. Each award granted has a contractual terms of 10 years and vesting on the one calendar year after grant date.

On January 25, 2021, the board of directors has resolved to grant a total of 22,950,500 awarded shares.

22. SHARE-BASED PAYMENTS *(Continued)*

2021 Share awards scheme *(Continued)*

Set out below are details of the movements of the outstanding awarded shares granted under the 2021 Frontage Share Awards Scheme during the current period:

	Six months ended 6/30/2021 Number (Unaudited)
Outstanding at beginning of period	–
Granted during the period	<u>22,950,500</u>
Outstanding at end of period	<u><u>22,950,500</u></u>

Each award share granted generally vested over a four-year period with an agreed award vesting on the anniversary one year after grant date.

The estimated fair value was approximately US\$16,120,000 for the awarded shares. The fair value was calculated by reference to the closing share price of the Company at the date of grant, which was HK\$6.02 (equivalent to US\$0.78) per share.

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

The Group recognized total expense of approximately US\$3,100,000 for the six months ended June 30, 2021 in relation to share award granted under the 2021 Frontage Share Award Scheme.

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

For the six months ended June 30, 2021

22. SHARE-BASED PAYMENTS *(Continued)*

Pre-IPO share incentive plans

Frontage Laboratories, Inc. (“Frontage Labs”) a wholly-owned subsidiary of the Group, adopted 2 Pre-IPO share incentive plans respectively in 2008 and 2015 (together 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 calendar one year after grant date.

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 plans to the eligible employees at an exercise price of US\$2.00.

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

For the six months ended June 30, 2021

22. SHARE-BASED PAYMENTS *(Continued)*

Pre-IPO share incentive plans *(Continued)*

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

	Six months ended			
	6/30/2021		6/30/2020	
	Weighted average exercise price (US\$) (Unaudited)	Number (Unaudited)	Weighted average exercise price (US\$) (Unaudited)	Number (Unaudited)
Outstanding as at beginning of period	0.16	81,463,000	0.15	115,650,000
Forfeited during the period	0.20	(262,500)	0.20	(3,350,000)
Exercised during the period	0.13	(13,802,500)	0.12	(20,010,000)
Lapsed during the period	–	–	0.20	(75,000)
Outstanding as at end of period	0.16	67,398,000	0.16	92,215,000
Options exercisable		50,348,000		56,665,000
Weighted average contractual life (years)		3.45		4.56

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

The weighted average closing price of the share of the Company immediately before the dates on which the option were exercised was HK\$4.61 (equivalent to US\$0.58) (six months ended June 30, 2020: HK\$4.39, equivalent to US\$0.56).

The Group recognized total expenses of approximately US\$191,000 (six months ended June 30, 2020: US\$436,000) in relation to share options granted by the Company.

2018 share incentive plan

On May 11, 2019, the board of directors approved an incentive plan to grant share options, restricted share units and any other types of award to eligible employees, including the directors of the Company and the employees of the Group. The total number of shares in respect of which the awards may be granted pursuant to the 2018 share incentive plan and any other equity-based incentive plans of the Company, being 10% of the shares of the Company. No awards have been granted under the 2018 share incentive plan by June 30, 2021.

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

For the six months ended June 30, 2021

23. CAPITAL COMMITMENTS

The Group has capital commitments under non-cancellable contracts as follows:

	6/30/2021 <i>US\$'000</i> (Unaudited)	12/31/2020 <i>US\$'000</i> (Audited)
Commitments for the acquisition of Quintara Discovery, Inc. <i>(Note 26)</i>	72,000	—
Purchase of property, plant and equipment	15,226	9,954
	<u>87,226</u>	<u>9,954</u>

24. ACQUISITION OF BUSINESSES

Acquisition of Ocean Ridge Business in 2021

On April 13, 2021, the Group entered into an agreement with Ocean Ridge Biosciences, Inc. to acquire the business relating to development of novel therapeutics, including services related to biofluid profiling, RNA sequencing, bioinformatics, exosomes, microbiomics, oncopanels, cell-free DNA bisulfite sequencing, gene expression microarray, multiplex protein profiling and formalin-fixed, paraffin-embedded tissues (the “Ocean Ridge Business”), for a consideration of US\$1,000,000 (the “Ocean Ridge Acquisition”). In completing the Ocean Ridge Acquisition, the Group will expand the Group’s capabilities to provide genomic services to the health care and life science industries and academic institutions.

This acquisition has been accounted for using the acquisition method. During the six months ended June 30, 2021, all of the conditions precedent under the sales and purchase agreement were fulfilled.

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 second quarter of 2022.

24. ACQUISITION OF BUSINESSES *(Continued)*

Acquisition of Ocean Ridge Business in 2021 *(Continued)*

Details of the fair value of identifiable assets and liabilities are as follows:

	Fair value US\$' 000
Property, plant and equipment	107
Intangible assets	638
Other long-term deposits	<u>14</u>
Net assets acquired	<u><u>759</u></u>
	US\$' 000
Cash consideration paid	1,000
Less: Fair value of net assets acquired	<u>(759)</u>
Goodwill	<u><u>241</u></u>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	<u>1,000</u>
	<u><u>1,000</u></u>

Acquisition-related costs have been excluded from the consideration transferred and have been recognized directly as an expense in the current interim period within the administrative expenses in the condensed consolidated statement of profit or loss and other comprehensive income.

Goodwill arose in the acquisition 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 recognized 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended June 30, 2021

24. ACQUISITION OF BUSINESSES *(Continued)*

Acquisition of ACME in 2020

On July 2, 2020, the Group acquired entire equity interests of ACME for consideration of US\$27,397,000 from independent third parties. ACME primarily provides contract research and custom synthesis services for biopharmaceutical companies specializing 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 6 August 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.

During the year ended December 31, 2020, the Group acquired entire equity interests of ACME of which the valuations have not been completed and the respective fair values of the identifiable net assets and goodwill were determined provisionally. During the six months ended June 30, 2021 (within measurement period), the Group made certain fair value adjustments, with reference to the finalized independent valuation issued in May 2021, to the carrying amounts of intangible assets and deferred taxation of ACME, as well as contingent liabilities and goodwill arising from the transaction as a result of completing the initial accounting.

24. ACQUISITION OF BUSINESSES *(Continued)*

Acquisition of ACME in 2020 *(Continued)*

Details of the fair value of identifiable assets and liabilities, purchase consideration and goodwill recognized upon the completion of the purchase price allocation are as follows:

	Fair value <i>US\$'000</i> (Restated)
Property, plant and equipment	1,244
Right-of-use assets	1,344
Intangible assets	8,300
Trade and other receivables	2,385
Unbilled revenue	72
Tax recoverable	2
Cash and cash equivalents	1,529
Trade and other payables	(973)
Advances from customers	(3)
Income tax payable	(527)
Lease liabilities	(1,447)
Deferred tax liabilities	(2,509)
	<u>9,417</u>
Net assets acquired	<u>9,417</u>
	<i>US\$'000</i>
Cash consideration paid	16,397
Contingent consideration	9,853
	<u>26,250</u>
Total transferred consideration	26,250
Less: Fair value of net assets acquired	(9,417)
	<u>16,833</u>
Goodwill	<u>16,833</u>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	16,397
Less: Cash and cash equivalents acquired	(1,529)
	<u>14,868</u>

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

For the six months ended June 30, 2021

24. ACQUISITION OF BUSINESSES *(Continued)*

Acquisition of ACME in 2020 *(Continued)*

Compared with the preliminary purchase price allocation disclosed in Note 43 to the Group's consolidated financial statements for the year ended December 31, 2020, the following items were restated:

	As previously stated	Adjustments	As restated
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Goodwill	14,034	2,799	16,833
Intangible assets	8,500	(200)	8,300
Deferred tax liabilities	(2,554)	45	(2,509)
Contingent consideration	(7,209)	(2,644)	(9,853)

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 recognized 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.

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 year ended December 31, 2020, the directors have:

- calculated amortization of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the preacquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

For the six months ended June 30, 2021

25. RELATED PARTY TRANSACTIONS AND BALANCES

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

(1) Related party transactions:

(a) Laboratory and Bioequivalence service income from related parties

		Six months ended	
		6/30/2021	6/30/2020
		<i>US\$'000</i>	<i>US\$'000</i>
Relationship		(Unaudited)	(Unaudited)
Frontage Clinical Services, Inc. ("Frontage Clinical")	Associate	89	–
Taiwan Tigermed Consulting Co., Ltd	Fellow subsidiary	–	9
Hangzhou Tigermed	Ultimate holding company	204	–
Frontida BioPharm, Inc. ("Frontida") <i>(note (i))</i>	Associate	2	–
Shanghai Tigermed Technology Co., Ltd.	Fellow subsidiary	–	–
		295	9
		295	9

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

For the six months ended June 30, 2021

25. 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 Organization service*

	Relationship	Six months ended	
		6/30/2021 US\$' 000 (Unaudited)	6/30/2020 US\$' 000 (Unaudited)
Frontage Clinical	Associate	76	320
Jiaxing Tigermed Data Management Co., Ltd.	Fellow subsidiary	184	149
Tigermed-BDM, Inc. ("Tigermed-BDM")	Fellow subsidiary	–	44
Jyton-Kannel Medical Technology Co., Ltd.	Fellow subsidiary	8	1
Jiaxing EDC Computer Technology Co., Ltd.	Fellow subsidiary	69	–
Hangzhou Simo Laboratories Co., Ltd.	Fellow subsidiary	28	–
Hangzhou Tigermed	Ultimate holding company	68	–
		433	514

(c) *Administrative services provided to related parties*

	Relationship	Six months ended	
		6/30/2021 US\$' 000 (Unaudited)	6/30/2020 US\$' 000 (Unaudited)
Frontage Clinical	Associate	97	126
Frontida <i>(note (i))</i>	Entity controlled by a substantial shareholder	–	43
FJ Pharma LLC <i>(note (ii))</i>	Associate until January 11, 2021	–	1
		97	170

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

For the six months ended June 30, 2021

25. 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:

		6/30/2021	12/31/2020
		US\$'000	US\$'000
	Relationship	(Unaudited)	(Audited)
Trade receivables			
Frontida <i>(note (i))</i>	Entity controlled by a substantial shareholder	84	82
Taiwan Tigermed Consulting Co., Ltd	Fellow subsidiary	9	9
Frontage Clinical	Associate	231	142
Hangzhou Tigermed	Ultimate holding company	162	78
		<u>486</u>	<u>311</u>
Other receivables			
Frontida <i>(note (i))</i>	Entity controlled by a substantial shareholder	298	606
Frontage Clinical	Associate	428	406
		<u>726</u>	<u>1,012</u>
Prepayment			
Beijing Canny Consulting Inc.	Fellow subsidiary	3	–

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

For the six months ended June 30, 2021

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

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

		6/30/2021	12/31/2020
		<i>US\$' 000</i>	<i>US\$' 000</i>
	Relationship	(Unaudited)	(Audited)
Unbilled revenue			
Hangzhou Tigermed	Ultimate holding company	–	407
Shanghai Tigermed Technology Co., Ltd.	Fellow subsidiary	–	2
		<u>–</u>	<u>409</u>
Trade payables			
Tigermed-BDM	Fellow subsidiary	101	281
Frontida <i>(note (i))</i>	Entity controlled by a substantial shareholder	8	–
Jiaxing Tigermed Data Management Co., Ltd.	Fellow subsidiary	23	–
Jyton-Kannel Medical Technology Co., Ltd.	Fellow subsidiary	–	7
Hangzhou Simo Laboratories Co., Ltd.	Fellow subsidiary	–	8
Hangzhou Tigermed	Ultimate holding company	56	1
		<u>188</u>	<u>297</u>

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

For the six months ended June 30, 2021

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

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

		6/30/2021 <i>US\$' 000</i> (Unaudited)	12/31/2020 <i>US\$' 000</i> (Audited)
Other payables			
Frontage Clinical	Associate	<u>19</u>	<u>—</u>
Advances from customers			
Hangzhou Tigermed	Ultimate holding company	440	369
Frontida <i>(note (i))</i>	Entity controlled by a substantial shareholder	2	2
		<u>442</u>	<u>371</u>

Notes:

- (i) Frontida is considered as a related party of the Group because Dr. Song Li, the substantive shareholder and executive director of the Company, is Frontida's controlling shareholder.
- (ii) FJ Pharma LLC was dissolved during the six months ended June 30, 2021.
- (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 unsecured, interest free and repayable on demand.

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

For the six months ended June 30, 2021

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

(3) Compensation of key management personnel

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

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

	Six months ended	
	6/30/2021	6/30/2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Salaries and other benefits	1,958	1,149
Share-based compensation	100	248
Performance-based bonus	353	—
Retirement benefits scheme contributions	26	15
	<u>2,437</u>	<u>1,412</u>

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

26. SUBSEQUENT EVENTS

On June 26, 2021, Frontage Labs entered into an Agreement and Plan of Merger (the “Merger Agreement”) by and among Frontage CA Merger Sub, Inc., wholly-owned subsidiary of Frontage Labs (“Merger Sub”), Quintara Discovery, Inc., (“Target Company”), the shareholders of Target Company (“Sellers”) and the shareholders’ representative (“Representative”), under which the parties have agreed, among other things, to effect a reverse triangular merger in accordance with the California Corporation Code (the “CCC”). Pursuant to the terms and conditions of the Merger Agreement, upon the closing, Merger Sub shall be merged with and into Target Company (the “Merger” and, collectively with the other transactions contemplated by the Merger Agreement, the “Transactions”), whereupon the separate corporate existence of Merger Sub shall cease and Target Company shall be the surviving entity (the “Surviving Entity”) in the Merger and continue as a wholly-owned subsidiary of Frontage Labs.

Upon closing of the Merger, the Surviving Entity will become an indirect wholly-owned subsidiary of the Company and the financial results of the Surviving Entity will be consolidated into the Group’s financial statements.

On July 29, 2021 (Hong Kong time), the transaction has closed and the merger became effective. At the effective time of the merger, Merger Sub was merged with and into Target Company, whereupon the separate corporate existence of Merger Sub ceased and Target Company continued as the surviving entity and a wholly-owned subsidiary of Frontage Labs.

For details, please refer to the Company’s announcements dated June 28, 2021 and July 29, 2021.

In the moment, it is not practicable to provide an estimate of financial effect of the above acquisition until the Group performed a detailed review.

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
“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, in its present form or as amended from time to time in accordance with the provisions therein
“ACME”	Acme Biosciences, Inc., a corporation incorporated under the laws of Delaware, U.S. on January 16, 2001, and a subsidiary of Frontage Labs
“Audit and Risk Management Committee”	the audit and risk management committee of the Board
“Award Participants”	the selected participants who were awarded the Awarded Shares under the 2021 Share Award Scheme
“Awarded Shares”	the 22,950,500 Shares granted by the Company to the Award Participants pursuant to the terms of the 2021 Share Award Scheme
“Biotranex”	Biotranex, LLC, a company established under the laws of New Jersey, USA on February 19, 2009, and a subsidiary of Frontage Labs
“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

“CAD”	Canadian Dollars, the lawful currency of Canada
“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
“Company”	Frontage Holdings Corporation, a company incorporated under the laws of the Cayman Islands with limited liability on April 16, 2018
“Connected Award Participants”	the Award Participants who are connected with the Company or connected persons of the Company
“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
“COVID-19”	the novel coronavirus (COVID-19), a coronavirus identified as the cause of an outbreak of respiratory illness
“CRO(s)”	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
“Earnout Consideration”	cash payable in three years installments to be determined based upon the Surviving Entity’s Adjusted EBITDA (as defined in the Company’s announcement dated June 28, 2021)

DEFINITIONS

“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 PA, United States on April 21, 2004 and a wholly-owned subsidiary of the Company
“Frontage Shanghai”	Frontage Laboratories (Shanghai) Co., Ltd., a company established in the PRC on August 2, 2005 and a subsidiary of the Company
“Frontage Suzhou”	Frontage Laboratories (Suzhou) Co, Ltd., a company established in the PRC on January 7, 2014, and an associate of the Company
“Global Offering”	the Hong Kong Public Offering (as defined in the Prospectus) and the International Offering (as defined in the Prospectus)
“Group”, “We”, “Our” or “Us”	the Company and its subsidiaries
“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
“Hangzhou Tigermed”	Hangzhou Tigermed Consulting Co., Ltd., a company established in the PRC on December 15, 2004 with its shares being listed on ChiNext market of the Shenzhen Stock Exchange with stock code 300347 and on the Main Board of the Hong Kong Stock Exchange with stock code 3347, which is one of the controlling shareholders of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Tigermed”	Hongkong Tigermed Co., Limited, a company incorporated under the laws of Hong Kong with limited liability on September 14, 2011 and which is a wholly-owned subsidiary of Hangzhou Tigermed and one of the Controlling Shareholders of the Company

“IFRSs”	International Financial Reporting Standards
“IPO”	initial public offering
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“Non-connected Award Participants”	the Award Participants who 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 interim 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
“Quintara”	Quintara Discovery, Inc., a corporation incorporated under the laws of California, U.S. on May 17, 2013, of which 42%, 26%, and 32% of its Equity Interests are owned by Dr. Wentao Zhang, Dr. Qiulei Ren and Dr. Xiang Wu respectively immediately prior to the acquisition by Frontage Labs
“Reporting Period”	the six months ended June 30, 2021
“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
“Share(s)”	ordinary share(s) with nominal value USD0.00001 each in the issued share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$” or “USD”	United States Dollars, the lawful currency of the U.S.
“USA”, the “United States” or the “U.S.”	the 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.