FRONTAGE HOLDINGS CORPORATION
方達控股公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1521)

ANNOUNCEMENT ON ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2019

FINANCIAL HIGHLIGHTS

	2019	2018	Change
	US$ '000	*US$'000*	
Revenue	**100,415**	83,114	20.8%
Gross Profit	**37,291**	33,898	10.0%
Gross Profit Margin	**37.1%**	40.8%	
Net Profit	**18,432**	11,241	64.0%
Net Profit Margin	**18.4%**	13.5%	
Adjusted Net Profit	**21,397**	16,630	28.7%
Adjusted Net Profit Margin	**21.3%**	20.0%	
	US$	*US$*	
Earnings per share			
– Basic	**0.0102**	0.0075	36.0%
– Diluted	**0.0099**	0.0074	33.8%
Adjusted Earnings per share			
– Basic	**0.0119**	0.0110	8.2%
– Diluted	**0.0115**	0.0109	5.5%

The Board does not recommend any payment of final dividend for the year ended December 31, 2019 (the "**Reporting Period**").

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with the IFRSs, the Company has provided adjusted net profit, adjusted net profit margin, adjusted EBITDA, adjusted EBITDA margin and adjusted basic and diluted earnings per share (excluding the share-based compensation expenses, Listing expenses, gain on disposal of associates or subsidiary, bargain purchase gain and gain arising from fair value change of previously held interest in an associate) 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.

The Board of the Company is pleased to announce the consolidated annual results of the Group for the Reporting Period together with comparative figures for the corresponding period in 2018 as set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	NOTES	Year ended December 31, 2019 US$'000	2018 US$'000
Revenue	4	**100,415**	83,114
Cost of services		**(63,124)**	(49,216)
Gross profit		**37,291**	33,898
Other income	6	**5,545**	467
Other gains and losses, net	7	**1,937**	82
Research and development expenses		**(1,530)**	(1,694)
Impairment losses (recognized) reversal on			
– trade receivables		**(1,064)**	(608)
– note receivable		**1,072**	–
– others		**(12)**	(39)
Selling and marketing expenses		**(3,864)**	(2,585)
Listing expenses		**(1,564)**	(6,386)
Gain on disposal of associates		**27**	437
Gain on disposal of subsidiaries		**–**	143
Bargain purchase gain		**–**	788
Administrative expenses		**(16,368)**	(10,368)
Share of profit of associates		**625**	336
Finance costs	8	**(1,232)**	(378)
Profit before tax	9	**20,863**	14,093
Income tax expense	10	**(2,431)**	(2,852)
Profit for the year		**18,432**	11,241
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(421)**	(971)
Total comprehensive income for the year		**18,011**	10,270
Profit for the year attributable to:			
Owners of the Company		**18,424**	11,241
Non-controlling interests		**8**	–
		18,432	11,241
Total comprehensive income attributable to:			
Owners of the Company		**17,996**	10,270
Non-controlling interests		**15**	–
		18,011	10,270
Earnings per share	11		
– Basic (US$)		**0.0102**	0.0075
– Diluted (US$)		**0.0099**	0.0074

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	NOTES	As at December 31, 2019 US$'000	2018 US$'000
Non-current Assets			
Property, plant and equipment		**28,258**	22,884
Right-of-use assets		**21,086**	–
Goodwill		**6,250**	–
Intangible assets		**7,581**	25
Interests in associates		**541**	9,879
Deferred tax assets		**8,322**	68
Restricted bank deposits	*14*	**300**	300
Other long-term deposits		**417**	120
Long-term note receivable		**105**	–
		72,860	33,276
Current Assets			
Inventories		**173**	73
Trade and other receivables and prepayment	*12*	**24,927**	19,456
Unbilled revenue	*13*	**7,821**	7,129
Tax recoverable		**1,287**	1,209
Restricted bank deposits	*14*	**448**	15
Cash and cash equivalents	*14*	**207,752**	16,306
		242,408	44,188
Current Liabilities			
Trade and other payables	*15*	**10,393**	11,050
Advances from customers	*16*	**12,845**	11,350
Bank borrowings	*17*	**500**	2,667
Loans from a related party	*18*	**–**	1,500
Income tax payable		**1,355**	1,093
Amounts due to shareholders	*19*	**210**	210
Lease liabilities/obligations under finance leases		**3,773**	1,864
		29,076	29,734
Net Current Assets		**213,332**	14,454
Total Assets less Current Liabilities		**286,192**	47,730

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

		As at December 31,	
	NOTES	**2019**	2018
		US$'000	*US$'000*
Non-current Liability			
Bank borrowings		**–**	500
Deferred tax liabilities		**1,359**	767
Lease liabilities/obligations under finance leases		**16,629**	2,311
Other long-term liabilities		**2,926**	518
		20,914	4,096
Net Assets		**265,278**	43,634
Capital and Reserves			
Share capital	*20*	**20**	2
Reserves		**264,579**	43,632
Equity attributable to owners of the Company		**264,599**	43,634
Non-controlling interests		**679**	–
Total Equity		**265,278**	43,634

1. GENERAL INFORMATION

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

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

The functional currency of the Company and the operating subsidiaries incorporated in the United States is US$. The functional currency of the PRC operating subsidiaries is RMB. The functional currency of the operating subsidiary incorporated in Canada is CAD.

The reporting currency used for the presentation of the consolidated financial statements is US$, which is the same as the functional currency of the Company.

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

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standard Board for the first time in the current year:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 16 Leases

As a lessee

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rate applied by the relevant group entities ranged from 5.25% to 6.34%.

	As at January 1, 2019
	US$'000
Operating lease commitments disclosed as at December 31, 2018	18,174
Less: Value added tax (the "**VAT**") included in operating lease commitments	1,713
Operating lease commitments excluded VAT as at December 31, 2018	16,461
Lease liabilities discounted at relevant incremental borrowing rates	13,388
Less: Practical expedient – lease with lease term ending within 12 months from the date of initial application	7
Recognition exemption – low value assets (excluding short-term lease of low value leases)	16
Lease liabilities relating to operating leases recognized upon application of IFRS 16	13,365
Add: Obligations under finance leases recognized as at December 31, 2018	4,175
Lease liabilities as at January 1, 2019	17,540
Analyzed as	
Current	3,542
Non-current	13,998
	17,540

The carrying amount of right-of-use assets as at January 1, 2019 comprises the following:

	Right-of-use assets
	US$'000
Right-of-use assets relating to operating leases recognized upon application of IFRS 16	13,365
Reclassified from advance lease payments	232
Amounts included in property, plant and equipment as at December 31, 2018 – Assets previously under finance leases	5,721
Less: Accrued lease liabilities as at January 1, 2019	(579)
	18,739
By class:	
Leased properties	12,924
Office equipment	94
Experiment equipment	5,721
	18,739

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported as at December 31, 2018 *US$'000*	Adjustments *US$'000*	Carrying amounts under IFRS 16 as at January 1, 2019 *US$'000*
Non-current Assets			
Property, plant and equipment	22,884	(5,721)	17,163
Right-of-use assets	–	18,739	18,739
Current Assets			
Trade and other receivables			
– Advance lease payments	232	(232)	–
Current Liabilities			
Trade and other payables			
– Accrued lease liabilities	61	(61)	–
Lease liabilities	–	3,542	3,542
Obligations under finance leases	1,864	(1,864)	–
Non-current liabilities			
Lease liabilities	–	13,998	13,998
Other long-term liabilities	518	(518)	–
Obligations under finance leases	2,311	(2,311)	–

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on historical cost basis except for certain financial instrument that is measured at fair value at the end of each reporting period.

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

4. REVENUE

The Group's revenue streams are categorized as follows:

– Bioanalytical services consist of providing method development and validation as well as sample analysis services.

– Chemistry, Manufacturing and Control ("**CMC**") services involve assisting the customers with drug product development, analysis, and clinical trial materials' delivery and supply.

– Drug Metabolism and Pharmacokinetic ("**DMPK**") services include study designs, execution of studies, and interpretation of the data through structural optimisation in early discovery, pharmacokinetic studies in rodents, non-GLP bioanalytical studies, etc.

– Safety and Toxicology services include in-vitro and in-vivo studies, to help identify toxicology issues and devise testing plans to address the determination of a safe starting dose in humans in clinical studies.

– Bioequivalence services consist of bioequivalence studies designed, coordinated, and reported by the Group to the customers.

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

	Year ended December 31,	
	2019	2018
	US$'000	*US$'000*
Bioanalytical	**53,797**	44,204
CMC	**16,035**	13,857
DMPK	**11,921**	9,954
Safety and Toxicology	**10,315**	5,606
Bioequivalence	**8,347**	9,493
	100,415	83,114

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.

Transaction Price Allocated to Future Performance Obligations

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

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

5. SEGMENT INFORMATION

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

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

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

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

– North America segment, including Bioanalytical, CMC, DMPK and Safety and Toxicology services in the USA and Canada

– PRC segment, including Bioanalytical, Bioequivalence and CMC services in the PRC

Segment revenues and results

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

For the year ended December 31, 2019

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

For the year ended December 31, 2018

	North America *US$'000*	PRC *US$'000*	Total *US$'000*
Revenue			
– Bioanalytical	25,244	18,960	44,204
– CMC	13,857	–	13,857
– DMPK	9,954	–	9,954
– Safety and Toxicology	5,606	–	5,606
– Bioequivalence	–	9,493	9,493
	54,661	28,453	83,114
Cost of services	(37,651)	(11,565)	(49,216)
Other income	155	312	467
Other gains and losses, net	13	69	82
Research and development expenses	–	(1,694)	(1,694)
Impairment (losses) gains recognised on trade receivables and unbilled revenue	(756)	109	(647)
Selling and marketing expenses	(2,046)	(539)	(2,585)
Gain on disposal of an associate	437	–	437
Gain on disposal of subsidiaries	–	143	143
Bargain purchase gain	788	–	788
Administrative expenses	(8,944)	(1,424)	(10,368)
Finance cost	(370)	(8)	(378)
Share of (loss) profit of associates	(159)	495	336
Segment profit	6,128	14,351	20,479
Unallocated listing expenses			(6,386)
Profit before tax			14,093

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

Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended December 31, 2019

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

For the year ended December 31, 2018

	North America	PRC	Total
	US$'000	*US$'000*	*US$'000*
Depreciation for plant and equipment	(3,188)	(1,046)	(4,234)
Amortization of intangible assets	(75)	–	(75)
Interest income	112	32	144
Loss on disposal of property, plant and equipment	–	(25)	(25)

Geographical information

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

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

	Year Ended December 31,	
	2019	2018
	US$'000	*US$'000*
Revenue from external customers		
– USA	**58,982**	46,833
– PRC	**30,284**	30,090
– Rest of the world	**11,149**	6,191
	100,415	83,114

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

	As at December 31,	
	2019	2018
	US$'000	*US$'000*
Non-current assets excluding financial assets and deferred tax assets		
– North America	**38,851**	25,856
– PRC	**24,865**	6,932
	63,716	32,788

Information about major customers

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

	Year Ended December 31,	
	2019	2018
	US$'000	*US$'000*
Company A	**19,452**	12,083

6. OTHER INCOME

	Year Ended December 31,	
	2019	2018
	US$'000	*US$'000*
Interest income	**3,267**	144
Income from rendering technical support service	**1,366**	128
Government grants related to income (note)	**454**	195
Income from rendering service	**458**	–
	5,545	467

Note: The government grants are provided by the Shanghai Zhangjiang High-tech Park Management Committee and Shanghai Pudong New Area Science, Technology and Economy Committee for the financial support of the emerging strategic industry. It is not related to a specific property, so it is not considered as an asset-related government grant and recognized when actually received.

7. OTHER GAINS AND LOSSES, NET

	Year Ended December 31,	
	2019	2018
	US$'000	*US$'000*
Gain arising from fair value change of previously held interest in an associate	**1,841**	–
Net foreign exchange gain	**2**	114
Loss on disposal of property, plant and equipment	**(32)**	(25)
Others	**126**	(7)
	1,937	82

8. FINANCE COSTS

	Year Ended December 31,	
	2019	2018
	US$'000	*US$'000*
Interest on lease liabilities/obligations under finance leases	**1,100**	183
Interest expense on bank borrowings	**117**	127
Interest expense on loans from related parties	**15**	68
	1,232	378

9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Year Ended December 31,	
	2019	2018
	US$'000	*US$'000*
Staff cost (including directors' emoluments):		
– Salaries and other benefits	**43,287**	33,797
– Share-based payment expense	**3,269**	371
– Retirement benefit scheme contributions	**1,107**	1,055
	47,663	35,223
Depreciation for property, plant and equipment	**4,058**	4,234
Depreciation for right-of-use assets	**3,229**	–
Amortization of intangible assets	**226**	75
Minimum operating lease payments in respect of rented premises	**–**	1,913
Auditors' remuneration	**880**	–

10. INCOME TAX EXPENSE

	Year ended December 31,	
	2019	2018
	US$'000	*US$'000*
Current tax:		
– PRC EIT	**1,153**	1,996
– US Federal Tax	**3,120**	1,141
– US State Tax	**1,312**	539
Over provision of EIT, US Federal Tax and US State Tax in prior year	**(712)**	(638)
	4,873	3,038

	Year ended December 31,	
	2019	2018
	US$'000	*US$'000*
Deferred tax:		
– Current year	**(2,442)**	(186)
Total income tax expense	**2,431**	2,852

Frontage Labs is subject to Federal and State Income taxes, the effective combined income tax rate is 27.44% for the year ended December 31, 2018, and 25.20% for the year ended December 31, 2019. The Tax Cuts and Jobs Act (the "**2017 Tax Act**") was signed into law on December 22, 2017. The 2017 Tax Act includes a tax on the mandatory deemed repatriation of accumulated previously untaxed foreign earnings (the "**Transition Tax**"). The US entities are subject to Transition Tax for the year ended December 31, 2019 and December 31, 2018, which is included in the Federal tax expense above.

BRI, as a non-Canadian-controlled private corporation ("**CCPC**") and engaging in active business in British Columbia, is subject to a flat tax rate of 27% since December 13, 2019.

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

Frontage Shanghai, a wholly owned subsidiary of the Group in the PRC, was accredited as a "High and New Technology Enterprise" in November 2017 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2017.

Frontage 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.

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

	Year ended December 31,	
	2019	2018
	US$'000	*US$'000*
Profit before tax	**20,863**	14,093
Tax charge at effective combined income tax rate of 25.20% (2018: 27.44%)	**5,257**	3,867
Tax effect at share of profit of associates	**(158)**	(136)
Tax effect of income that is exempted from taxation	**(493)**	(190)
Tax effect of expenses not deductible for tax purpose	**840**	1,821
Utilization of tax losses previously not recognized	**(523)**	–
Over provision in respect of prior year	**(712)**	(638)
Effect of research and development expenses that are additionally deducted	**(290)**	(340)
Tax at concessionary rate	**(1,179)**	(1,222)
Effect on deferred tax assets or liabilities resulting from change in applicable tax rate	**(298)**	2
Effect of different tax rate of subsidiaries operating in other jurisdiction	**(13)**	(312)
Income tax expense	**2,431**	2,852

11. 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:

	Year ended December 31,	
	2019	2018
	US$'000	*US$'000*
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**18,424**	11,241

Number of Shares:

	Year ended December 31,	
	2019	2018
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,802,751,622**	1,505,500,773
Effect of dilutive potential ordinary shares:		
Share options	**57,440,054**	13,583,769
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,860,191,676**	1,519,084,542

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

12. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

The Group

	As at December 31,	
	2019	2018
	US$'000	*US$'000*
Trade receivables		
– related parties	**123**	571
– third parties	**19,784**	16,348
Less: loss allowance for trade receivables	**(3,353)**	(2,315)
	16,554	14,604
Other receivables		
– related parties	**1,030**	1,347
– third parties	**1,426**	160
Less: loss allowance for other receivables	**(70)**	–
	2,386	1,507
Note receivables		
– related parties	**3,795**	–
– third parties	**508**	–
	4,303	–
Prepayments		
– third parties	**1,386**	1,073
Value added tax recoverable	**298**	66
Deferred issue costs	**–**	2,206
	24,927	19,456

As at January 1, 2018, trade receivables from contracts with customers amounted to US$13,161,000.

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:

	As at December 31,	
	2019	2018
	US$'000	*US$'000*
Within 90 days	**13,595**	12,630
91 to 180 days	**1,472**	1,387
181 days to 1 year	**709**	366
Over 1 year	**778**	221
	16,554	14,604

13. UNBILLED REVENUE

	As at December 31, **2019** *US$'000*	2018 *US$'000*
Unbilled revenue		
– related parties	**351**	572
– third parties	**7,723**	6,879
Less: loss allowance for unbilled revenue	**(253)**	(322)
	7,821	7,129

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 consolidated statements of financial position as unbilled revenue.

14. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

Cash and cash equivalents comprise of cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry interest at market rates which ranged from 0.30% to 0.385% per annum as at December 31, 2019 (2018: from 0.30% to 0.385% per annum).

In 2015, the Group entered into a lease agreement for the property at Secaucus, NJ, as part of the lease agreement, a cash deposit of US$550,000 was required as a guarantee over the property and the required cash deposit was reduced to US$300,000 in 2018. The deposit is required for the duration of the lease agreement, which ends in 2027. And thus the US$300,000 remains on the balance sheet at December 31, 2018 and remained no change in 2019.

On August 20, 2019, the Group entered into an agreement to expand a lab in Pennsylvania, US. As part of the agreement, US$1,370,000 was placed in a bank escrow account for funding the expenditures for such expansion, and the amount is restricted. As at December 31, 2019, the remaining amount in the escrow account is US$440,000, which is included in restricted bank deposits.

15. TRADE AND OTHER PAYABLES

	As at December 31,	
	2019	2018
	US$'000	*US$'000*
Trade payables		
– related parties	**446**	688
– third parties	**4,241**	2,885
	4,687	3,573
Other payables		
– a related party	**–**	4
– third parties	**1,814**	1,077
	1,814	1,081
Accrued listing expenses and issue costs	**–**	3,455
Salary and bonus payables	**3,268**	2,354
Other taxes payable	**624**	587
	10,393	11,050

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:

	As at December 31,	
	2019	2018
	US$'000	*US$'000*
Within 90 days	**3,632**	2,577
91 days to 1 year	**657**	453
Over 1 year	**398**	543
	4,687	3,573

16. ADVANCES FROM CUSTOMERS

	As at December 31,	
	2019	2018
	US$'000	*US$'000*
Advances from customers		
– related parties	**504**	563
– third parties	**12,341**	10,787
	12,845	11,350

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

Revenue of US$11,350,000 was recognized in 2019 (2018: US$10,360,000) that were included in the advances from customers at the beginning of the year.

17. BANK BORROWINGS

Bank Loans

	As at December 31,	
	2019	2018
	US$'000	*US$'000*
Secured and unguaranteed bank loans	**500**	3,167
Within one year	**500**	2,667
Within a period of more than one year but not exceed two years	**–**	500
	500	3,167
Less: Amounts due within one year shown under current liabilities	**(500)**	(2,667)
	–	500

The bank loans are secured by all assets of the Frontage Labs and all its existing and future US subsidiaries and carry interest at a variable rate of London Interbank Offered Rate ("**LIBOR**") plus 1.85% annum.

Bank Facilities

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

As of December 31, 2019, the Group had utilized US$130,000 from the banking facilities for letter of credit issued to the State of Ohio as guarantee for application of radioactive material license. The secured and unguaranteed unutilized banking facilities was US$3,870,000 as of December 31, 2019.

18. LOANS FROM A RELATED PARTY

The amount of US$1,500,000 as at December 31, 2018 represents the loan from Dr Song Li and the amount has been paid off during the year 2019.

19. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders as at December 31, 2019 and 2018 represent dividend payable that the Then Shareholders declared prior to the year 2018.

20. SHARE CAPITAL

	Number of shares	**Amount**
		US$'000
Ordinary shares of US$0.00001 each		
Authorized:		
As at January 1, 2018, January 1, 2019 and December 31, 2019	5,000,000,000	50,000

	Number of shares	**Amount**	**Show in the financial statements as**
		US$	*US$'000*
Issued and Fully Paid:			
As at April 16, 2018 (date of incorporation)	1	–	–
Sub-division as at April 16, 2018	999	–	–
Issue of shares	150,572,091	1,506	2
As at December 31, 2018	150,573,091	1,506	2
Capitalization issue *(Note i)*	**1,355,157,819**	**13,553**	**13**
Issue of ordinary shares *(Note ii)*	**501,910,000**	**5,019**	**5**
As at December 31, 2019	**2,007,640,910**	**20,078**	**20**

i) Pursuant to a shareholders' resolution passed on May 11, 2019, 1,355,157,819 ordinary shares of the Company were allotted and issued to the shareholders on the register of members or the principal share register of the Company at the close of business on the date immediately preceding the Listing Date ("May 30, 2019") in proportion to their then respective shareholdings in the Company by way of capitalization of certain sums standing to the credit of the share premium account of the Company (the "**Capitalization Issue**").

ii) On May 30, 2019, the Company issued a total of 501,910,000 ordinary shares at the price of HK$3.20 per share by means of the Hong Kong public offering and the International Offering (the "**Global Offering**").

21. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at December 31,	
	2019	2018
	US$'000	*US$'000*
Financial assets		
Amortized costs	**231,574**	32,443
Financial liabilities		
Amortized cost	**7,211**	9,531
Obligations under finance leases	**–**	4,175
Contingent liabilities in business combination	**2,926**	–

Market risk

The Group's activities are primarily exposed to currency risk and interest rate risk. There had been no change in the Group's exposure to these risks or the manner in which it managed and measured the risks during each of the reporting period.

Currency risk

As disclosed in Note 1, the functional currency of the PRC operating subsidiaries is RMB. The PRC operating subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk. The carrying amounts of relevant group entities' assets and liabilities other than their functional currency are disclosed in the respective notes.

The PRC operating subsidiaries are mainly exposed to foreign currency of US$ and EUR. The Group does not use any derivative contracts to hedge against its exposure to currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets (trade receivables, cash and cash equivalents and unbilled revenue) and liabilities (trade payables and advances from customers) at the end of each reporting period are as follows:

	As at December 31,	
	2019	2018
	US$'000	*US$'000*
Assets		
US$	**948**	880
EUR	**32**	6
Liabilities		
US$	**469**	24
EUR	**6**	–

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and unused banking facilities deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate *%*	**On demand or less than one year** *US$'000*	**One to five years** *US$'000*	**Over five years** *US$'000*	**Total undiscounted cash flows** *US$'000*	**Carrying amount** *US$'000*
As at December 31, 2019						
Trade and other payables	N/A	6,501	–	–	6,501	6,501
Lease liabilities	5.8%	3,992	17,593	–	21,585	20,402
Bank borrowings – variable interest rate	3.63%	518	–	–	518	500
Amounts due to shareholders	N/A	210	–	–	210	210
Other long-term liabilities	N/A	–	2,926	–	2,926	2,926
Total		11,221	20,519	–	31,740	30,539
As at December 31, 2018						
Trade and other payables	N/A	4,654	–	–	4,654	4,654
Obligations under finance leases	4.35%	1,945	2,412	–	4,357	4,175
Loans from a related party	3%	1,545	–	–	1,545	1,500
Bank borrowings – variable interest rate	3.63%	2,764	518	–	3,282	3,167
Amounts due to shareholders	N/A	210	–	–	210	210
Financial guarantee contracts	N/A	586	–	–	586	–
Total		11,704	2,930	–	14,634	13,706

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

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

During the Reporting Period, the Group continued to advance our position as a value-add partner with a focus on solving our customers' most significant and complex drug discovery and development challenges. We believe that our comprehensive services, scientific and technical expertise, sophisticated equipment and technology, and our experience in global drug development and product launch services, represent our core strengths.

During the Reporting Period, the healthcare industry in China has witnessed several policies such as the launch of the adjuvant drug list, the new version of the National Drug Reimbursement List ("NDRL"), the national expansion of the first batch of centralized procurement, and the launch of the second batch of centralized procurement of generics. Combined with an ongoing reformation of the drug review and approval system in China, and the pilot program of the Drug Marketing Authorization Holder system promulgated in 2016, and the pilot scheme of centralized procurement of generics and inclusion of innovative drugs into the NDRL accelerated the Chinese pharmaceutical innovative market growth by encouraging more companies to shift to the development of innovative drugs, which increased the market demand for CRO services in China. On the other hand, the implementation of centralized procurement caused uncertainty of the bidding results and unprecedented price pressure for generics, which temporarily impacted the market demand, motivation and execution progress of consistency evaluation for generics, so as to bring some pressure on the performance of the Group's business related to generics in China. However, through strong execution, sound business practices, strategic service offerings especially those for innovative drugs, and the continuous improvement of our operational process and infrastructure, we have achieved record high revenue and profit nonetheless. Revenue of the Group increased by 20.8% from approximately US$83.1 million for the year ended December 31, 2018 to approximately US$100.4 million for the year ended December 31, 2019. The Group's contracted 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, was approximately US$109.5 million as at December 31, 2019, representing an increase of 48.6% compared to approximately US$73.7 million as at December 31, 2018.

Our service offerings have significantly expanded our relationships with large pharmaceutical companies in recent years, which has allowed us to pursue strategic alliances with these companies due to our expanding geographic footprint, broad scientific expertise, and solution-oriented service offerings.

The Group's Facilities

As at December 31, 2019, the Group had seven facilities in the North America, consisting of (i) three facilities in Exton, Pennsylvania; (ii) one facility in North Wales, Pennsylvania; (iii) one facility in Concord, Ohio; (iv) one facility in Princeton, New Jersey; and (v) one facility in Vancouver, Canada; as well as five facilities in China, consisting of (i) two facilities in Shanghai; (ii) one facility in Zhengzhou, Henan Province; and (iii) two facilities in Suzhou, Jiangsu Province.

Quality Management

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

We have established an in-house quality management system consisting of quality control and quality assurance programs. The Group regularly performs quality control, which include in-process and post-process quality control checks; use of applicable control materials and reference standards, peer reviews, and data review meetings; programmed data edit checks to detect variances and unusual data patterns; dual programming; and mock runs, as applicable. Our independent quality assurance teams work closely with study teams to ensure compliance with protocols, standard operating procedures ("SOPs"), and regulatory guidelines to ultimately protect the integrity and validity of study data. Our quality assurance teams also provide services including regulatory training, internal system audits, SOP oversight, hosting of audits and regulatory inspections, as well as performing third-party audits of critical vendors and investigative sites on behalf of our customers.

The conduct of animal research at the Group's facilities in the United States is in compliance with the Animal Welfare Act ("AWA") with oversight by the U.S. Department of Agriculture and Public Health Service Policy ("OLAW") on the Humane Care and Use of Laboratory Animals, which govern the humane care and use of animals in research. Our animal facilities follow the recommendations in the Guide for the Care and Use of Laboratory Animals (Institute for Laboratory Animal Research of the National Academy of Sciences) and maintain a high standard of care assured via regularly scheduled AAALAC International accreditation and Canadian Council on Animal Care accreditation. AAALAC International is a private, nonprofit, international organization that promotes the humane treatment of animals in science through voluntary accreditation and assessment programs. Canadian Council on Animal Care is the national organization responsible for setting and maintaining standards for the ethical use and care of animals in science in Canada.

The Group's laboratories, facilities, and processes are subject to on-site regulatory agency inspections and accreditation evaluations, as applicable, by local or national government agencies; and inspections and audits by customers and vendors. During the Reporting Period, we continued to maintain a strong track record of successful regulatory inspections; our facilities were inspected by the U.S. Food and Drug Administration, U.S. Department of Agriculture, U.S. Environmental Protection Agency, and the National Medical Products Administration in China. None of these inspections resulted in any materially adverse issues being identified. Any questions that have been raised have consistently been addressed to the satisfaction of the relevant regulatory authorities, demonstrating that we met or exceeded the high standards placed on our industry.

Business Development

Our Business Development team execute our global business development activities through creating relationships with prospective customers and growing relationships with our existing customers. We rely heavily on our past project performance, qualified teams, growing capabilities, in securing and developing new business. We team our business development representatives with our seasoned scientific experts and operations team from the beginning of the sales process to ensure that we submit proposals that can address customers' project needs in a strategic and solution-oriented manner; our senior executive and project manages remain embedded throughout the life of the project and strategic alliance partnership to optimize timely completion of the projects and foster long-term relationships with the customers.

The specific role of the business development team is to grow our business across all our service areas. Our business development team consists of representatives that are dispersed across the United States and China and are responsible for all accounts within their geographical territory. Our team has deep scientific expertise, many with advanced scientific and technical degrees, to support our customers' complex product development endeavors and challenges.

During the Reporting Period, our business development team continued to broaden our customer base by targeting and engaging pharmaceutical and agrochemical companies that recognize the efficiency and cost-effectiveness of outsourcing their drug discovery and development activities and matching customer characteristics with the Group's corresponding expanding services and capabilities. In addition to targeting new customers, the business development team is accountable for leveraging existing relationships to cross sell across our lines of business. This strategy will enable us to transform customers with specific and isolated project mandates into customers who utilize the full spectrum of our services and the services of our units and associates.

Marketing

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

During the Reporting Period, the Group's marketing team, joined by our senior executives and scientific experts, continued to actively engage in global marketing activities through webinars, scientific symposiums, conferences and other targeted events, as well as development of scientific content. We continued to create and strengthen strategic alliance relationships with large pharmaceutical companies, central laboratories, and non-competitor CROs to further expand Frontage's global brand awareness and complement service offerings and business opportunities for all the interested parties.

The Group achieved outstanding performance and experienced a robust development in 2019, which placed a solid foundation for its long-term growth.

Expansion of Facilities

1. **Bioanalytical Capacity and Capability Expansion to Support Biologics Drug Development, Biomarkers, Cell and Gene Therapy**

   During the Reporting Period, the Group completed the expansion of its bioanalytical laboratories in Exton, PA which includes an additional 10,000 sq. ft. of laboratory space which further enhances bioanalytical capabilities in biologics and small molecule drug development, biomarkers, cell and gene therapy, and high-throughput clinical sample management. This expansion will provide our customers with heightened biomarker and biologic services in a state-of-the-art facility to facilitate drug discovery and development and enables the Group to provide the enhanced capability and capacity for the bioanalytical support of the gene and cell therapies and late phase clinical studies drug development.

2. **CMC and Bioanalytical Capacity and Capability Expansion**

   During the Reporting Period, the Group executed a lease for 71,000 sq. ft. of laboratory space in Exton, PA and initiated the construction of the laboratory facility to expand its CMC and Bioanalytical services. The new laboratory space is expected to be partially operational in the fourth quarter of 2020.

3. **Frontage Shanghai Lab Capacity Expansion**

   During the Reporting Period, the Group launched its new 42,000 sq. ft. laboratory facility in Shanghai, China. The new laboratory facility is dedicated to the bioanalytical effort and sample management of small molecule services. Meanwhile, Frontage Shanghai's previous bioanalytical laboratory facility, which is under renovation, of approximately 16,000 sq. ft. will be entirely dedicated to the bioanalytical support of biologic services including proteins, cell and gene therapy, and biomarkers. The grand opening of the new laboratory in Shanghai is a significant milestone for Frontage which will help us to effectively resolve bottlenecks of our service capacity.

4. **Initiated with Building DMPK business in Shanghai, China at the end of December 2019**

   During the Reporting Period, Frontage Shanghai initiated its efforts to build a DMPK unit in its new 42,000 sq. ft. laboratory facility in Shanghai, China.

Acquisitions

Our strategy is to enhance the growth of existing businesses with complementary strategic acquisitions. We continued to make strategic acquisitions designed to expand our portfolio of services to support the drug discovery and development continuum and position us as a market leader in the outsourced drug discovery and development services market. Our recent acquisitions are described below:

1. Raised shareholding in Frontage Suzhou from 49.04% to 75%

In October 2019, Frontage Shanghai entered into a stock transfer agreement to acquire a 25.96% stake in Frontage Suzhou, which increased Frontage Shanghai's ownership interest in Frontage Suzhou to 75%. As a result, Frontage Suzhou becomes an subsidiary of the Company with an indirect 75% equity. This acquisition was completed on November 12, 2019. The Group's increased equity interest in Frontage Suzhou will expand the Group's CMC capabilities and business in China, which can also allow us to provide more comprehensive and high-quality services in the CRO industry to meet the drug development demand from our customers and partners. Please refer to the announcement of the Company dated October 25, 2019 for further details.

2. Acquisition of RMI

In November 2019, Frontage Labs acquired the entire equity interest in RMI.

RMI is a CRO located in Pennsylvania, USA, principally engaged in providing quantitative and qualitative drug metabolism services for pharmaceutical and biotechnology companies. It offers a variety of services including a full range of metabolite profiling and identification services, such as early discovery soft spot analysis, late discovery cross-species comparison, and pre-clinical animal radiolabeled mass balance studies. RMI utilizes state-of-the-art techniques such as high-resolution mass spectrometry to conduct these highly specialized and high-demand studies for new therapeutic agents in both discovery and development stages. In addition to providing core metabolite ID/profiling services, the operation also conducts other metabolism-related studies including but not limited to discovery bioanalytical (small and large molecules), metabolic stability, CYP/UGT phenotyping and inhibition studies. This acquisition will expand the Group's capacity with additional scientists, equipment, and facilities to be used in the provision of existing and novel services to the customers, and effectively expand the current customer base that we currently serve in this specific field, with a potential increase in revenue generated through this highly specialized service. This acquisition will accelerate the creation of centers of excellence in drug metabolism within Frontage in both North America and China. Please refer to the announcement of the Company dated November 4, 2019 for further details.

3. **Frontage Expanding Geographic Foothold into Canada and the West Coast of North America by Acquisition of BRI**

In December 2019, Frontage Labs acquired the entire equity interests in BRI.

BRI is a CRO engaged in providing science-driven drug discovery and IND/NDA-enabling studies for pharmaceutical and biotechnology companies. As a CRO, BRI offers a variety of services to its customer base, including but not limited to bioanalytical assays for measurement of drug candidates, metabolites and biomarkers, *in vitro* drug metabolism/ADME, *in vivo* DMPK/ADME, formulation development, DS/DP stability and analytical CMC assays, and anticancer drug pharmacology assessment.

The acquisition of BRI expanded the Group's geographical foothold into Canada and the west coast of North America which will allow us to offer our customers proximal access to our DMPK and Bioanalytical services into human tumor xenograft mouse efficacy models, obesity/diabetes rodent metabolic disease models, and the growing research market in human gut microbiome metabolism and biomarker assays. These services will further complement our current scientific expertise, capabilities and service portfolio to meet the needs of its broad customer base. Please refer to the announcement of the Company dated December 16, 2019 for further details.

Group Awards

1. Frontage Labs has once again been named as a *CRO Leadership Awards* recipient by Life Science Leader magazine. The publication annually asks pharmaceutical and biopharmaceutical companies to rate the capability and performance of CROs. Frontage Labs has won awards with Life Science Leader every year since 2014.

2. Frontage Labs has been named as *2019 China Top 20 CRO Enterprises* in 2019 China Medical Health Industry Development Conference.

3. Frontage Shanghai has been named as a *Shanghai Little Giant Enterprise in Science and Technology* by the Science and Technology Committee of the Shanghai municipality.

4. Frontage Shanghai has been named as *Innovation CRO Enterprise in China of 2019* in the 12th China Pharmaceutical Strategy Conference held by the China National Pharmaceutical Industry Information Center.

Investor Relations

The Company believes that its high standard of corporate governance and transparency can ensure its sustainable long-term development. Frequent and effective communication with the Shareholders and investors can deepen their understanding of the business development of the Company, which is helpful for the display of its value in capital markets. Since its listing on the Stock Exchange in May 2019, the Company has adhered to the adequate and transparent communication with institutional investors, analysts and potential investors all over the world by various channels.

In addition to publicizing major business developments through announcements and press releases in accordance with the relevant rules and regulations, the Company has also participated in several investment forums and roadshows globally, including the annual J.P. Morgan Healthcare Conference in San Francisco, Bank of America Merrill Lynch China Conference in Beijing, Goldman Sachs Asia Pacific Healthcare Forum in Hong Kong, amongst others. On top of that, the Company has also arranged numerous facility site tours, one-on-one meetings and teleconferences with a number of investors, to deepen their understanding of the Company's latest business development. The Company's investors and shareholders are also provided with contact details of the Company which are available on the Company's website, through which they can learn more about the Company easily.

The Company was selected into the Hang Seng Composite Small Cap Index in August 2019, which was accomplished within approximately three months from the Listing in May 2019, the Hong Kong Stock Connect List in September 2019 and the Hang Seng Hong Kong-Listed Biotech Index in December 2019, which shows high recognition from capital markets.

The Company will continually adhere to high standards of corporate governance and improving transparency, in order to maximize the value of the Company and achieve sustainable development.

Events After the Reporting Period

1. On March 12, 2020, Frontage Shanghai and Suzhou Wuzhong Economic and Technological Development Zone Management Committee signed a project cooperation agreement on the leasing of a new research facility. The new laboratory building is located in No.4 plant of Fumin Phase III High Standard, Wusongjiang Industrial Park, Wuzhong Economic and Technological Development Zone, Suzhou, China, covering an area of more than 215,000 sq. ft. It will be mainly used for DMPK studies and will include an animal facility for non-GLP and GLP pharmacokinetics and toxicology studies.

2. In strict compliance with the governmental guidance and requirements for disease control and prevention, the Group has taken preventative measures to ensure the health of its employees and operational safety since the outbreak of the COVID-19 epidemic in China and around the world. As at the date of this announcement, COVID-19 has not resulted in any material impact to the financial performance of the Group. However, pending further developments in the spread of COVID-19 and given the uncertain nature of its progression, further changes in economic conditions for the Group arising thereof may have an impact on the financial results of the Group. The Group will continue to pay close attention to the development of the COVID-19 epidemic. As of the date of this announcement, the Group is still evaluating the impact of the COVID-19 epidemic on the operating activities and financial condition of the Group.

Prospects

The global pharmaceutical market is expected to experience the following trends in the coming years, including the increasing approvals of innovative drugs, diversified pharmaceutical R&D models which gradually shifted from in-house R&D to external R&D services, continued expansion of biologics and emerging novel therapies for unmet medical needs, as well as the increasing investment in biotech companies, all of which obviously provide growth opportunities for pharmaceutical R&D service providers.

According to Frost & Sullivan, the Chinese pharmaceutical market is the second largest market in the world. The market size increased from US$182.2 billion in 2014 to US$231.6 billion in 2018, representing a CAGR of 6.2% from 2014 to 2018, and is expected to reach US$322.1 billion in 2023, representing a CAGR of 6.8% from 2018 to 2023. Being the fastest growing sector in the world, the Chinese pharmaceutical market is expected to experience the trends of the expansion of innovative drugs market for several reasons: (i) growing innovations led by pharmaceutical companies which place vast bets on R&D; (ii) improving availability of novel therapies, and (iii) increasing investment in biotech sector. Moreover, with the pilot scheme of centralized procurement of generics and inclusion of innovative drugs into the NDRL of China, it is believed that the Chinese pharmaceutical market is shifting towards the innovative drug-driven market, during which the demand for CRO services in China will most likely continue to rise.

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

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

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 20.8% from approximately US$83.1 million for the year ended December 31, 2018 to approximately US$100.4 million for the year ended December 31, 2019. Revenue from operations in North America increased by 33.1% from approximately US$54.7 million for the year ended December 31, 2018 to approximately US$72.8 million for the year ended December 31, 2019. Excluding the impact of currency translation, the revenue from operations in China increased by 1.0% from approximately RMB188.5 million for the year ended December 31, 2018 to approximately RMB190.3 million for the year ended December 31, 2019. The growth of revenue from operations in North America was mainly attributable to (i) marketing efforts made by the Group, resulting in robust marketing performance in North America; and (ii) a gradual increase in the toxicology lab services in our Concord site. The slow increase in the China market was mainly due to the delay of some bioequivalence projects in the second half of 2019 which negatively impacted our bioequivalence and bioanalytical related services in China.

The revenue of the Group recorded solid growth during the Reporting Period. An analysis of the Group's revenue from external customers, analyzed by the customer's respective country/region of operation, is presented below:

	Year ended December 31,			
	2019		2018	
	US$ million	***%***	*US$ million*	*%*
Revenue				
– USA	**59.0**	**58.7%**	46.8	56.3%
– PRC	**30.3**	**30.2%**	30.1	36.2%
– Rest of the world *(Note)*	**11.1**	**11.1%**	6.2	7.5%
Total	**100.4**	**100.0%**	83.1	100.0%

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

Top 5 customers' revenue increased by 32.4% from approximately US$24.3 million for the year ended December 31, 2018 to approximately US$32.1 million for the year ended December 31, 2019, accounting for 32.0% of total revenue for the year ended December 31, 2019, as compared to 29.2% for the year ended December 31, 2018.

Top 10 customers' revenue increased by 27.4% from approximately US$31.6 million for the year ended December 31, 2018 to approximately US$40.3 million for the year ended December 31, 2019, accounting for 40.1% of total revenue for the year ended December 31, 2019, as compared to 38.0% for the year ended December 31, 2018.

Cost of Services

The cost of services of the Group increased by 28.3% from approximately US$49.2 million for the year ended December 31, 2018 to approximately US$63.1 million for the year ended December 31, 2019. The greater increase of the cost of services than revenue was primarily due to that the Group's Chinese operations entering into new leases for several leased properties and acquisition of lab equipment for business expansion, which have not been fully utilized for the year ended December 31, 2019.

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

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by 10.0% from approximately US$33.9 million for the year ended December 31, 2018 to approximately US$37.3 million for the year ended December 31, 2019. The increase in the gross profit was mainly attributed to the Group's solid business growth. The Group's gross profit margin showed a decrease from 40.8% for the year ended December 31, 2018 to 37.1% for the year ended December 31, 2019, which was mainly due to the Group's Chinese operations entering into new leases for several leased properties and acquisition of lab equipment for business expansion, which have not been fully utilized for the year ended December 31, 2019 as mentioned above. Excluding the Group's China operations, gross margin went up from 31.1% for the year ended December 31, 2018 to 33.0% for the year ended December 31, 2019, mainly due to robust revenue growth.

Other Income

The Group's other income increased from approximately US$0.5 million for the year ended December 31, 2018 to approximately US$5.5 million for the year ended December 31, 2019, primarily due to (i) an increased interest income derived from unutilized proceeds from the IPO; and (ii) an increase in income from rendering technical support service.

Impairment Losses, Net of Reversal

As a result of the application on IFRS 9 Financial Instruments, impairment losses, net of reversal, has been individually presented in the Group's financial statements, starting from January 1, 2018.

Impairment losses, net of reversal, represent the loss allowance on the Group's financial assets (including trade and other receivables and unbilled revenue) under Expected Credit Loss ("ECL") model. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings, based on the consideration of the credit risk for each grouping.

The Group has recorded the net impairment losses of approximately nil for the year ended December 31, 2019, compared to US$0.6 million for the year ended December 31, 2018. The change of the net impairment losses were mainly due to the increased trade receivable and unbilled revenue balance as a result of the growing of business, net off with the effect of reversal of allowance of ECL due to the Group's recovery of note receivables. The management of the Group considers that the impairment loss under ECL model has been in a more conservative view in credit risk control. The management has been continuously managing the credit risk through periodic review and monitoring on the doubtful debts.

Other Gains and Losses

The Group recorded net other gains of approximately US$1.9 million for the year ended December 31, 2019, compared to approximately US$0.1 million for the year ended December 31, 2018, primarily due to a gain arising from fair value change of previously held interest in an associate, Frontage Suzhou, during the Reporting Period.

Selling and Marketing Expenses

Selling and marketing expenses increased by 49.5% from approximately US$2.6 million for the year ended December 31, 2018 to approximately US$3.9 million for the year ended December 31, 2019, primarily due to (i) the Group enhanced its sales and marketing presence in North America and China by hiring more business development experts; and (ii) the Group incurred higher marketing expenses for marketing activities in North America and Asian countries, including attending industry conventions and publishing advertisements.

Administrative Expenses

The Group's administrative expenses increased by 57.9% from approximately US$10.4 million for the year ended December 31, 2018 to approximately US$16.4 million for the year ended December 31, 2019. Excluded share-based compensation expense, the Group's administrative expenses increased by 31.0% from approximately US$10.0 million for the year ended December 31, 2018 to approximately US$13.1 million primarily due to (i) workforce expansion to facilitate the smooth operation and support of the Group's rapidly growing business and its long-term development; (ii) an increase in professional services fee as the Group was listed on the Stock Exchange of Hong Kong in May 2019, which include legal services, compliance advisory and audit & non-audit services; and (iii) an increase in office administration costs, which are in line with the Group's business growth and headcount growth. The Group recorded approximately US$2.9 million increase in share based compensation expenses, primarily due to the Company's new grant of a total 79,900,000 share options under the 2015 Share Incentive Plan to the eligible employees on February 28, 2019.

Research and Development Expenses

The Group's research and development expenses decreased by 9.7% from approximately US$1.7 million for the year ended December 31, 2018 to approximately US$1.5 million for the year ended December 31, 2019, primarily due to the Group incurring additional expenses associated with data systems development in 2018 which generated greater than normal research and development expenses during the Reporting Period.

Finance Costs

The Group's finance cost increased by $0.8 million from approximately US$0.4 million for the year ended December 31, 2018 to approximately US$1.2 million for the year ended December 31, 2019, primarily due to interest expenses on lease liabilities/obligations under finance lease, as a result of the newly adoption of IFRS 16 – Leases since January 1, 2019.

Income Tax Expense

The Group's income tax expense decreased by 14.8% from approximately US$2.9 million for the year ended December 31, 2018 to approximately US$2.4 million for the year ended December 31, 2019, as a result of the tax benefit attributable to US tax reform. The effective income tax rate decreased from approximately 20.2% for the year ended December 31, 2018 to approximately 11.7% for the year ended December 31, 2019, which shared the same reason as the decrease of income tax expense.

Net Profit and Net Profit Margin

The net profit of the Group increased by 64.0% from approximately US$11.2 million for the year ended December 31, 2018 to approximately US$18.4 million for the year ended December 31, 2019. The net profit margin of the Group for the year ended December 31, 2019 was 18.4%, as compared to 13.5% for the year ended December 31, 2018. The significant increase of the net profit margin was primarily due to (i) 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; (ii) a considerable increase in interest income from unused IPO proceeds; and (iii) decreased listing expenses recorded for the year ended December 31, 2019 following our successful IPO on May 30, 2019. This was partially offset by (iv) expansion of sales and marketing expenses and administrative expenses in line with the Group's business growth; and (v) increase in share-based compensation expense due to the new grant of a total 79,900,000 share options under the 2015 Share Incentive Plan to the eligible employees on February 28, 2019.

The adjusted net profit[1] of the Group increased by 28.7% from approximately US$16.6 million[2] for the year ended December 31, 2018 to approximately US$21.4 million for the year ended December 31, 2019. Adjusted net profit margin increased from 20.0% for the year ended December 31, 2018 to 21.3% for the year ended December 31, 2019. The increase of adjusted net profit margin follows the same set of reasons as disclosed in the above paragraph except for (iii), (v) and the other gains of approximately US$1.9 million as disclosed in the sub-section of "Other Gains and Losses", which were adjusted from our net profit.

1 Calculation of adjusted net profit is modified and calculated as net profit for the Reporting Period, excluding the share-based compensation expenses, listing expenses, gain on disposal of associates and a gain arising from fair value change of previously held interest in an associate to better reflect the Company's current business and operations.

2 The adjusted net profit for the year ended December 31, 2018 is modified and calculated, excluding share-based compensation expenses, listing expenses, gain on disposal of an associate or subsidiaries, and bargain purchase gain.

EBITDA

The EBITDA[3] of the Group increased by 57.7% from approximately US$18.8 million for the year ended December 31, 2018 to approximately US$29.6 million for the year ended December 31, 2019. The EBITDA margin of the Group for the year ended December 31, 2019 was 29.5%, compared to 22.6% for the year ended December 31, 2018. The higher EBITDA margin of the Group for the year ended December 31, 2019 was primarily due to a higher net profit margin as discussed above.

The adjusted EBITDA[4] of the Group increased by 34.8% from approximately US$24.2 million[5] for the year ended December 31, 2018 to approximately US$32.6 million for the year ended December 31, 2019. The adjusted EBITDA margin of the Group increased from 29.1% for the year ended December 31, 2018 to 32.4% for the year ended December 31, 2019. The increase of adjusted EBITDA margin follows the same set of reasons as discussed in the adjusted net profit.

Basic and Diluted Earnings Per Share

The basic earnings per share of the Group increased by 36.0% from US$0.0075 for the year ended December 31, 2018 to US$0.0102 for the year ended December 31, 2019. The diluted earnings per share of the Group increased by 33.8% from US$0.0074 for the year ended December 31, 2018 to US$0.0099 for the year ended December 31, 2019. The increase in the basic and diluted earnings per share was primarily due to the increase in the net profit resulting from the solid business growth of the Group.

The adjusted basic earnings per share for the year ended December 31, 2019 amounted to US$0.0119, representing an increase of 8.2% as compared with that of US$0.0110 for the year ended December 31, 2018. The adjusted diluted earnings per share for the year ended December 31, 2019 amounted to US$0.0115, representing an increase of 5.5% as compared with that of US$0.0109 for the year ended December 31, 2018. The increase in both the adjusted basic and diluted earnings per share was primarily due to the increase in the adjusted net profit resulted from the solid business growth of the Group as discussed in the above sub-section of "Net Profit and Net Profit Margin".

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

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

5 Calculation of adjusted EBITDA is modified and calculated as EBITDA for the year ended December 31, 2018, excluding the share-based compensation expenses, listing expenses, gain on disposal of an associate or subsidiaries and bargain purchase gain.

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with the IFRSs, the Company has provided adjusted net profit, adjusted net profit margin, adjusted EBITDA, adjusted EBITDA margin and adjusted basic and diluted earnings per share (excluding the share-based compensation expenses, Listing expenses, gain on disposal of associates or subsidiary, bargain purchase gain and gain arising from fair value change of previously held interest in an associate) 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.

Property, Plant and Equipment

The property, plant and equipment of the Group increased by 23.5% from approximately US$22.9 million as at December 31, 2018 to approximately US$28.3 million as at December 31, 2019, primarily attributable to the result of the expansion of capacities of services.

Intangible Assets

The Group recorded approximately US$7.6 million intangible assets for the year ended December 31, 2019, primarily containing customer relationship and customer backlog acquired through business combinations. (2018: approximately nil).

Goodwill

The Group recorded approximately US$6.3 million goodwill for the year ended December 31, 2019, which arose in the acquisitions of Frontage Suzhou, BRI and RMI because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the newly acquired companies. (2018: nil).

Right-of-use assets/Lease liabilities/Obligations under finance lease

As a result of the application on IFRS 16-Leases, obligations under finance lease was combined into lease liabilities to disclose as at December 31, 2019. The Group also recognized approximately US$21.1 million of right-of-use assets and corresponding lease liabilities amounted to US$20.4 million as at December 31, 2019.

Trade and Other Receivables and Prepayment

Trade and other receivables and prepayment of the Group increased by 28.1% from approximately US$19.5 million as at December 31, 2018 to approximately US$24.9 million as at December 31, 2019, primarily due to (i) the growth of the Group's business; (ii) an increase in note receivable from disposal of Tigermed-BDM; partially offset by (iii) the decrease in deferred issue cost due to settlement.

Unbilled Revenue

The Group has recorded an increase of 9.7% in unbilled revenue from approximately US$7.1 million as at December 31, 2018 to approximately US$7.8 million as at December 31, 2019, primarily due to the growth of the Group's business.

Trade and Other Payables

The trade and other payables of the Group decreased by 5.9% from approximately US$11.1 million as at December 31, 2018 to approximately US$10.4 million as at December 31, 2019, primarily due to the settlement of accrued listing expenses, which offset the increase in (i) trade payables to third parties aligned with our business growth; and (ii) salary and bonus payables in line with the expansion of work force.

Advance from Customers

The Group has recorded an increase of 13.2% in advance from customers along with its business growth and the improved credit control.

Liquidity and Capital Resources

The Group's bank balances and cash amounted to approximately US$207.8 million in total as at December 31, 2019, as compared to approximately US$16.3 million as at December 31, 2018, as a result of net proceeds from the issuance of ordinary shares in May 2019 of US$193.2 million and cash provided by operating activities; partially offset by payments for the purchase of plant and equipment and acquisition of subsidiaries. The cash and cash equivalents held by the Company are composed of RMB, HK$, CAD and US$. Currently, the Group follows a set of funding and treasury policies to manage its capital resources and prevent risks involved.

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

	Year ended December 31,	
	2019	2018
	US$'000	*US$'000*
Net cash generated from operating activities	**18,728**	22,658
Net cash used in investing activities	**(12,787)**	(11,435)
Net cash generated from financing activities	**185,723**	1,329
Net increase in cash and cash equivalents	**191,664**	12,552
Cash and cash equivalents at the beginning of the year	**16,306**	4,339
Effect of exchange rate changes	**(218)**	(585)
Cash and cash equivalents at the end of the year	**207,752**	16,306

Capital Expenditures

Our principal capital expenditures relate primarily to purchases of property, plant and equipment in relation to the expansion and enhancement of our facilities and purchases of equipment used in providing our services. US$13.9 million capital expenditures were incurred for the year ended December 31, 2019, increased by 167.3% when compared to US$5.2 million for the year ended December 31, 2018, primarily due to the business expansion.

Significant Investments, Material Acquisitions and Disposals

As at December 31, 2019, there were no significant investment held by the Company.

Disposal of Tigermed-Xinze

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

Disposal of Tigermed-BDM

On June 30, 2019, the Group disposed all its 45% interest in Tigermed-BDM to Hong Kong Tigermed in consideration of US$7,200,000 note receivables. Before the disposal, the Group owned 45% interest in Tigermed-BDM and the investment was previously accounted for as an investment in an associate using the equity method of accounting. This transaction has resulted in the Group recognizing a gain of US$56,000 in profit or loss.

Acquisition of Frontage Suzhou

On October 25, 2019, the Group acquired an additional 25.96% equity interests in Frontage Suzhou for a cash consideration of approximately RMB14,433,800 (equivalent to approximately USD2,040,055) from an independent third party. Such acquisition was made so as to expand the Group's CMC business in PRC.

Acquisition of RMI

On October 31, 2019, the Group acquired the entire equity interests in RMI for a total consideration of US$4,579,000 from independent third parties. This acquisition has been accounted for using the purchase method. RMI is engaged in providing quantitative and qualitative drug metabolism services for pharmaceutical and biotechnology companies. Following completion of the acquisition, the Group will expand its capacity with additional scientists, equipment, and facilities to be used in the provision of existing and novel services to its customers, effectively expand the current client base that the Group currently serves in this specific field, with the potential to increase the Group's revenue generated through this highly specialized service.

Acquisition of BRI

On December 13, 2019, the Group acquired the entire equity interests in BRI for a total consideration of US$2,903,000 from an independent third party. This acquisition has been accounted for using the purchase method. BRI is engaged in providing science-driven drug discovery and IND/NDA-enabling studies for pharmaceutical and biotechnology companies. Following completion of the acquisition, the combined resources of BRI and members of the Group will enable the Group to become a global leader in providing DMPK services to our existing and new customers in pharmaceutical and agrochemical industries, and further our goal to establish new centers of excellence in DMPK throughout North America and China.

Indebtedness

Borrowings

As at December 31, 2019, the Group recorded approximately US$0.5 million bank borrowings, compared to approximately US$3.2 million as at December 31, 2018. The Group recorded no related party loans from Dr. Song Li as at December 31, 2019, compared to approximately US$1.5 million as at December 31, 2018. The Group repaid a part of the bank borrowings and repaid the related party loan in full using its own cash flow generated from business.

The bank borrowings are secured by all assets of the Frontage Labs and all its existing and future US subsidiaries and carry interest at a variable rate of LIBOR plus 1.85% per annum.

Lease Liabilities/obligations under Finance Leases

The Group leased some of our equipment and facilities under lease agreements with lease terms of three to ten years and right-of-use assets agreements. The Group recorded approximately US$20.4 million lease liabilities as at December 31, 2019, compared to approximately US$4.2 million as at December 31, 2018 due to the newly adopted IFRS 16. Please refer to Note 2.1 to the consolidated financial statements in this announcement.

Contingent Liabilities and Guarantees

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

Currency Risk

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

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

The PRC operating subsidiaries are mainly exposed to foreign currencies of US$ and EUR. 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.

Charges of Assets

As at December 31, 2019 the Group pledged bank deposits with an amount of approximately US$0.7 million (2018: approximately US$0.3 million). The balance mainly represented deposits placed in a bank escrow account to fund the improvements made to a lab expansion at our facilities in Exton, Pennsylvania.

Gearing Ratio

Gearing ratio is calculated using interest-bearing borrowings less cash and cash equivalents, divided by total equity and multiplied by 100%. The gearing ratio as of December 31, 2019 and December 31, 2018 were both negative, because our cash and cash equivalents exceeded our interest-bearing borrowings.

Employees and Remuneration Policies

As at December 31, 2019, the Group had a total of 712 employees, of whom 410 were located in the U.S. and Canada and 302 were located in China. The staff costs, including Directors' emoluments but excluding any contributions to retirement benefit scheme contributions and share-based compensation expenses, were approximately US$43.3 million for Reporting Period, as compared to approximately US$33.8 million for the year ended December 31, 2018. The remuneration packages of employees generally include salary and bonus elements. In general, the Group determines the remuneration packages based on the qualifications, position, and performance of its employees. The Group also makes contributions to pension schemes, social insurance funds, including basic pension insurance, medical insurance, unemployment insurance, childbirth insurance, work-related injury insurance funds, and housing reserve fund as applicable to the countries where the Group operates.

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

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

USE OF PROCEEDS FROM LISTING

The total proceeds from the issue of new Shares by the Company in its Listing (after deducting the underwriting fees and related Listing expenses) amounted to approximately US$193.2 million, and the balance of unutilized net proceeds was approximately US$181.0 million as at December 31, 2019.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2019:

Use of proceeds	Adjusted on a pro rata basis based on the actual net proceeds *(US$ million)*	Percentage of total net proceeds	Actual use of proceeds from the date of Listing up to December 31, 2019 *(US$ million)*	Unutilized net proceeds as at December 31, 2019 *(US$ million)*	Expected Timeline of utilizing the utilized proceeds
Expand and enhance existing capacities to meet anticipated increased demand for services	38.6	20%	5.3	33.3	On or before December 31, 2022
Expand and broaden range of capabilities and services organically	77.3	40%	0.3	77.0	On or before December 31, 2022
Expand capacity and/or capabilities through potential acquisitions	58.0	30%	6.6	51.4	On or before December 31, 2022
Working capital and general corporate purposes	19.3	10%	–	19.3	On or before December 31, 2022
Total	193.2	100%	12.2	181.0	

FINAL DIVIDEND

The Board does not recommend any payment of final dividend for the Reporting Period (2018: nil).

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Thursday, May 28, 2020 and the notice of the AGM will be published and dispatched to the Shareholders in accordance with the Company's articles of association and the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, May 25, 2020 to Thursday, May 28, 2020, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, May 22, 2020.

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

The shares of the Company were listed on the Listing Date by way of a Global Offering. Pursuant to the Global Offering, 501,910,000 shares (25% of the then total number of shares of the Company of 2,007,640,910) were issued to the public. The gross proceeds received by the Company from the Global Offering were approximately US$204.5 million (equivalent to approximately HK$1,606.1 million at the time of Listing).

Please refer to the Prospectus and the announcements of the Company dated May 17, 2019 and June 23, 2019 for further details about the Global Offering.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the Listing Date to December 31, 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Having made specific enquiries with all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code from the Listing Date up to December 31, 2019.

CORPORATE GOVERNANCE CODE

During the period from the Listing Date up to December 31, 2019, the Company has followed the principles and complied with the code provisions set out in the CG Code which are applicable to the Company, except for the deviation from code provision A.2.1 of the CG Code.

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

REVIEW OF ANNUAL RESULTS BY THE AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has reviewed together with the Company's management and Deloitte Touche Tohmatsu, the Company's external auditor, the accounting principles and policies, internal controls, risk management and financial reporting adopted by the Group, and the audited consolidated financial statements of the Group for the Reporting Period. The Audit and Risk Management Committee is satisfied that the audited consolidated financial statements 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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF THE 2019 ANNUAL RESULTS ANNOUNCEMENT AND 2019 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.frontagelab.com). The annual report of the Company for the Reporting Period containing all the information required under the Listing Rules will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Shareholders in due course.

"2008 Share Incentive Plan"	the pre-IPO share incentive plan approved by Frontage Labs in 2008 and assumed by the Company on April 17, 2018
"2015 Share Incentive Plan"	the pre-IPO share incentive plan approved by Frontage Labs in 2015 and assumed by the Company on April 17, 2018
"2017 Tax Act" or "Transition Tax"	The Tax Cuts and Jobs Act was signed into law on December 22, 2017, has resulted in significant changes to the U.S. corporate income tax system. These changes reduce tax rates and modify policies, credits and deductions for businesses. The 2017 Tax Act also transitions the U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which could result in subjecting certain earnings of Frontage Shanghai to U.S. taxation. These changes are effective beginning in 2018. The 2017 Tax Act also includes a tax on the mandatory deemed repatriation of accumulated previously untaxed foreign earnings of Frontage Shanghai (the "Transition Tax")
"2018 Share Incentive Plan"	the post-IPO share incentive plan adopted by the Company on May 11, 2019
"AGM"	the annual general meeting of the Company
"Audit and Risk Management Committee"	audit and risk management committee of the Board
"Board of Directors" or "Board"	the board of directors of the Company from time to time
"BRI"	BRI Biopharmaceutical Research, Inc.
"CAD"	Canadian Dollars, the lawful currency of Canada
"Capitalization Issue"	the issue of 1,355,157,819 Shares to the Shareholders to be made upon capitalization of certain sums standing to the credit of the share premium account of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules

"CMC"	stands for Chemistry, Manufacturing and Controls. The Group's portfolio of CMC services spans from drug discovery to the post-approval phase, including lead compound quantification and analytical testing for the discovery phase, formulation development, Good Laboratory Practice toxicology batch studies, release and product testing, stability testing, Clinical Trial Materials and Good Manufacturing Practice manufacturing, extractability and leachability studies and commercial product release following approval of an application
"Company"	Frontage Holdings Corporation, a company incorporated under the laws of the Cayman Islands with limited liability on April 16, 2018
"Controlling Shareholder(s)"	has the meaning given to it under the Listing Rules and unless the context requires otherwise, refers to Hangzhou Tigermed and Hong Kong Tigermed
"CRO"	Contract research organization
"Director(s)"	the director(s) of the Company from time to time
"DMPK"	Drug Metabolism and Pharmacokinetics, refers to studies designed to determine the absorption and distribution of an administered drug, the rate at which a drug takes effect, the duration a drug maintains its effects and what happens to the drug after being metabolized by the body
"EIT"	PRC Enterprise Income Tax
"EIT Law"	Enterprise Income Tax Law of the PRC
"Frontage Labs"	Frontage Laboratories, Inc., a company incorporated under the laws of Pennsylvania, United States on April 21, 2004 and 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)

"GLP"	Good Laboratory Practice, a quality system of management controls for research laboratories and organisations to try to ensure the uniformity, consistency, reliability, reproducibility, quality and integrity of chemical and pharmaceuticals non-clinical safety tests
"Group", "We", "Our" or "Us"	the Company and its subsidiaries
"Hangzhou Tigermed"	Hangzhou Tigermed Consulting Co., Ltd., a company established in the PRC on December 15, 2004 with its shares being listed on ChiNext market of the Shenzhen Stock Exchange with stock code 300347, which is one of the Controlling Shareholders
"HK$"	Hong Kong Dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Tigermed"	Hongkong Tigermed Co., Limited, a company incorporated under the laws of Hong Kong with limited liability on September 14, 2011 and which is a wholly-owned subsidiary of Hangzhou Tigermed and one of the Controlling Shareholders
"IFRSs"	International Financial Reporting Standards
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	May 30, 2019, being the date of the Listing
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"PRC" or "China"	the People's Republic of China, but for the purposes of this announcement only, except where the context requires, references to the PRC or China exclude Hong Kong, Macau and Taiwan
"Pre-IPO Share Incentive Plans"	the 2008 Share Incentive Plan and the 2015 Share Incentive Plan
"Prospectus"	the prospectus of the Company dated May 17, 2019
"Reporting Period"	the year ended December 31, 2019
"RMB"	Renminbi, the lawful currency of the PRC
"RMI"	RMI Laboratories, LLC

"Shareholder(s)" or "Then Shareholders"	holder(s) of Share(s)
"Share(s)"	ordinary shares(s) with nominal value USD0.00001 each in the issued share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tigermed-BDM" or "BDM"	Tigermed-BDM, Inc., a company incorporated under the laws of New Jersey, United States, and was a former associate of the Company
"Tigermed-Xinze" or "Xinze"	Tigermed-Xinze Medical Technology (Jiaxing) Co., Ltd., a company established in the PRC on December 25, 2013 and was a former associate of the Company
"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

In this announcement, 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.

By Order of the Board
Frontage Holdings Corporation
Dr. Zhihe Li
Chairman

Hong Kong, March 30, 2020

As at the date of this announcement, the Board comprises Dr. Zhihe Li as executive Director; Mr. Jun Gao as non-executive Director; and Mr. Yifan Li, Mr. Erh Fei Liu and Dr. Jingsong Wang as independent non-executive Directors.

* *For identification purpose only*