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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Director

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

#### Non-executive Director

Mr. Jun Gao

#### Independent Non-executive Directors

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

### MEMBERS OF AUDIT AND RISK MANAGEMENT COMMITTEE

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

### MEMBERS OF REMUNERATION COMMITTEE

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

### MEMBERS OF NOMINATION COMMITTEE

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

### COMPANY SECRETARY

Ms. Karen Ying Lung Chang  
*(Hong Kong Solicitor)*

### AUTHORISED REPRESENTATIVES

Dr. Zhihe Li  
Ms. Karen Ying Lung Chang

### AUDITOR

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

### COMPLIANCE ADVISER

Somerley Capital Limited

### PRINCIPAL BANKER

Wells Fargo Bank, N.A.

### LEGAL ADVISERS

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

*As to Cayman Islands laws:*  
Conyers Dill & Pearman

### REGISTERED OFFICE

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

### HEAD OFFICE

700 Pennsylvania Drive  
Exton, PA 19341, USA

### PRINCIPAL PLACE OF BUSINESS IN USA

700 Pennsylvania Drive  
Exton, PA 19341, USA

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### STOCK CODE

1521

### COMPANY WEBSITE

[www.frontagelab.com](http://www.frontagelab.com)

## FINANCIAL HIGHLIGHTS

### For the year ended December 31,

	2016	2017	2018	2019
	USD'000	USD'000	USD'000	USD'000
<b>Operating results</b>				
Revenue	48,644	70,245	83,114	<b>100,415</b>
Gross profit	19,291	31,083	33,898	<b>37,291</b>
Profit before tax	10,370	16,132	14,093	<b>20,863</b>
Net profit	6,646	10,165	11,241	<b>18,432</b>
Adjusted net profit <sup>(1)</sup>	7,776	12,711	16,629	<b>21,397</b>
<b>Profitability</b>				
Gross margin (%)	39.7%	44.2%	40.8%	<b>37.1%</b>
Net profit margin (%)	13.7%	14.5%	13.5%	<b>18.4%</b>
Adjusted net profit margin (%)	16.0%	18.1%	20.0%	<b>21.3%</b>

### As at December 31,

	2016	2017	2018	2019
	USD'000	USD'000	USD'000	USD'000
<b>Financial position</b>				
Total assets	42,639	57,191	77,464	<b>315,268</b>
Total equity	18,781	30,220	43,634	<b>265,278</b>
Total liabilities	23,858	26,971	33,830	<b>49,990</b>
Cash and cash equivalents	3,254	4,339	16,306	<b>207,752</b>

<sup>(1)</sup> 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 or subsidiaries, bargain purchase gain, impairment of investment in an associate and gain arising from fair value change of previously held interest in an associate to better reflect the Company's current business and operations.



## FINANCIAL HIGHLIGHTS *(Continued)*

### RECONCILIATION FOR ADJUSTED NET PROFIT

	For the year ended December 31,			
	2016	2017	2018	2019
	USD'000	USD'000	USD'000	USD'000
<b>Adjusted Net Profit Reconciliation</b>				
<b>Net Profit</b>	6,646	10,165	11,241	<b>18,432</b>
Loss for the year from discontinuing operations	590	–	–	–
Impairment of investment in an associate	–	1,736	–	–
Share-based compensation expenses	540	807	371	<b>3,269</b>
Listing expenses	–	–	6,386	<b>1,564</b>
Gain on disposal of an associate	–	–	(437)	<b>(27)</b>
Gain on disposal of subsidiaries	–	–	(143)	–
Bargain purchase gain	–	–	(788)	–
Gain arising from fair value change of previously held interest in an associate	–	–	–	<b>(1,841)</b>
<b>Adjusted Net Profit</b>	<b>7,776</b>	<b>12,708</b>	<b>16,630</b>	<b>21,397</b>

### 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 subsidiaries, bargain purchase gain, impairment of investment in an associate 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.

Dear Valued Shareholders,

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

As a full-service CRO, with our broad portfolio of scientific services and versatile teams of experts, we provide our clients – expanding across various industries such as pharmaceutical, biotechnology, and agrochemical companies, government agencies, and academic institutions – with the valuable information they need to make the critical decisions in their research and development endeavours.

2019 was a notable year of substantial growth, sustained financial and operating performance for the Group, and a remarkable milestone in our journey to success.

In 2019, we continued to keep our focus on quality and compliance, science innovation and technology, efficiency and productivity, and client's satisfaction. We concentrated our efforts seeking profitable growth, strengthening our core business, embracing internal expansion as well as strategic acquisitions to expand and enhance our portfolio of services, geographic presence, and client and partner relationships, building centers of excellence, and delivering high quality and timely services to our clients. We also allocated more resources to our China operations to meet high demand for our services and seize on fast growing opportunities in China.

In 2019, we completed several integral expansions and strategic acquisitions, giving us access to valuable scientific expertise and complementary capabilities that enhance our ability to partner with clients across the product/drug discovery and development continuum.

On May 30, 2019, we had a successful IPO on the Hong Kong Stock Exchange and raised approximately US\$200 million of funds. This successful IPO gave us strong financial support in growing our business, both organically and through acquisitions.

In Exton, PA, we expanded the capacity of our bioanalytical and biologics services by adding 10,000 square feet of new laboratories to provide biomarker testing and cell/gene therapeutic drug development services. In Shanghai, China, we expanded our bioanalytical laboratory space from 15,000 sq. ft. to 55,000 sq. ft. In Zhengzhou, China, our clinical team moved to a new office building and expanded office space from 4,000 sq. ft. to 10,000 sq. ft.



## CHAIRMAN'S STATEMENT *(Continued)*

We have already rented a new 71,000 sq. ft. space at 750 Pennsylvania Drive in Exton, PA. This space will be used to set up new CMC and bioanalytical labs. We will continue to expand our CMC, bioanalytical, and DMPK labs in Exton, PA, and build up our contract development and manufacturing organization (“**CDMO**”) facilities and DMPK/preclinical services in China.

Operation-wise, we will continue to strengthen our management team, optimize our operation processes to improve efficiency, and strengthen business development and client services to establish strategic partnerships.

In 2019, we also expanded our business through acquisitions. In September 2019, we acquired an additional 25.96% of Frontage Suzhou shares and became the controlling shareholder of Frontage Suzhou. In November 2019, we acquired RMI, a CRO located in North Wales, Pennsylvania. RMI offers a variety of services including 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. The RMI acquisition will enhance our DMPK 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 client base.

In December 2019, we enhanced the capabilities and scale of our DMPK and bioanalytical services and our geographic foothold into Canada and the west coast of North America with the acquisition of BRI, a CRO that was established more than 20 years ago in Vancouver, Canada. BRI provides science-driven drug discovery and Investigational New Drug (“**IND**”)/New Drug Application (“**NDA**”)-enabling studies for pharmaceutical and biotechnology companies. BRI offers a variety of services to its customer base, including bioanalytical assays for measurement of drug candidates, metabolites and biomarkers, *in vitro* drug metabolism/absorption, distribution, metabolism and excretion (“**ADME**”), *in vivo* DMPK/ADME, formulation development, drug substance (“**DS**”)/drug product (“**DP**”) stability and analytical CMC assays, and anticancer drug pharmacology assessment. This acquisition will allow us to offer our clients proximal access to our DMPK and bioanalytical services.

We enter 2020 well-positioned to continue our progress. Our actions and decisions throughout 2020 will be continuously guided by our four strategic imperatives: 1) improve the performance of our core existing businesses; 2) make the right investment decisions on expanding our existing businesses; 3) expand our services into new business areas, such as discovery, central lab services, preclinical and CDMO services; and 4) grow and cultivate our culture of care, accountability and continuous improvement.

## CHAIRMAN'S STATEMENT *(Continued)*



I would like to take this opportunity to extend my sincerest appreciation to all in helping to achieve what has been, by far, our most successful year to date. I would like to thank our Shareholders for investing in the Group and for placing your confidence in us. My colleagues and I will work hard to prove that your confidence is well- placed. I would like to thank our Board of Directors for their guidance and support. I would like to thank all our valued clients and partners for their continuous trust, support and dedication – we couldn't have been where we are now without such a tremendous level of endorsement from all of you.

Finally, I would like to thank all the Group's talented and dedicated colleagues, employees, and partners for your hard work, outstanding performance, and great contributions.

**Dr. Zhihe Li**

*Chairman and Executive Director*

Hong Kong, March 30, 2020





# 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, 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.



## **BUSINESS REVIEW** *(Continued)*

### **Overview** *(Continued)*

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.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW *(Continued)*

#### Quality Management *(Continued)*

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. The 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 executes 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 managers 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.

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*



## **BUSINESS REVIEW** *(Continued)*

### **Business Development** *(Continued)*

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 the Group'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.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW *(Continued)*

#### 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.



## BUSINESS REVIEW *(Continued)*

### 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 became a subsidiary of the Company with its indirect 75% equity interest. 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 our 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.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW *(Continued)*

#### Acquisitions *(Continued)*

#### 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 interest 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.



## **BUSINESS REVIEW** *(Continued)*

### **Group Awards**

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





## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **BUSINESS REVIEW** *(Continued)*

#### **Investor Relations** *(Continued)*

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 report, 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 report, the Group is still evaluating the impact of the COVID-19 epidemic on the operating activities and financial condition of the Group.



## **BUSINESS REVIEW** *(Continued)*

### **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.



# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

## 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 (equivalent to approximately US\$28.5 million) for the year ended December 31, 2018 to approximately RMB190.3 million (equivalent to approximately US\$27.7 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:

	For the year ended December 31,			
	2019		2018	
	<i>US\$ million</i>	<i>%</i>	<i>US\$ million</i>	<i>%</i>
<b>Revenue</b>				
– USA	<b>59.0</b>	<b>58.7%</b>	46.8	56.3%
– PRC	<b>30.3</b>	<b>30.2%</b>	30.1	36.2%
– Rest of the world <i>(Note)</i>	<b>11.1</b>	<b>11.1%</b>	6.2	7.5%
<b>Total</b>	<b>100.4</b>	<b>100.0%</b>	83.1	100.0%

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

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*



## **FINANCIAL REVIEW** *(Continued)*

### **Revenue** *(Continued)*

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.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### 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 was 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.



## **FINANCIAL REVIEW** *(Continued)*

### **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.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Finance Costs

The Group's finance cost increased by US\$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 of 79,900,000 share options under the 2015 Share Incentive Plan to the eligible employees on February 28, 2019.



## FINANCIAL REVIEW *(Continued)*

### Net Profit and Net Profit Margin *(Continued)*

The adjusted net profit<sup>1</sup> of the Group increased by 28.7% from approximately US\$16.6 million<sup>2</sup> 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.

### EBITDA

The EBITDA<sup>3</sup> 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.

<sup>1</sup> 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.

<sup>2</sup> 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.

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





## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### EBITDA *(Continued)*

The adjusted EBITDA<sup>4</sup> of the Group increased by 34.8% from approximately US\$24.2 million<sup>5</sup> 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”.

<sup>4</sup> 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.

<sup>5</sup> 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.



## **FINANCIAL REVIEW** *(Continued)*

### **Non-IFRS Measures**

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



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### **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.

# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*



## FINANCIAL REVIEW *(Continued)*

### 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	<u>207,752</u>	<u>16,306</u>

### Capital Expenditures

Our principal capital expenditures relate primarily to purchases of property, plant and equipment in relation to the expansion and enhancement of our facilities and purchases of equipment used in providing our services. US\$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.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Significant Investments, Material Acquisitions and Disposals

As at December 31, 2019, there was 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 recognizing 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 US\$2,040,055) 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.



## **FINANCIAL REVIEW** *(Continued)*

### **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 report.

#### *Contingent Liabilities and Guarantees*

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



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Indebtedness *(Continued)*

##### *Currency Risk*

The principal activity of the Group is to provide laboratory and related services to pharmaceutical, biotechnology companies 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.

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.

##### *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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT



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

### DIRECTORS

#### Executive Director

**Dr. Zhihe Li (“Dr. Li”)**, aged 65, was appointed as a Director on April 16, 2018 and designated as an executive Director on June 20, 2018. Dr. Li is the chairman of the Company. He is also a member of the Remuneration Committee and Nomination Committee.

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

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



### **DIRECTORS** *(Continued)*

#### **Non-executive Director**

**Mr. Jun Gao** (“**Mr. Gao**”), aged 44, was appointed as a Director on April 17, 2018 and designated as a non-executive Director on June 20, 2018. He is a member of the Audit and Risk Management Committee.

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

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



### **DIRECTORS** *(Continued)*

#### **Independent Non-executive Directors**

**Mr. Yifan Li (“Mr. Li”)**, aged 52, was appointed as an independent non-executive Director on April 17, 2018. He is the chairman of the Audit and Risk Management Committee and a member of the Remuneration Committee. Mr. Li has extensive experience in corporate financial management. His experience spans across various industries such as automotive, insurance, port operations, environmental services, online financing and real estate development and management in both United States and China.

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

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

Mr. Li has been an independent non-executive director of Xinyuan Property Management Service (Cayman) Ltd. (stock code: 1895) since September 2019 and ZhongAn Online P & C Insurance Co., Ltd. (stock code: 6060) since December 2016 (which are companies listed on the Hong Kong Stock Exchange), Shanghai International Port Group Co., Ltd. (stock code: 600018) since September 2015 and Heilongjiang Interchina Water Treatment Co., Ltd. (stock code: 600187) since May 2015 (which are companies listed on the Shanghai Stock Exchange), Zhejiang Tiantie Industry Co., Ltd. (stock code: 300587) since December 2017 which is listed on the Shenzhen Stock Exchange, and Sunlands Technology Group (formerly known as Sunlands Online Education Group) (stock code: STG) since July 2019, Qudian Inc. (stock code: QD) since October 2017 and Xinyuan Real Estate Co., Ltd. (stock code: XIN) since February 2017, which are listed on the New York Stock Exchange.

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



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

### DIRECTORS *(Continued)*

#### Independent Non-executive Directors *(Continued)*

**Mr. Erh Fei Liu** (“**Mr. Liu**”), aged 61, was appointed as an independent non-executive Director on April 17, 2018. He is a member of each of the Audit and Risk Management Committee and Nomination Committee.

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

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

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

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



### **DIRECTORS** *(Continued)*

#### **Independent Non-executive Directors** *(Continued)*

**Dr. Jingsong Wang** (“**Dr. Wang**”), aged 55, was appointed as an independent non-executive Director on April 17, 2018. He is the chairman of each of the Remuneration Committee and Nomination Committee.

Dr. Wang is the chief executive officer of Harbour BioMed Shanghai Co., Ltd. since December 2016, a global biotech company specializing in developing biological therapeutics in the areas of immunology and inflammatory diseases with operations in Boston, Rotterdam and Shanghai. From November 2011 to December 2015, he was the Head of China R&D of Sanofi (China) Investment Co., Ltd.

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

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

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

### SENIOR MANAGEMENT

**Mr. Yifeng Gao (“Mr. Yifeng Gao”)**, aged 40, has been the chief financial officer of the Group since January 2019, responsible for the management of all aspects of the Group’s finance and treasury matters. Prior to January 2019, Mr. Yifeng Gao held various positions in Baixing Co., Ltd., a multi-category classifieds platform company. In particular, he was the chief financial officer from November 2011 to June 2018 and the secretary of the board from August 2015 to November 2018. Prior to that, Mr. Yifeng Gao worked in the audit and assurance section of Deloitte Touche Tohmatsu from July 2001 to October 2011.

Mr. Yifeng Gao received his bachelor’s degree from Shanghai International Studies University in Accounting in June 2001. He is a member of the American Institute of Certified Public Accountants, a Certified Public Accountant in China, a Certified Internal Auditor and a Certified Management Accountant.

**Dr. Zhongping (John) Lin (“Dr. Lin”)**, aged 56, has been an executive vice president of the Group since 2017, responsible for bioanalytical and biologics services. From 2007 to 2017, he was a senior vice president of Frontage Labs, responsible for bioanalytical and biologics services. Before joining Frontage Labs, he worked at AstraZeneca Pharmaceuticals LP as a scientist and later on was responsible for global DMPK business. Prior to this, he worked at Avantix Laboratories, Inc. as a senior research scientist and a manager of bioanalytical chemistry from 2000 to 2005.

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

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



### SENIOR MANAGEMENT *(Continued)*

**Dr. Dongmei Wang** (“**Dr. Wang**”), (with former name as 王東梅), aged 56, has been an executive vice president of the Group since June 2017, being responsible for CMC services. She has been working at Frontage Labs since February 2007. From February 2007 to March 2016, she was the senior vice president, responsible for analytical R&D and project management. From April 2016 to June 2017, she was the vice president, responsible for CMC services. Prior to joining the Group, she worked at NovaDel Pharma Inc. as the director of analytical chemistry.

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

**Dr. Abdul Ezaz Mutlib** (“**Dr. Mutlib**”), aged 59, has been an executive vice president of the Group since June 2017, being responsible for our DMPK services. From April 2010 to December 2017, he was the vice president of Frontage Labs. Before joining the Group, he was a director of Wyeth Pharmaceuticals, Inc/Pfizer Inc. Prior to that, he was an associate director of Pfizer Global Research and Development Ann Arbor Laboratories, United States, a senior research associate of DuPont Pharmaceuticals and a research associate of Hoechst-Roussell Pharmaceuticals Company.

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

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



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

### SENIOR MANAGEMENT *(Continued)*

**Dr. Tianyi Zhang** (“**Dr. Zhang**”), aged 51, is a senior vice president of the Group and the general manager of Frontage Shanghai since January 2016. He is responsible for the general operation, financial performance and business growth of the Group’s China business. From December 2011 to December 2015, he was the vice president of Frontage Shanghai, responsible for bioanalytical/DMPK development and services in China. From June 2010 to November 2011, he worked at MPI Research Inc. as a director of operation and bioanalytical services. From April 2006 to June 2010, he was the lab manager of PPD Development, a subsidiary of Pharmaceutical Product Development Inc. From May 2004 to May 2006, he was the project manager of Tandem Labs, Inc., a subsidiary of NWT Inc. He was the senior research scientist of Bioanalytical Systems, Inc. before joining Tandem Labs, Inc.

Dr. Zhang received both his Bachelor of Science and Master of Science degrees in Chemistry from Nanjing University, China, in July 1991 and July 1994, respectively. He then received his PhD degree in analytical chemistry from the University of Florida, United States, in July 2001 and his MBA degree from the Virginia Commonwealth University, United States, in June 2009. In addition, he has contributed over 60 scientific publications and reports.

**Dr. Song Li** (“**Dr. Song Li**”), aged 62, is the Honorary Chairman of the Company and the chief executive officer of Frontage Labs. In 2001, he founded Frontage Labs and has been the chief executive officer ever since and remains a driving force behind the Group’s strategic, technical and commercial success. His visionary leadership of Frontage Labs has earned him widespread respect in the industry and within the Group. In order to focus on the overall strategic direction of the Company and the detailed operations of Frontage Labs, Dr. Song Li currently serves as Honorary Chairman of the Company and the chief executive officer of Frontage Labs instead of being a director or a member of senior management of the Company, which would have required redirecting a substantial part of his focus to day-to-day operations of the Company and administrative burden of that of a director.

Prior to Frontage, Dr. Song Li held management positions at Great Valley Pharmaceuticals and Wyeth. During this time, he led numerous projects related to the development of pharmaceutical products.

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

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



### COMPANY SECRETARY

**Ms. Karen Ying Lung Chang** (“**Ms. Chang**”), aged 56, was appointed as the Company Secretary of the Company on June 20, 2018. She has been an associate solicitor at Chiu & Partners since April 2000, a law firm specializing in listings in Hong Kong and other general commercial transactions.

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





## REPORT OF DIRECTORS

The Directors are pleased to present to the Shareholders their report and the audited consolidated financial statements of the Group for the year ended December 31, 2019 (the “**Consolidated Financial Statements**”).

### PRINCIPAL ACTIVITIES

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

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

### REORGANISATION AND SHARE OFFER

The Company was incorporated in the Cayman Islands on April 16, 2018 as an exempted company with limited liability. Its Shares have been listed on the Main Board of the Stock Exchange since May 30, 2019. Pursuant to the reorganisation of the Group in connection with the Listing, the Company underwent a corporate reorganisation (the “**Reorganisation**”), the Company effected a share exchange and merger which took effect on April 17, 2018 pursuant to which Frontage Labs became a wholly-owned subsidiary of the Company and Frontage Labs assigned, and the Company assumed, the rights and obligations of Frontage Labs under the 2015 Share Incentive Plan and the 2008 Share Incentive Plan. Details of the Reorganisation are set out in the section headed “History, Reorganisation and Corporate Structure – The Reorganisation” in the Prospectus.

### BUSINESS REVIEW

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



## RESULTS

The results of the Group for the Reporting Period and the Group's financial position as at December 31, 2019 are set out in the Consolidated Financial Statements and their accompanying notes on pages 90 to 211 of this annual report.

## DIVIDEND POLICY

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

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

## ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company is scheduled to be held on Thursday, May 28, 2020. A notice convening the AGM will be published and dispatched to the Shareholders in due course.

## CLOSURE OF REGISTER MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, May 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.



## **REPORT OF DIRECTORS** *(Continued)*

### **FINANCIAL SUMMARY**

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

### **PROPERTY, PLANT AND EQUIPMENT**

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

### **SHARE CAPITAL**

Details of the movements in the share capital of the Company are set out in Note 34 to the Consolidated Financial Statements.

### **RESERVES**

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

### **DISTRIBUTABLE RESERVES**

As at December 31, 2019, the aggregate amount of reserves available for distribution to the Shareholders, as calculated under the Companies Law of the Cayman Islands, was approximately US\$36.0 million.

### **TAX RELIEF AND EXEMPTION**

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

### **BANK AND OTHER BORROWINGS**

Particulars of the bank and other borrowings of the Group as at December 31, 2019 are set out in Note 28 to the Consolidated Financial Statements.



## CHARITABLE CONTRIBUTIONS

During the Reporting Period, the Group made charitable contributions totaling approximately US\$3,000 (2018: approximately US\$3,500).

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 32.0% of the total revenue of the Group for the Reporting Period whilst sales to the largest customer accounted for approximately 19.4% of the total revenue of the Group for the Reporting Period.

Purchases from the Group's five largest suppliers accounted for approximately 18.7% of the Group's total purchases during the Reporting Period whilst purchases from the largest supplier accounted for approximately 4.2% of the total purchases of the Group for the Reporting Period.

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

## DIRECTORS

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

### Executive Director

Dr. Zhihe Li (*Chairman and Chief Executive Officer*) (appointed on April 16, 2018)

### Non-executive Director

Mr. Jun Gao (appointed on April 17, 2018)

### Independent Non-executive Directors

Mr. Yifan Li (appointed on April 17, 2018)

Mr. Erh Fei Liu (appointed on April 17, 2018)

Dr. Jingsong Wang (appointed on April 17, 2018)

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



## REPORT OF DIRECTORS *(Continued)*

### **DIRECTORS** *(Continued)*

Each of Mr. Jun Gao, Mr. Yifan Li, Mr. Erh Fei Liu and Dr. Jingsong Wang was appointed as a Director by way of a sole director's resolution on April 17, 2018. Accordingly, pursuant to Article 83(3) of the Articles of Association, Mr. Jun Gao, Mr. Yifan Li, Mr. Erh Fei Liu and Dr. Jingsong Wang will hold office until the AGM and, being eligible, offer themselves for re-election at the AGM.

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

Accordingly, pursuant to Article 84 of the Articles of Association, Dr. Zhihe Li will hold office until the AGM when he retires by rotation and, being eligible, offer himself for re-election at the AGM.

### **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

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



## **CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS**

Changes in information of the Directors since the publication of the interim report of the Company for the six months ended June 30, 2019, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

- Mr. Yifan Li has been appointed as an independent non-executive director of Xinyuan Property Management Service (Cayman) Ltd., a company listed on the Stock Exchange (stock code: 1895) since September 16, 2019 and independent director of Sunlands Technology Group (formerly known as Sunlands Online Education Group), a company listed on the New York Stock Exchange (stock code: STG) since July 10, 2019.

## **INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS**

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

## **DIRECTORS' SERVICE AGREEMENT**

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

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

## **DIRECTORS' REMUNERATION**

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

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



## **REPORT OF DIRECTORS** *(Continued)*

### **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

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

### **MANAGEMENT CONTRACTS**

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

### **PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

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

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

### **DIRECTORS TO ACQUIRE SHARES OR DEBENTURES**

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

### **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

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



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

As at December 31, 2019, the interests or short positions of the Directors and chief executives' of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### Long Positions in the Shares and underlying Shares

Name of Director	Capacity/Nature of interest	Number of Shares held	Number of underlying shares comprised in options <sup>(3)</sup>	Approximate percentage of shareholding interest
Dr. Zhihe Li <sup>(1)</sup>	Beneficial owner	52,401,560	4,500,000	2.83%
Mr. Jun Gao <sup>(2)</sup>	Beneficial owner	–	2,000,000	0.10%

*Notes:*

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

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2019, none of the Directors or the chief executives of the Company had any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.





## REPORT OF DIRECTORS *(Continued)*

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

As at December 31, 2019, so far as the Directors are aware, the following corporations/ persons had interests of 5% or more in the issued Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under section 336 of the SFO:

#### Interests and Long Positions in Shares

Name of substantial Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding interest
Hong Kong Tigermed <sup>(1)</sup>	Beneficial owner/Other <sup>(2)</sup>	1,032,964,090	51.45%
Hangzhou Tigermed <sup>(1)</sup>	Interest of controlled corporation	1,032,964,090	51.45%
Dr. Song Li	Beneficial owner/Trustee/ Founder of the trust <sup>(3)</sup>	192,647,320	9.60%
Hillhouse Capital Advisors, Ltd. <sup>(4)</sup>	Investment manager	122,632,000	6.11%
Gaoling Fund, L.P. <sup>(4)</sup>	Beneficial owner	115,152,000	5.74 %

#### Notes:

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

Save as disclosed above and to the best knowledge of the Directors, as at December 31, 2019, the Directors have not been notified by any person who had interests or short position in Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.



## SHARE OPTION SCHEMES

### Pre-IPO Share Incentive Plans

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

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

On February 28, 2019, the Company granted a total of 7,990,000 share options under the 2015 Share Incentive Plan to the eligible employees at an exercise price of US\$2.00. On May 11, 2019, upon the completion of the Capitalization Issue, the number of options granted to an eligible employee under the Pre-IPO Share Incentive Plans were adjusted to ten times of the original number of options held by that grantee. Accordingly, the exercise price was adjusted to 10% of the original exercise price.

# REPORT OF DIRECTORS *(Continued)*

## SHARE OPTION SCHEMES *(Continued)*

### Pre-IPO Share Incentive Plans *(Continued)*

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

Category of participants	Date of grant	Exercise price per Share (US\$)	Outstanding as at January 1, 2019	Granted during the Reporting Period	Exercised during the Reporting Period	Forfeited/ Lapsed during the Reporting Period	Outstanding as at December 31, 2019	Vesting period
<b>Directors</b>								
Dr. Zhihe Li	February 28, 2019	0.200	-	4,500,000	-	-	4,500,000	50% on December 31, 2019, 25% on December 31, 2020, 25% on December 31, 2021 <sup>(1)</sup>
Mr. Jun Gao	February 28, 2019	0.200	-	2,000,000	-	-	2,000,000	50% on December 31, 2019, 25% on December 31, 2020, and 25% on December 31, 2021 <sup>(1)</sup>
<b>Senior management and other employees</b>								
	March 31, 2010	0.016	500,000	-	-	-	500,000	March 31, 2011 (at 20%) and then at 5% on June 30, September 30, December 31 and March 31 of each year until options are fully exercisable <sup>(2)</sup>
	September 30, 2010	0.016	350,000	-	-	-	350,000	exercisable at any time <sup>(2)</sup>
	January 21, 2014	0.016	600,000	-	-	-	600,000	exercisable at any time <sup>(2)</sup>
	June 16, 2016	0.049	18,950,000	-	-	2,500,000	16,450,000	exercisable at any time <sup>(2)</sup>
	September 14, 2017	0.057	19,950,000	-	-	-	19,950,000	exercisable at any time <sup>(2)</sup>
	February 28, 2019	0.200	-	73,400,000	-	2,100,000	71,300,000	50% on December 31, 2019, 25% on December 31, 2020, 25% on December 31, 2021 <sup>(1)</sup>
<b>Total</b>			<b>40,350,000</b>	<b>79,900,000</b>	<b>-</b>	<b>4,600,000</b>	<b>115,650,000</b>	

#### Notes:

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

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



## SHARE OPTION SCHEMES *(Continued)*

### Pre-IPO Share Incentive Plans *(Continued)*

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

The estimated fair value of the share options granted under the 2015 Share Incentive Plan in 2019 was approximately US\$5,001,000. The fair value was calculated using the Black-Scholes model. The major inputs into the model are as follows:

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

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

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

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



## REPORT OF DIRECTORS *(Continued)*

### SHARE OPTION SCHEMES *(Continued)*

#### Pre-IPO Share Incentive Plans *(Continued)*

The Group recognized total expenses of approximately US\$3,269,000 for the year ended December 31, 2019 (2018: approximately US\$371,000) in relation to share options granted by the Company.

#### 2018 Share Incentive Plan

On May 11, 2019, the Board of Directors approved a post-IPO incentive plan to grant share options, restricted share units and any other types of award to eligible employees, including the Directors and the employees of the Group. The total number of shares in respect of which the awards may be granted pursuant to the 2018 Share Incentive Plan and any other equity-based incentive plans of the Company, being 10% of the Shares. No awards have been granted under the 2018 Share Incentive Plan as at December 31, 2019.

### EQUITY-LINKED AGREEMENTS

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

### PRINCIPAL RISKS AND UNCERTAINTIES

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

#### Operational risks

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



## **PRINCIPAL RISKS AND UNCERTAINTIES** *(Continued)*

### **International Operation Risks**

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

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

### **Interest rate risks**

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

### **Currency risks**

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



## REPORT OF DIRECTORS *(Continued)*

### PRINCIPAL RISKS AND UNCERTAINTIES *(Continued)*

#### Cybersecurity risks

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

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

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



## **PRINCIPAL RISKS AND UNCERTAINTIES** *(Continued)*

### **Data Privacy and Protection risks**

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

### **Natural Disasters, Public Health Crises, and Political Crises risks**

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

Our facilities could be damaged or disrupted by natural disasters, such as earthquakes, tsunamis, power shortages or outages, floods or monsoons, public health crises, such as pandemics and epidemics, political crises, such as terrorism, war, political instability or other conflict, or other events outside of our control. The occurrence of any of these disruptions or other events outside of our control (particularly involving locations in which the Company has operations) could cause significant delays in shipments of our deliverables, reduce our capacity to provide services, eradicate unique manufacturing capabilities and, ultimately, result in material adverse effect on our financial position, results of operations, and cash flows. For example, a novel coronavirus, COVID-19, was reported to have surfaced in the city of Wuhan, Hubei Province, China. The outbreak of COVID-19 began in early December 2019 and continues to spread in China and across the world. At this point, the extent to which COVID-19 may impact our results is uncertain. Given the rapid spread of the virus and its proximity to our communities, we have implemented proactive measures to protect our workforce from COVID-19 while ensuring continuity of our operations. We are engaging in frequent communication with our customers and partners on our business continuity plans in response to the pandemic.

In addition, if any of the facilities of our suppliers, third-party service providers, or customers, is affected by natural disasters, public health crises, and political crises, catastrophic events, or other events outside of our control, our business and operating results could also suffer.



## REPORT OF DIRECTORS *(Continued)*

### USE OF PROCEEDS FROM THE GLOBAL OFFERING

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 <i>(US\$ million)</i>	Percentage of total net proceeds	Actual use of proceeds from the date of Listing up to December 31, 2019 <i>(US\$ million)</i>	Unutilized net proceeds as at December 31, 2019 <i>(US\$ million)</i>	Expected Timeline of utilizing the utilized proceeds
Expand and enhance existing capacities to meet anticipated increased demand for services	38.6	20%	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
<b>Total</b>	<b>193.2</b>	<b>100%</b>	<b>12.2</b>	<b>181.0</b>	



## CONNECTED TRANSACTIONS

Details on related party transactions for the year ended December 31, 2019 are set out in Note 42 to the Consolidated Financial Statements. Among the related party transactions, the provision of administrative services to Frontida BioPharm, Inc. is regarded as fully exempted continuing connected transactions under Chapter 14A of the Listing Rules. Details of related party transactions which also constitute connected transactions or continuing connected transactions not fully exempted under Rule 14A.73 of the Listing Rules are disclosed below.

### Non-exempt Continuing Connected Transaction

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

The table below set out the annual caps and the actual transaction amount of such continuing connected transactions for the year ended December 31, 2019:

Continuing Connected Transactions	Connected Person	Description	Pricing Policy	Annual cap for the year ended December 31, 2019 <i>(USD '000)</i>	Actual transaction for the year ended December 31, 2019 <i>(USD '000)</i>
Services Framework Agreement	Hangzhou Tigermed, one of the controlling shareholders	Revenue received from providing laboratory and bioequivalence studies services to the Tigermed Group	Service fee determined through arm's length negotiation	3,500	2,076
		Fees paid for biometrics services, electronic data capture software services and clinical site management organisation services provided by the Tigermed Group	Service fee determined through arm's length negotiation	320	278



## REPORT OF DIRECTORS *(Continued)*

### CONNECTED TRANSACTIONS *(Continued)*

#### Non-exempt Continuing Connected Transaction *(Continued)*

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

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

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

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



### **CONNECTED TRANSACTIONS** *(Continued)*

#### **Non-exempt Continuing Connected Transaction** *(Continued)*

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

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

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

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

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

During the Reporting Period, there was no connected transaction of the Group which has to be disclosed in accordance with the Listing Rules, save for the foregoing and the Tigermed-BDM Disposal and the Tigermed-Xinze Disposal in the section headed "Material Acquisition and Disposals of Subsidiaries, Associates and Joint Ventures".



## REPORT OF DIRECTORS *(Continued)*

### 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.

### PRE-EMPTIVE RIGHTS

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



### **PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES**

The Shares 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 announcement of the Company dated May 17, 2019 and June 23, 2019 respectively 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 up to December 31, 2019.

### **COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS**

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

### **ENVIRONMENTAL POLICIES AND PERFORMANCE**

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

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



## REPORT OF DIRECTORS *(Continued)*

### **CORPORATE GOVERNANCE**

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

To the best knowledge of the Board, during the period from the Listing Date up to December 31, 2019, the Company has complied with all the code provisions of the CG Code, except for code provision A.2.1. For details, please refer to the section headed "Corporate Governance Report" of this annual report.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

### **RELATIONSHIPS WITH THE GROUP'S EMPLOYEES**

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

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



## **RELATIONSHIPS WITH THE GROUP'S CUSTOMERS AND SUPPLIERS**

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

### **Relationship with our customers**

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

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

### **Relationship with our suppliers**

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

## **SUFFICIENCY OF PUBLIC FLOAT**

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

## **IMPORTANT EVENT AFTER THE REPORTING PERIOD**

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





## REPORT OF DIRECTORS *(Continued)*

### **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

#### **Disposal of Tigermed-BDM**

On June 30, 2019, Frontage Labs entered into a stock purchase agreement with Hong Kong Tigermed, the controlling shareholder of the Company, pursuant to which Frontage Labs agreed to sell, and Hong Kong Tigermed agreed to purchase, all of Frontage Labs' 45% equity interest in Tigermed-BDM, an independent CRO specializing in biostatistics, data management and statistical programming, at a consideration of US\$7,200,000. The gain from the disposal of Tigermed-BDM is approximately US\$56,000. The closing of the disposal took place on June 30, 2019.

Such disposal constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. For further details of the disposal of Tigermed-BDM, please refer to the announcement of the Company dated June 30, 2019.

#### **Disposal of Tigermed-Xinze**

On June 30, 2019, Frontage Shanghai, an indirectly wholly-owned subsidiary of the Company, entered into a stock transfer agreement with Hangzhou Tigermed, pursuant to which Frontage Shanghai agreed to sell, and Hangzhou Tigermed agreed to purchase, all of Frontage Shanghai's 45% equity interest in Tigermed-Xinze, a company specializing in biostatistics, data management and statistical programming, at a consideration of RMB4,791,000 (equivalent to approximately US\$697,000). No material loss from the disposal of Tigermed-Xinze was incurred. The disposal of Tigermed-Xinze was completed on July 22, 2019 when the relevant administrative registration of the change of shareholder of Tigermed-Xinze with the administration of industry and commerce was completed.

Such disposal constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. For further details of the disposal of Tigermed-Xinze, please refer to the announcement of the Company dated June 30, 2019.



### **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES** *(Continued)*

#### **Acquisition of Frontage Suzhou**

On October 25, 2019, Frontage Shanghai entered into a stock transfer agreement with an independent person, pursuant to which Frontage Shanghai agreed to acquire and the independent person agree to sell 25.96% equity interest in Frontage Suzhou, of which Frontage Shanghai held 49.04% equity interest, at a cash consideration of approximately RMB14,433,800 (equivalent to approximately USD2,040,055). Upon completion of the Frontage Suzhou Acquisition, Frontage Shanghai would hold 75% equity interest in Frontage Suzhou.

Such acquisition constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules. For further details of the acquisition of Frontage Suzhou, please refer to the announcement of the Company dated October 25, 2019.

Material acquisitions of the Group during the Reporting Period are set out in the paragraph headed “Acquisitions” in the Management Discussion and Analysis.

Save as disclosed above, the Group had no other material acquisition and disposals of subsidiaries, associates and joint ventures during the period from the date of the Listing to December 31, 2019.



## REPORT OF DIRECTORS *(Continued)*

### REVIEW BY AUDIT AND RISK MANAGEMENT COMMITTEE

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

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

### INDEPENDENT AUDITOR

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

On behalf of the Board

**Dr. Zhihe Li**

*Executive Director, Chief Executive Officer and Chairman*

Hong Kong, March 30, 2020

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

## **CORPORATE GOVERNANCE CODE**

During the 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, details of which are explained in the relevant paragraph of this report.

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

### **Chairman and Chief Executive Officer**

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, Dr. Zhihe Li, the executive Director, 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.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. Employees of the Group (the “**Relevant Employees**”) who, because of their office or employment, are likely to possess inside information in relation to the Company or its securities are also subject to compliance with the Model Code. After having made specific enquiries with all Directors, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the period from the Listing Date up to December 31, 2019. No incident of non-compliance of the Model Code by the Relevant Employees was noted by the Company during the period from the Listing Date to December 31, 2019.



## CORPORATE GOVERNANCE REPORT *(Continued)*

### HANDLING AND DISSEMINATION OF INSIDE INFORMATION

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

### BOARD OF DIRECTORS

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

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

#### Board composition

The Board of the Company currently comprises five Directors as follows:

##### Executive Director

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

##### Non-executive Director

Mr. Jun Gao

##### Independent Non-executive Directors

Mr. Yifan Li

Mr. Erh Fei Liu

Dr. Jingsong Wang

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



## **BOARD OF DIRECTORS** *(Continued)*

### **Board Meetings**

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

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

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

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

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

As the Shares were listed on the Listing Date, two Board meetings were held during the period from the Listing Date up to December 31, 2019.

Apart from regular Board meetings, the chairman of the Board also recognizes that meetings with independent non-executive Directors without the presence of other Directors should be held. During the period from the Listing Date up to the date of this annual report, a meeting between the chairman of the Board and with independent non-executive Directors without the presence of other Directors was held on March 30, 2020 to in order to comply with the code provision A.2.7 of the CG Code.



## CORPORATE GOVERNANCE REPORT *(Continued)*

### BOARD OF DIRECTORS *(Continued)*

#### Directors' Attendance Records

During the period from the Listing Date up to December 31, 2019, two Board meetings and one Audit and Risk Management Committee meeting were held. The attendance of each Director is set out in the table below:

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

As the Shares were listed on the Stock Exchange in May 2019, no general meeting, Nomination Committee meeting or Remuneration Committee meeting had been held during the period from the Listing Date up to December 31, 2019.

#### Independent non-executive directors

During the period from the Listing Date up to December 31, 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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



## **BOARD OF DIRECTORS** *(Continued)*

### **Appointment and re-election of Directors**

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

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

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

### **Responsibilities, Accountabilities and Contributions of the Board and Management**

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

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

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





## CORPORATE GOVERNANCE REPORT *(Continued)*

### BOARD OF DIRECTORS *(Continued)*

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

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

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

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

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

#### **Continuous Professional Development of Directors**

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

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with key management of the Company.



## BOARD OF DIRECTORS *(Continued)*

### Continuous Professional Development of Directors *(Continued)*

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

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

The training records of the Directors for the Reporting Period are summarized as follows:

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



## CORPORATE GOVERNANCE REPORT *(Continued)*

### BOARD COMMITTEES

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

#### **Audit and Risk Management Committee**

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

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

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

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

During the period from the Listing Date up to December 31, 2019, the Audit and Risk Management Committee held one meeting to review the interim results announcement and interim report of the Company for the six months ended June 30, 2019 and review any significant issues on the financial control, risk management and internal control systems and financial reporting function.

The Company's annual results for the year ended December 31, 2019 have been reviewed by the Audit and Risk Management Committee.

The Audit and Risk Management Committee also met with the external auditor, Deloitte Touche Tohmatsu, without the presence of the executive Director.



## **BOARD COMMITTEES** *(Continued)*

### **Nomination Committee**

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

Dr. Jingsong Wang *(Chairman)*

Mr. Erh Fei Liu

Dr. Zhihe Li

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

Due to the short period of time since the Listing Date, the Nomination Committee considered that it is not necessary to review the size and composition of the Board and identify any new Board member. No meeting was held by the Nomination Committee during the period from the Listing Date up to December 31, 2019.

During the period from the Listing Date up to the date of this annual report, a meeting of the Nomination Committee was held on March 30, 2020 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

### **Board Diversity Policy**

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



## CORPORATE GOVERNANCE REPORT *(Continued)*

### BOARD COMMITTEES *(Continued)*

#### Director Nomination Policy

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

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

The Nomination Committee had reviewed the director nomination policy to ensure its effectiveness and considered that the Board has a balance of expertise, skills and experience required for the business of the Company from the Listing Date and up to the date of this annual report.

#### Remuneration Committee

The Remuneration Committee consists of the executive Director and two independent non-executive Directors. The members of the remuneration committee are:

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

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

Due to the short period of time since the Listing Date and there was no change in the policy and structure of the remuneration of the Directors and senior management of the Group, no meeting of the Remuneration Committee was held during the period from the Listing Date up to December 31, 2019.



## **BOARD COMMITTEES** *(Continued)*

### **Remuneration Committee** *(Continued)*

During the period from the Listing Date up to the date of this annual report, a meeting of the Remuneration Committee was held on March 30, 2020. The Remuneration Committee has assessed the performance of the Directors and the senior management, reviewed the remuneration package of the Directors and the senior management, and made recommendation to the Board on their remuneration.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management (other than Directors) by bands for the year ended December 31, 2019 is set out below:

<b>Band of remuneration (US\$)</b>	<b>No. of individuals</b>
Less than 500,000	2
500,000 to 1,000,000	4
More than 1,000,000	1

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

## **CORPORATE GOVERNANCE FUNCTIONS**

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

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



## CORPORATE GOVERNANCE REPORT *(Continued)*

### DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL REPORT

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

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

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

### EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

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

<b>Service Category</b>	<b>Fees Paid/Payable</b> <i>(US\$)</i>
Audit Services	880,000
Non-audit Services	81,000
Total	961,000

### RISK MANAGEMENT AND INTERNAL CONTROLS

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

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



## **RISK MANAGEMENT AND INTERNAL CONTROLS** *(Continued)*

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

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

### **Risk Management**

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

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





## CORPORATE GOVERNANCE REPORT *(Continued)*

### RISK MANAGEMENT AND INTERNAL CONTROLS *(Continued)*

#### Internal Controls

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

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



## **COMPANY SECRETARY**

Ms. Karen Ying Lung Chang is the company secretary of the Company. She reports directly to the Board and is responsible for, among others, providing updated and timely information to all Directors from time to time. Ms. Chang is nominated by an external service provider to assist in company secretarial affairs of the Company. Ms. Chang's primary contact person at the Company is Ms. Melody Wang, the Group's associate counsel.

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

## **SHAREHOLDERS' RIGHTS**

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

### **Convening an Extraordinary General Meeting by Shareholders**

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



## CORPORATE GOVERNANCE REPORT *(Continued)*

### SHAREHOLDERS' RIGHTS *(Continued)*

#### Putting Forward Proposals at General Meetings

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

#### Putting Forward Enquiries to the Board

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

#### Contact Details

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

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

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



## **INVESTOR RELATIONS**

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

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

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

## **CONSTITUTIONAL DOCUMENTS**

Save for the adoption of the Articles of Association for the purpose of the Listing, during the Reporting Period, there had been no significant changes in the constitutional documents of the Company.

An up-to-date version of the Articles of Association is available on both the websites of the Stock Exchange and the Company.



## INDEPENDENT AUDITOR'S REPORT

# Deloitte.

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**To the shareholders of Frontage Holdings Corporation**  
*(incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of Frontage Holdings Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 90 to 211, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

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



## KEY AUDIT MATTERS

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

### Key audit matter

### How our audit addressed the key audit matter

#### Revenue Recognition

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

As disclosed in note 4 to the consolidated financial statements, recognition of service revenue requires key judgements in determining the performance obligations and timing of satisfaction of such performance obligations. The Group earns services revenues over time by providing bioanalytical services, chemistry, manufacturing and control services, drug metabolism and pharmacokinetic services, safety and toxicology services and bioequivalence services. Also, the selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, the Group generally measures its progress using either cost-to-cost (input method) or units produced/services transferred to the customer to date (output method). During the year ended 31 December 2019, services revenues recognised over time by the Group is approximately US\$100,415,000.

Our procedures in relation to the revenue recognition included:

- Understanding the key controls related to determining the performance obligations and timing of satisfaction of performance obligations;
- \* Evaluating the appropriateness of the Group's assessment that the services provided by the Group with no alternative use is considered to be performance obligation satisfied over time by checking to the sales contracts and other relevant documentation on a sample basis; and
- Checking the accuracy and appropriateness of revenue recorded, on a sample basis, by tracing to the services contracts for the key terms of the contracts and obtaining the supporting evidence (including deliverables, cost budgets, invoices and timesheet records of actual costs of each contract incurred) that prove the performance obligations are satisfied.



## INDEPENDENT AUDITOR'S REPORT *(Continued)*

### KEY AUDIT MATTERS *(Continued)*

#### Key audit matter

#### How our audit addressed the key audit matter

#### Recognition of goodwill and intangible assets arising from acquisitions

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

As disclosed in note 43 to the consolidated financial statements, goodwill arising from acquisition of Frontage Suzhou, RMI and BRI amounted to approximately US\$3,919,000, US\$1,273,000 and US\$991,000, respectively. Intangible assets, including customer relationship, customer backlog, and software arising from these acquisitions amounted to approximately US\$6,756,000.

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

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



## **OTHER INFORMATION**

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

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

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

## **RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.





## INDEPENDENT AUDITOR'S REPORT *(Continued)*

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors of the company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in the independent auditor's report is Rossana Ley Pui Chun.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

30 March 2020



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	Year ended 31 December	
		2019 US\$'000	2018 US\$'000
Revenue	5	100,415	83,114
Cost of services		(63,124)	(49,216)
Gross profit		37,291	33,898
Other income	7	5,545	467
Other gains and losses, net	8	1,937	82
Research and development expenses		(1,530)	(1,694)
Impairment losses (recognised) 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	14	27	437
Gain on disposal of subsidiaries		–	143
Bargain purchase gain	43	–	788
Administrative expenses		(16,368)	(10,368)
Share of profit of associates		625	336
Finance costs	9	(1,232)	(378)
Profit before tax	10	20,863	14,093
Income tax expense	11	(2,431)	(2,852)
<b>Profit for the year</b>		<b>18,432</b>	<b>11,241</b>
<b>Other comprehensive expense</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign operations		(421)	(971)
<b>Total comprehensive income for the year</b>		<b>18,011</b>	<b>10,270</b>

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

For the year ended 31 December 2019



	NOTES	Year ended 31 December	
		2019 US\$'000	2018 US\$'000
<b>Profit for the year attributable to:</b>			
Owners of the Company		18,424	11,241
Non-controlling interests		8	—
		<u>18,432</u>	<u>11,241</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		17,996	10,270
Non-controlling interests		15	—
		<u>18,011</u>	<u>10,270</u>
Earnings per share	15		
– Basic (US\$)		<u>0.0102</u>	<u>0.0075</u>
– Diluted (US\$)		<u>0.0099</u>	<u>0.0074</u>



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		As at 31 December	
	NOTES	2019 US\$'000	2018 US\$'000
<b>Non-current Assets</b>			
Property, plant and equipment	17a	28,258	22,884
Right-of-use assets	17b	21,086	–
Goodwill	18	6,250	–
Intangible assets	19	7,581	25
Interests in associates	20	541	9,879
Deferred tax assets	21	8,322	68
Restricted bank deposits	25	300	300
Other long-term deposits		417	120
Long-term note receivable	22	105	–
		<b>72,860</b>	33,276
<b>Current Assets</b>			
Inventories		173	73
Trade and other receivables and prepayment	23	24,927	19,456
Unbilled revenue	24	7,821	7,129
Tax recoverable		1,287	1,209
Restricted bank deposits	25	448	15
Cash and cash equivalents	25	207,752	16,306
		<b>242,408</b>	44,188
<b>Current Liabilities</b>			
Trade and other payables	26	10,393	11,050
Advances from customers	27	12,845	11,350
Bank borrowings	28	500	2,667
Loans from a related party	29	–	1,500
Income tax payable		1,355	1,093
Amounts due to shareholders	30	210	210
Lease liabilities/obligations under finance leases	31,32	3,773	1,864
		<b>29,076</b>	29,734
<b>Net Current Assets</b>		<b>213,332</b>	14,454
<b>Total Assets less Current Liabilities</b>		<b>286,192</b>	47,730

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 31 December 2019



		<b>As at 31 December</b>	
	<i>NOTES</i>	<b>2019</b>	2018
		<b>US\$'000</b>	<b>US\$'000</b>
<b>Non-current Liability</b>			
Bank borrowings	<i>28</i>	–	500
Deferred tax liabilities	<i>21</i>	<b>1,359</b>	767
Lease liabilities/obligations under finance leases	<i>31,32</i>	<b>16,629</b>	2,311
Other long-term liabilities	<i>33</i>	<b>2,926</b>	518
		<u><b>20,914</b></u>	<u>4,096</u>
<b>Net Assets</b>		<u><b>265,278</b></u>	<u>43,634</u>
<b>Capital and Reserves</b>			
Share capital	<i>34</i>	<b>20</b>	2
Reserves		<u><b>264,579</b></u>	<u>43,632</u>
Equity attributable to owners of the Company		<b>264,599</b>	43,634
Non-controlling interests		<u><b>679</b></u>	<u>–</u>
<b>Total Equity</b>		<u><b>265,278</b></u>	<u>43,634</u>

The consolidated financial statements on pages 90 to 211 were approved and authorised for issue by the board of directors on 30 March 2020 and are signed on its behalf by:

Dr. Zhihe Li, DIRECTOR

Mr. Jun Gao, DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Reserves										Total US\$ '000	
	Share capital US\$ '000	Invested capital US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000 (Note i)	Foreign currency translation reserve US\$ '000	Equity-settled share based compensation reserve US\$ '000	Reorganisation reserve US\$ '000	Capital reserve US\$ '000	Accumulated profit US\$ '000	Total reserves US\$ '000		Non-controlling interests US\$ '000
As at 1 January 2018	-	18,800	-	622	670	1,559	-	-	8,243	11,094	-	29,894
Profit for the year	-	-	-	-	-	-	-	-	11,241	11,241	-	11,241
Other comprehensive expense for the year	-	-	-	-	(971)	-	-	-	-	(971)	-	(971)
Total comprehensive income (expense) for the year	-	-	-	-	(971)	-	-	-	11,241	10,270	-	10,270
Transfer from statutory reserve (Note i)	-	-	-	1,316	-	-	-	-	(1,316)	-	-	-
Exercise of share options prior to the completion of the Reorganisation (Note 1.2)	-	90	-	-	-	(41)	-	-	-	(41)	-	49
Conversion upon the Reorganisation (Note 1.2)	2	(18,890)	28,419	-	-	-	(9,531)	-	-	18,888	-	-
Contributions by shareholders (Note ii)	-	-	-	-	-	-	-	3,050	-	3,050	-	3,050
Recognition of equity-settled share-based compensation	-	-	-	-	-	371	-	-	-	371	-	371
As at 31 December 2018	2	-	28,419	1,938	(301)	1,889	(9,531)	3,050	18,168	43,632	-	43,634
Profit for the year	-	-	-	-	-	-	-	-	18,424	18,424	8	18,432
Other comprehensive income (expense) for the year	-	-	-	-	(428)	-	-	-	-	(428)	7	(421)
Total comprehensive income (expense) for the year	-	-	-	-	(428)	-	-	-	18,424	17,996	15	18,011
Transfer from statutory reserve (Note i)	-	-	-	629	-	-	-	-	(629)	-	-	-
Capitalisation issue (Note 34)	13	-	(13)	-	-	-	-	-	-	(13)	-	-
Ordinary shares issued (Note 34)	5	-	204,470	-	-	-	-	-	-	204,470	-	204,475
Transaction costs attributable to issue of shares	-	-	(11,262)	-	-	-	-	-	-	(11,262)	-	(11,262)
Recognition of deferred tax assets related to equity-settled share-based compensation (Note 27)	-	-	-	-	-	6,487	-	-	-	6,487	-	6,487
Recognition of equity-settled share-based compensation (Note 35)	-	-	-	-	-	3,269	-	-	-	3,269	-	3,269
Recognition of non-controlling interests related to acquisition (Note 43)	-	-	-	-	-	-	-	-	-	-	664	664
<b>As at 31 December 2019</b>	<b>20</b>	<b>-</b>	<b>221,614</b>	<b>2,567</b>	<b>(729)</b>	<b>11,645</b>	<b>(9,531)</b>	<b>3,050</b>	<b>35,963</b>	<b>264,579</b>	<b>679</b>	<b>265,278</b>

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

For the year ended 31 December 2019



*Notes:*

- i. In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), those subsidiaries are required to transfer 10% of the profit after taxation to the statutory reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.
- ii. Contributions by shareholders are made up of the following transactions:
  - On 1 March 2018, Frontage Laboratories, Inc. ("Frontage Labs") sold its 30% equity interest in Frontida BioPharm, Inc. ("Frontida") to Dr Song Li for an aggregate consideration of US\$5,367,000. Based on disposal date fair value of Frontida, the Group recorded a gain on disposal of an associate of US\$437,000 and a net of tax capital contribution from shareholders of US\$2,880,000 related to this transaction.
  - The Group recorded a US\$170,000 capital contribution in connection with the settlement of its note receivable with Frontage Clinical Services, Inc. ("Frontage Clinical") and its promissory note payable with Tigermed-BDM, Inc. ("Tigermed-BDM") on 30 June 2018.





# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	<i>US\$'000</i>	<i>US\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	<u>20,863</u>	<u>14,093</u>
Adjustments for:		
Depreciation for property, plant and equipment	4,058	4,234
Depreciation of right-of-use assets	3,229	–
Amortisation of intangible assets	226	75
Impairment losses recognised (reversal) on		
– trade receivables	1,064	608
– notes receivables	(1,072)	–
– others	12	39
Share of profit of associates	(625)	(336)
Gain arising from fair value change of previously held interest in an associate	(1,841)	–
Gain on disposal of subsidiaries	–	(143)
Interest income	(3,267)	(144)
Finance costs	1,232	378
Net foreign exchange gain	(2)	(114)
Share-based payment expense	3,269	371
Gain on disposal of associates	(27)	(437)
Loss on disposal of property, plant and equipment	32	25
Bargain purchase gain	–	(788)
Operating cash flows before movements in working capital	<u>27,151</u>	<u>17,861</u>
Increase in long-term note receivable	(105)	–
Increase in trade and other receivables and prepayment and unbilled revenue	(1,171)	(5,437)
(Decrease) Increase in trade and other payables and advances from customers	(2,076)	13,141
Decrease in other long-term liabilities	–	(43)
Increase in inventories	(71)	(21)
Cash generated from operations	<u>23,728</u>	<u>25,501</u>
Income tax paid	(5,000)	(2,843)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<u><u>18,728</u></u>	<u><u>22,658</u></u>

# CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 31 December 2019



	<b>Year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>INVESTING ACTIVITIES</b>		
Cash outflow from disposal of subsidiaries	–	(2,774)
Net proceeds from disposal of associates	<b>4,297</b>	367
Purchase of property, plant and equipment	<b>(12,895)</b>	(5,220)
Proceeds from disposal of property, plant and equipment	<b>9</b>	1
Purchase of intangible assets	<b>(976)</b>	–
Rental deposits paid	<b>(297)</b>	–
Interest received	<b>2,517</b>	144
Acquisition of subsidiaries, net of cash acquired	<b>(5,009)</b>	(4,188)
Placement of restricted bank deposits	<b>(1,370)</b>	(15)
Withdrawal of restricted bank deposits	<b>937</b>	250
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(12,787)</b>	(11,435)
<b>FINANCING ACTIVITIES</b>		
Proceeds from bank borrowings	<b>3,000</b>	1,000
Repayment of bank borrowings	<b>(5,667)</b>	(1,245)
Interest paid on bank borrowings	<b>(117)</b>	(127)
Repayment of lease liabilities/obligations under finance leases	<b>(3,375)</b>	(1,813)
Interest paid on lease liabilities/obligations under finance leases	<b>(1,100)</b>	(183)
Proceeds from loans from related parties	–	5,000
Repayment of loans from a related party	<b>(1,500)</b>	–
Interest paid on loans from related parties	<b>(15)</b>	(68)
Proceeds from exercise of share options	–	49
Proceeds from issuance of ordinary shares	<b>204,475</b>	–
Issue costs paid	<b>(9,978)</b>	(1,284)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>185,723</b>	1,329
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>191,664</b>	12,552
<b>CASH AND CASH EQUIVALENTS</b>		
<b>AT THE BEGINNING OF THE YEAR</b>	<b>16,306</b>	4,339
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<b>(218)</b>	(585)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE</b>		
<b>YEAR REPRESENTED BY BANK BALANCES AND CASH</b>	<b>207,752</b>	16,306



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. GENERAL INFORMATION AND GROUP REORGANISATION

### 1.1 General information

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

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

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

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

For the year ended 31 December 2019



## 1. GENERAL INFORMATION AND GROUP REORGANISATION *(Continued)*

### 1.2 Group reorganisation and basis of preparation of the consolidated financial statements

The Group has undergone a reorganisation (the “Reorganisation”) in April 2018 to rationalise the structure of the Group in preparation of the listing of the Company’s Shares on the Stock Exchange of Hong Kong Limited, which involve the following steps:

Immediately before the Reorganisation, all the companies then comprising the Group were held by Frontage Labs, a company owned by Hong Kong Tigermed (68.6%), Dr. Song Li and three family trusts of which he is the founder and trustee (the “Trusts”) (13.79%), Dr. Zhihe Li (3.98%) and by other shareholders (13.63%) (collectively the “Then Shareholders”).

- On 16 April 2018, the Company was incorporated and one share was acquired on the same day by Dr. Zhihe Li, such that the Company was wholly-owned by Dr. Zhihe Li. The authorised share capital of the Company was US\$50,000, which was divided into 5,000,000 shares of a nominal or par value of US\$0.01 each. The Company then undertook a sub division of authorised share capital, such that the existing shares were subdivided so as to consist of 5,000,000,000 shares, with a par value of US\$0.00001.
- The Company effected a share exchange and merger which took effect on 17 April 2018 and which resulted in Frontage Labs becoming a wholly-owned subsidiary of the Company. In the share exchange, Hong Kong Tigermed, Dr. Song Li and the Trusts transferred their shares in Frontage Labs to the Company in exchange for the issue of the equivalent number of shares in the Company. The Company then transferred all of its newly acquired shares in Frontage Labs to its subsidiary (the “Merger Sub”) in exchange for the issue of an equivalent number of shares in the Merger Sub. As a result of this share exchange and transfer, Frontage Labs became a subsidiary of the Merger Sub.



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

For the year ended 31 December 2019

## 1. GENERAL INFORMATION AND GROUP REORGANISATION *(Continued)*

### 1.2 Group reorganisation and basis of preparation of the consolidated financial statements *(Continued)*

- Immediately following the completion of this share exchange and transfer, the parties effected a short-form merger under the laws of the Commonwealth of Pennsylvania, which simultaneously merged the Merger Sub with Frontage Labs and resulted in each share of Frontage Labs held by the Then Shareholders being exchanged into ordinary shares of the Company. As a consequence, Frontage Labs became a wholly-owned subsidiary of the Company. Pursuant to the share exchange, the merger and by operation of law, all the original shareholders of Frontage Labs immediately prior to the share exchange and merger became shareholders of the Company.

As such, on 17 April 2018, the Company became the holding company of the companies then comprising the Group. The Reorganisation has been arranged in a way that enables the Then Shareholders to maintain their respective beneficial ownership interests in Frontage Labs and its subsidiaries in the same manner before and after the Reorganisation. Accordingly, the consolidated financial statements have been prepared on the basis as if the Company has always been the holding company of the companies now comprising the Group throughout the year ended 31 December 2018. As such, the assets and liabilities of Frontage Labs and its subsidiaries have been included in the consolidated financial statements with existing book values. The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows include the results and cash flows of the companies comprising the Group have been prepared as if the group structure upon completion of the Reorganisation had been in existence throughout the year ended 31 December 2018 or since the respective date of incorporation, where this is a shorter period.

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

For the year ended 31 December 2019



## 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

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases (“IAS 17”), and the related interpretations.

#### *Definition of a lease*

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.



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

For the year ended 31 December 2019

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

#### 2.1 IFRS 16 Leases *(Continued)*

*As a lessee*

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery and equipment in the United States was determined on a portfolio basis.

When recognising 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%.

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

For the year ended 31 December 2019



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

### 2.1 IFRS 16 Leases *(Continued)*

*As a lessee (Continued)*

	<i>Note</i>	<b>As at 1 January 2019 US\$'000</b>
Operating lease commitments disclosed as at 31 December 2018		18,174
Less: Value added tax (the “VAT”) included in operating lease commitments		<u>1,713</u>
Operating lease commitments excluded VAT as at 31 December 2018		<u>16,461</u>
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)		<u>16</u>
Lease liabilities relating to operating leases recognised upon application of IFRS 16		13,365
Add: Obligations under finance leases recognised as at 31 December 2018	<i>(b)</i>	<u>4,175</u>
Lease liabilities as at 1 January 2019		<u><u>17,540</u></u>
Analysed as		
Current		3,542
Non-current		<u>13,998</u>
		<u><u>17,540</u></u>



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

For the year ended 31 December 2019

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

### 2.1 IFRS 16 Leases *(Continued)*

*As a lessee (Continued)*

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

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

(a) Upfront payments for buildings in the PRC were classified as advance lease payments as at 31 December 2018. Upon application of IFRS 16, the advance lease payments amounting to US\$232,000 was reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases, the Group re-categorized the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to US\$5,721,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of US\$1,864,000 and US\$2,311,000 to lease liabilities as current and non-current liabilities respectively as at 1 January 2019.

(c) These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

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

For the year ended 31 December 2019

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

### 2.1 IFRS 16 Leases *(Continued)*

*As a lessee (Continued)*

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

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

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



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

For the year ended 31 December 2019

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

#### **New and amendments to IFRSs issued but not yet effective**

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective.

IFRS 17	Insurance Contracts <sup>1</sup>
Amendments to IFRS 3	Definition of a Business <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>5</sup>
Amendments to IAS 1 and IAS 8	Definition of Material <sup>4</sup>
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRS mentioned below, the directors of the Company anticipate that application of new and amendments to IFRSs listed above will have no material impact to the Group’s financial performance and consolidated financial positions and/or on the disclosures in future consolidated financial statements.

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

For the year ended 31 December 2019



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

### **Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in IFRS Standards**

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.



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

For the year ended 31 December 2019

## 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, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “*Share-based Payment*”, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 “*Inventories*” or value in use in IAS 36 “*Impairment of Assets*”.

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

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

The principal accounting policies are set out below.

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

For the year ended 31 December 2019



## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Basis of consolidation**

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

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

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

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

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

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

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

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



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

For the year ended 31 December 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations

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

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

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

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

For the year ended 31 December 2019



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Business combinations** *(Continued)*

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

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

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

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





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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Goodwill**

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

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

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

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

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



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Interests in associates

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

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

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

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

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

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



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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Revenue from contracts with customers

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

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

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

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

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

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

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

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

For the year ended 31 December 2019



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

Generally, significant payment terms are disclosed within the contents of a given contract and are in the form of either milestone payment terms representing a percentage of the total budgeted contract price or corresponding directly with the value to the customer of the Group's performance.

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

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

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



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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

#### Leases

*Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)*

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

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

Allocation of consideration to components of a contract

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

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

*The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)*

Short-term leases and leases of low-value assets

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



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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Leases** *(Continued)*

*The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)  
(Continued)*

Right-of-use assets

The cost of right-of-use asset includes:

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

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

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

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

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

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

For the year ended 31 December 2019



## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leases *(Continued)*

*The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)  
(Continued)*

#### Refundable rental deposits

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

#### Lease liabilities

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

The lease payments include:

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

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

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





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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Leases** *(Continued)*

*The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)  
(Continued)*

#### Lease liabilities *(Continued)*

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

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

#### Lease modifications

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

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

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

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

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

For the year ended 31 December 2019



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Leases** *(Continued)*

*The Group as a lessee (prior to 1 January 2019)*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under finance lease.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

#### **Foreign currencies**

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

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

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



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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Foreign currencies** *(Continued)*

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

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

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

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

#### **Borrowing costs**

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

#### **Government grants**

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

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

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

For the year ended 31 December 2019



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Government grants** *(Continued)*

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

#### **Retirement benefit costs**

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

The Group participates in two defined contribution schemes:

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

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

#### **Short-term employee benefits**

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

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



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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Share-based payment transactions

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

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

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

#### Taxation

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

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

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

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

For the year ended 31 December 2019



## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

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

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

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

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

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

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

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

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



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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Property, plant and equipment**

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

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

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

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

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

#### **Research and development expenditure**

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

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

For the year ended 31 December 2019



## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Intangible assets acquired separately**

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

### **Intangible assets acquired in a business combination**

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

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

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

### **Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill**

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

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

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





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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

#### **Inventories**

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

#### **Financial instruments**

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

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

For the year ended 31 December 2019



## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

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

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

#### *Financial assets*

##### Classification and subsequent measurement of financial assets

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

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

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

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

All other financial assets are subsequently measured at FVTPL.



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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Financial instruments** *(Continued)*

##### *Financial assets (Continued)*

##### Amortised cost and interest income

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

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

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

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

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

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

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

For the year ended 31 December 2019



## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### Financial assets *(Continued)*

#### Significant increase in credit risk

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

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

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

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

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



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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Financial instruments** *(Continued)*

##### *Financial assets (Continued)*

##### Significant increase in credit risk *(Continued)*

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

##### Definition of default

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

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

##### Credit-impaired financial assets

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

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

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

For the year ended 31 December 2019



## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### *Financial assets (Continued)*

##### Write-off policy

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

##### Measurement and recognition of ECL

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

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

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

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



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

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Financial instruments** *(Continued)*

##### *Financial assets (Continued)*

##### Measurement and recognition of ECL *(Continued)*

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

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

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

##### Derecognition of financial assets

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

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

##### *Financial liabilities and equity instruments*

##### Classification as debt or equity

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

##### Equity instruments

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

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

For the year ended 31 December 2019



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Financial instruments** *(Continued)*

##### *Financial liabilities and equity instruments (Continued)*

##### Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at fair value through profit and loss (“FVTPL”).

##### Financial liabilities at FVTPL

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

##### Financial liabilities subsequently measured at amortised cost

Financial liabilities, including trade and other payables, bank borrowings, loans from a related party and amounts due to shareholders, are subsequently measured at amortized cost, using the effective interest method.

##### Derecognition of financial liabilities

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

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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





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

For the year ended 31 December 2019

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

#### **Critical judgements in applying accounting policies**

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

#### **Judgements in determining the performance obligations and timing of satisfaction of performance obligations for revenue recognition**

##### *Performance Obligation Determination:*

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

##### *Timing of satisfaction of Performance Obligations:*

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

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

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

#### **Key sources of estimation uncertainty**

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

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

For the year ended 31 December 2019



## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

*(Continued)*

### **Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (or a group of cash-generating units) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. As at 31 December 2019, the carrying amount of goodwill is US\$6,250,000 (2018:nil).

### **Estimated loss allowance of trade receivables and unbilled revenue**

Upon the application of IFRS 9, management estimates the amount of loss allowance for ECL on trade receivables and unbilled revenue based on the credit risk of trade receivables and unbilled revenue. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the trade receivables and unbilled revenue. The assessment of the credit risk of the trade receivables and unbilled revenue involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly. As at 31 December 2019, the carrying amounts of trade receivables and unbilled revenue were US\$16,554,000 (net of allowance for ECL of US\$3,353,000) and US\$7,821,000 (net of allowance for ECL of US\$253,000), respectively (2018: US\$14,604,000 (net of allowance for ECL of US\$2,315,000) and US\$7,129,000 (net of allowance for ECL of US\$322,000), respectively).

### **Estimated impairment of property, plant and equipment, right-of-use assets and intangible assets**

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



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

For the year ended 31 December 2019

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

*(Continued)*

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

As at 31 December 2019, the carrying amounts of right-of-use assets, property, plant and equipment, and intangible assets are US\$21,086,000, US\$28,258,000 and US\$7,581,000 (2018: nil, US\$22,884,000 and US\$25,000) respectively, no impairment in respect of right-of-use assets, property, plant and equipment and intangible assets have been recognised.

### 5. 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.

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

For the year ended 31 December 2019



## 5. REVENUE *(Continued)*

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

	Year ended 31 December,	
	2019 US\$'000	2018 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
	<u>100,415</u>	<u>83,114</u>

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

### Transaction Price Allocated to Future Performance Obligations

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

For the service contracts for which the Group does not recognise revenue at the amount to which the Group has the right to invoice for services performed, management has assessed whether there are any contracts with an original expected length greater than one year. While contracts do occasionally extend beyond one year, the timing of the services performed is contingent upon when the customer provides items for testing, and 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.



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

For the year ended 31 December 2019

### 6. SEGMENT INFORMATION

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

The Group's consolidated revenue and results are primarily attributable to the markets in 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 the 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

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

For the year ended 31 December 2019



## 6. SEGMENT INFORMATION *(Continued)*

### Segment revenues and results

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

*For the year ended 31 December 2019*

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

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

For the year ended 31 December 2019

## 6. SEGMENT INFORMATION *(Continued)*

### Segment revenues and results *(Continued)*

For the year ended 31 December 2018

	USA <i>US\$'000</i>	PRC <i>US\$'000</i>	Total <i>US\$'000</i>
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
	<u>54,661</u>	<u>28,453</u>	<u>83,114</u>
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 costs	(370)	(8)	(378)
Share of (loss) profit of associates	(159)	495	336
Segment profit	<u>6,128</u>	<u>14,351</u>	20,479
Unallocated listing expenses			<u>(6,386)</u>
Profit before tax			<u>14,093</u>

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

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

For the year ended 31 December 2019



## 6. SEGMENT INFORMATION *(Continued)*

### Other segment information

#### Amounts included in the measure of segment profit or loss:

*For the year ended 31 December 2019*

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

*For the year ended 31 December 2018*

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





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

For the year ended 31 December 2019

### 6. SEGMENT INFORMATION *(Continued)*

#### 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 31 December	
	2019	2018
	<i>US\$'000</i>	<i>US\$'000</i>
Revenue from external customers		
– USA	58,982	46,833
– PRC	30,284	30,090
– Rest of the world	11,149	6,191
	<u>100,415</u>	<u>83,114</u>

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

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

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

For the year ended 31 December 2019



## 6. SEGMENT INFORMATION *(Continued)*

### Geographical information *(Continued)*

*Information about major customers*

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

	Year Ended 31 December	
	2019	2018
	US\$'000	US\$'000
Company A	<u>19,452</u>	<u>12,083</u>

## 7. OTHER INCOME

	Year Ended 31 December	
	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 <i>(note)</i>	454	195
Income from rendering service	<u>458</u>	<u>—</u>
	<u>5,545</u>	<u>467</u>

*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 to be an asset-related government grant and recognised when actually received.



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

For the year ended 31 December 2019

### 8. OTHER GAINS AND LOSSES, NET

	Year Ended 31 December	
	2019	2018
	US\$'000	US\$'000
Gains 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)
	<u>1,937</u>	<u>82</u>

### 9. FINANCE COSTS

	Year Ended 31 December	
	2019	2018
	US\$'000	US\$'000
Interest expense 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
	<u>1,232</u>	<u>378</u>

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

For the year ended 31 December 2019



## 10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

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

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

For the year ended 31 December 2019

## 11. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	US\$'000	US\$'000
Current tax:		
– PRC Enterprise Income Tax (“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)
	<u>4,873</u>	<u>3,038</u>
Deferred tax:		
– Current year	(2,442)	(186)
Total income tax expense	<u>2,431</u>	<u>2,852</u>

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 22 December 2017. The 2017 Tax Act includes a tax on the mandatory deemed repatriation of accumulated previously untaxed foreign earnings (the “Transition Tax”). The US entities are subject to Transition Tax for the year ended 31 December 2019 and 31 December 2018, which is included in the Federal tax expense above.

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

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

Frontage Laboratories (Shanghai) Co., Ltd. (“Frontage Shanghai”), a wholly owned subsidiary of the Group in the PRC, was accredited as a “High and new Technology Enterprise” in November 2017 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2017.

Frontage 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.

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

For the year ended 31 December 2019



## 11. INCOME TAX EXPENSE *(Continued)*

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:

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

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

For the year ended 31 December 2019

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Year ended 31 December	
	2019 <i>US\$'000</i>	2018 <i>US\$'000</i>
Executive Director and Chief Executive Officer:		
Dr. Zhihe Li <i>(note i)</i>		
– director's fee	–	–
– salaries and other benefits	340	306
– performance-based bonus	68	20
– retirement benefits scheme contributions	3	3
– share-based compensation	188	–
	<b>599</b>	329
Non-executive Director:		
Mr. Jun Gao <i>(note ii)</i>		
– director's fee	13	–
– salaries and other benefits	–	–
– performance-based bonus	–	–
– retirement benefits scheme contributions	–	–
– share-based compensation	84	–
	<b>97</b>	–

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

For the year ended 31 December 2019



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

	Year ended 31 December	
	2019 US\$'000	2018 US\$'000
Independent Non-executive Directors:		
Mr. Yifan Li <i>(note iii)</i>		
– director's fee	26	–
– salaries and other benefits	–	–
– performance-based bonus	–	–
– retirement benefits scheme contributions	–	–
– share-based compensation	–	–
	<u>26</u>	<u>–</u>
Mr. Erh Fei Liu <i>(note iii)</i>		
– director's fee	26	–
– salaries and other benefits	–	–
– performance-based bonus	–	–
– retirement benefits scheme contributions	–	–
– share-based compensation	–	–
	<u>26</u>	<u>–</u>
Dr. Jingsong Wang <i>(note iii)</i>		
– director's fee	26	–
– salaries and other benefits	–	–
– performance-based bonus	–	–
– retirement benefits scheme contributions	–	–
– share-based compensation	–	–
	<u>26</u>	<u>–</u>

### Notes:

- (i) Dr. Zhihe Li was appointed as a director of the Company on 16 April 2018. Dr Zhihe Li is also the Chief Executive Officer of the Company and his emoluments disclosed above included those for his service as a managerial level employee of group entities prior to becoming the director of the Company.
- (ii) Mr. Jun Gao was appointed as non-executive director of the Company on 17 April 2018. Mr. Jun Gao is employed by Hangzhou Tigermed.
- (iii) Mr. Yifan Li, Mr. Erh Fei Liu and Dr. Jingsong Wang were appointed as independent non-executive directors of the Company on 17 April 2018.





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

For the year ended 31 December 2019

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

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

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

The non-executive directors' emoluments shown above were for his services as directors of the company.

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

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in Note 35 to the Group's consolidated financial statements.

During the years ended 31 December 2018 and 2019, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company have waived any emoluments.

### 13. FIVE HIGHEST PAID INDIVIDUALS

The five individuals with the highest emoluments in the Group during the year do not include any director (2018: one director) of the Company, details of whose remuneration are set out in Note 12 above. The emoluments of the five highest paid individuals during the year were as follows:

	Year ended 31 December	
	2019	2018
	US\$'000	US\$'000
Salaries and other benefits	1,737	1,650
Performance-based bonus	1,163	224
Retirement benefits scheme contributions	20	18
Share-based compensation	1,264	127
	<u>4,184</u>	<u>2,019</u>

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

For the year ended 31 December 2019



## 13. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

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

	<b>Number of Individuals</b>	
	<b>Year ended 31 December</b>	
	2019	2018
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	–	3
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$6,000,001 to HK\$6,500,000	2	–
HK\$6,500,001 to HK\$7,000,000	1	–
HK\$7,500,001 to HK\$8,000,000	1	–
	<u>5</u>	<u>5</u>

Included in the five highest paid individuals is Dr Song Li, a shareholder and employee of the Group. His emoluments during the year ended 31 December 2019 were US\$815,000 (2018: US\$400,000).

## 14. DISPOSAL OF ASSOCIATES

Besides the acquisition of additional equity interest in Frontage Suzhou to become a subsidiary of the Group (detailed in Note 43), the Group has disposed the following associates:

### Disposal of Tigermed-BDM

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

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



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

For the year ended 31 December 2019

### 14. DISPOSAL OF ASSOCIATES *(Continued)*

#### Disposal of Tigermed-BDM *(Continued)*

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

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

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

#### Disposal of Tigermed-Xinze Medical Technology (Jiaxing) Co., Ltd ("Tigermed-Xinze")

On 22 July 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 accounted for as an interest 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, calculated as follows:

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

### 15. EARNINGS PER SHARE

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

	<b>Year ended 31 December</b>	
	<b>2019</b>	2018
	<i>US\$'000</i>	<i>US\$'000</i>
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	<u><b>18,424</b></u>	<u>11,241</u>

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

For the year ended 31 December 2019



## 15. EARNINGS PER SHARE *(Continued)*

### Number of Shares:

	Year ended 31 December	
	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	<u>57,440,054</u>	<u>13,583,769</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,860,191,676</u>	<u>1,519,084,542</u>

The computation of basic and diluted earnings per share for the years ended 31 December 2019 and 2018 is based on weighted average number of shares assumed to be in issue after taking into account the retrospective adjustments on the assumption that the Reorganisation as disclosed in Note 1.2 and the Capitalisation Issue as disclosed in Note 34 had been in effect on 1 January 2018.

The computation of diluted earnings per share for the years ended 31 December 2018 is based on weighted average number of shares assumed to be in issue after taking into account the retrospective adjustments on the assumption that the Pre-IPO share incentive plans as disclosed in Note 35 adopted by Frontage Labs and assumed by the Company on 17 April 2018 had been in effect on 1 January 2018.

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.

## 16. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

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

For the year ended 31 December 2019

## 17a. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment <i>US\$'000</i>	Transportation equipment <i>US\$'000</i>	Leasehold improvement <i>US\$'000</i>	Experiment equipment <i>US\$'000</i>	Buildings <i>US\$'000</i>	Land <i>US\$'000</i>	Construction in progress <i>US\$'000</i>	Total <i>US\$'000</i>
COST								
As at 1 January 2018	26,267	61	3,085	7,113	-	-	165	36,691
Additions	4,074	-	-	1,103	529	-	617	6,323
Acquisition of subsidiaries	2,368	5	120	796	2,000	1,830	68	7,187
Transferred from equipment under finance lease	616	-	-	(616)	-	-	-	-
Disposals	(1,020)	-	-	-	-	-	-	(1,020)
Disposal due to disposal of associates of subsidiaries	(435)	-	-	-	-	-	-	(435)
Transferred from construction in progress	230	-	-	-	-	-	(230)	-
Effect of foreign currency exchange differences	(434)	(1)	-	-	-	-	(3)	(438)
As at 31 December 2018	<b>31,666</b>	<b>65</b>	<b>3,205</b>	<b>8,396</b>	<b>2,529</b>	<b>1,830</b>	<b>617</b>	<b>48,308</b>
Transfer to right-of-use assets	-	-	-	(8,396)	-	-	-	(8,396)
As at 1 January 2019	<b>31,666</b>	<b>65</b>	<b>3,205</b>	-	<b>2,529</b>	<b>1,830</b>	<b>617</b>	<b>39,912</b>
Additions	<b>7,760</b>	<b>68</b>	<b>1,902</b>	-	<b>341</b>	-	<b>2,824</b>	<b>12,895</b>
Acquisition of subsidiaries	<b>1,659</b>	<b>19</b>	<b>196</b>	-	-	-	-	<b>1,874</b>
Transferred from right-of-use assets upon exercise of purchase option	-	-	-	1,255	-	-	-	1,255
Disposals	(1,236)	(5)	-	-	-	-	-	(1,241)
Transferred from construction in progress	<b>338</b>	-	<b>8</b>	-	<b>268</b>	-	(614)	-
Effect of foreign currency exchange differences	(192)	(1)	(14)	-	-	-	-	(207)
As at 31 December 2019	<b>39,995</b>	<b>146</b>	<b>5,297</b>	<b>1,255</b>	<b>3,138</b>	<b>1,830</b>	<b>2,827</b>	<b>54,488</b>

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

For the year ended 31 December 2019

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

	Furniture, fixtures and equipment <i>US\$'000</i>	Transportation equipment <i>US\$'000</i>	Leasehold improvement <i>US\$'000</i>	Experiment equipment <i>US\$'000</i>	Buildings <i>US\$'000</i>	Land <i>US\$'000</i>	Construction in progress <i>US\$'000</i>	Total <i>US\$'000</i>
DEPRECIATION AND IMPAIRMENT								
As at 1 January 2018	(18,276)	(33)	(2,214)	(1,924)	-	-	-	(22,447)
Provided for the year	(2,856)	(20)	(113)	(1,121)	(124)	-	-	(4,234)
Transferred from equipment under finance leases	(370)	-	-	370	-	-	-	-
Eliminated on disposals	982	-	-	-	-	-	-	982
Eliminated on disposal of subsidiaries	28	-	-	-	-	-	-	28
Effect of foreign currency exchange differences	245	2	-	-	-	-	-	247
As at 31 December 2018	(20,247)	(51)	(2,327)	(2,675)	(124)	-	-	(25,424)
Transfer to right-of-use assets	-	-	-	2,675	-	-	-	2,675
As at 1 January 2019	(20,247)	(51)	(2,327)	-	(124)	-	-	(22,749)
Provided for the year	(3,663)	(8)	(204)	-	(183)	-	-	(4,058)
Transferred from right-of-use assets upon exercise of purchase option	-	-	-	(703)	-	-	-	(703)
Eliminated on disposals	1,195	5	-	-	-	-	-	1,200
Effect of foreign currency exchange differences	86	1	(7)	-	-	-	-	80
As at 31 December 2019	(22,629)	(53)	(2,538)	(703)	(307)	-	-	(26,230)
NET BOOK VALUES								
As at 31 December 2019	<u>17,366</u>	<u>93</u>	<u>2,759</u>	<u>552</u>	<u>2,831</u>	<u>1,830</u>	<u>2,827</u>	<u>28,258</u>
As at 31 December 2018	<u>11,419</u>	<u>14</u>	<u>878</u>	<u>5,721</u>	<u>2,405</u>	<u>1,830</u>	<u>617</u>	<u>22,884</u>

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

For the year ended 31 December 2019

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

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

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

### 17b. RIGHT-OF-USE ASSETS

#### The Group as lessee

##### *Right-of-use assets*

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

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

For the year ended 31 December 2019



## 17b. RIGHT-OF-USE ASSETS *(Continued)*

### The Group as lessee *(Continued)*

#### *Right-of-use assets (Continued)*

For both years, the Group leases various offices equipment, and machineries for its operations. Lease contracts are entered into for fixed term of 3 years to 5 years. Certain leases of machinery were accounted for as finance leases during the year ended 31 December 2018 and carried interest ranged from 3.80% to 6.37%. Upon application of IFRS 16, the assets previously under finance lease were reclassified to right of use assets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

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

#### **Restrictions or covenants on lease**

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

#### **Leases committed**

As at 31 December 2019, the Group entered into new leases for several leased properties that have not yet commenced, with average non-cancellable period ranging from 10 to 25 years, excluding period under extension options, the total future undiscounted cash flows over the non-cancellable period amounted to US\$33,978,000.

## 18. GOODWILL

	<i>US\$'000</i>
<hr/>	
COST AND CARRYING VALUES	
As at 1 January and 31 December 2018	–
Arising on acquisition of subsidiaries	6,183
Exchange adjustments	<u>67</u>
As at 31 December 2019	<u><u>6,250</u></u>



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

For the year ended 31 December 2019

## 18. GOODWILL *(Continued)*

For the purpose of impairment testing, goodwill has been allocated to three individual CGUs. As at 31 December 2019, the directors of the Company determines that there is no impairment on the three CGUs. Details are set out in Note 43.

## 19. INTANGIBLE ASSETS

	Trade Name <i>US\$'000</i>	Customer Relationship <i>US\$'000</i>	Software <i>US\$'000</i>	Customer Backlog <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
COST						
As at 1 January 2018	-	-	-	-	-	-
Acquisition of subsidiaries	100	-	-	-	-	100
As at 31 December 2018	100	-	-	-	-	100
Additions	-	-	976	-	-	976
Acquisition of subsidiaries	-	4,173	926	881	776	6,756
Exchange adjustments	-	41	2	7	-	50
As at 31 December 2019	<b>100</b>	<b>4,214</b>	<b>1,904</b>	<b>888</b>	<b>776</b>	<b>7,882</b>
AMORTISATION AND IMPAIRMENT						
As at 1 January 2018	-	-	-	-	-	-
Provided for the year	(75)	-	-	-	-	(75)
As at 31 December 2018	(75)	-	-	-	-	(75)
Provided for the year	(25)	(48)	(49)	(65)	(39)	(226)
As at 31 December 2019	<b>(100)</b>	<b>(48)</b>	<b>(49)</b>	<b>(65)</b>	<b>(39)</b>	<b>(301)</b>
NET BOOK VALUES						
As at 31 December 2019	<b>-</b>	<b>4,166</b>	<b>1,855</b>	<b>823</b>	<b>737</b>	<b>7,581</b>
As at 31 December 2018	25	-	-	-	-	25

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

For the year ended 31 December 2019



### 19. INTANGIBLE ASSETS *(Continued)*

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

<b>Intangible assets</b>	<b>Useful economic life</b>
Trade name	1 year
Customer relationship	4~7 years
Software	10 years
Customer backlog	1~3 years
Others	3 years

Intangible assets are amortised on a straight-line basis over the useful economic life listed above.

### 20. INTERESTS IN ASSOCIATES

	<b>As at 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Cost of unlisted investments in associates	<b>1,180</b>	7,879
Share of post-acquisition (losses) profits	<b>(639)</b>	2,078
Exchange adjustments	<b>—</b>	(78)
	<b>541</b>	<b>9,879</b>

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

For the year ended 31 December 2019

## 20. INTERESTS IN ASSOCIATES *(Continued)*

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

Name of associates	Place of incorporation/ establishment	Registered capital	Proportion of ownership interest/voting rights held by as at 31 December		Principal Activities
			2019	2018	
Tigermed-BDM	USA	US\$30	– <i>(note i)</i>	45%	Biometrics
泰格新澤醫藥技術(嘉興)有限公司 ("Tigermed-Xinze")	PRC	US\$1,000	– <i>(note i)</i>	45%	Biometrics
Frontage Suzhou	PRC	RMB10,000,000	N/A <i>(note ii)</i>	49.04%	CMC services
Frontage Clinical	USA	US\$1,500	11.91%	11.91%	Clinical pharmacology services
河北宸昌方達醫藥科技有限公司 Hebei Chenchang Frontage Pharmaceutical Technology Co., Ltd. ("Hebei Frontage")	PRC	RMB20,010,000	N/A <i>(note iii)</i>	20%	Development of medical products
FJ Pharma LLC	USA	US\$2,000,000	49%	49%	Contract development organisation services

*Note i:* Equity interests in Tigermed-BDM was disposed to Hong Kong Tigermed on 30 June 2019 and Tigermed-Xinze was disposed to Hangzhou Tigermed on 12 July 2019. Details of the disposals are set out in Note 14.

*Note ii:* The Group owned 49.04% shares of equity interest in Frontage Suzhou as at 1 January 2019. On 25 October 2019, the Group entered into an agreement to acquire another 25.96% equity interests of Frontage Suzhou at a cash consideration of US\$2,046,000. Since then, Frontage Suzhou has become a 75%-owned subsidiary of the Group and its financial results, assets and liabilities of Frontage Suzhou are consolidated into the consolidated financial statements of the Group from the acquisition date. Details of the acquisition are set out in Note 43.

*Note iii:* Hebei Frontage was established in the PRC on 19 October 2017 and is owned 20% by Frontage Shanghai and the remaining 55% and 25% are owned by two independent third parties. On 30 November 2019, the Company entered into a sale agreement to dispose its entire equity interest of Hebei Frontage to an independent third party, thereafter Hebei Frontage ceased to be associate of the Group.

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

For the year ended 31 December 2019



## 21. DEFERRED TAXATION

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

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>US\$'000</b>	US\$'000
Deferred tax assets	<b>8,322</b>	68
Deferred tax liabilities	<b>(1,359)</b>	(767)
	<b>6,963</b>	(699)

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

	Impairment allowance US\$'000	Stock Compensation US\$'000	Accelerated tax depreciation US\$'000	Advances from customers US\$'000	Intangible assets US\$'000	Others US\$'000	Total US\$'000
As at 1 January, 2018	456	426	(1,688)	-	-	876	70
Credited (charged) to profit or loss	434	(18)	57	-	-	(287)	186
Charged to reserves	-	-	-	-	-	(1,170)	(1,170)
Acquisition of subsidiaries	-	-	(214)	-	-	462	248
Exchange adjustments	(32)	-	(1)	-	-	-	(33)
As at 31 December, 2018	858	408	(1,846)	-	-	(119)	(699)
Credited (charged) to profit or loss	33	416	(208)	523	27	1,651	2,442
Charged to reserves	-	6,487	-	-	-	-	6,487
Acquisition of subsidiaries <i>(Note 43)</i>	8	-	-	-	(1,380)	114	(1,258)
Exchange adjustments	(2)	-	-	-	(6)	(1)	(9)
As at 31 December, 2019	<b>897</b>	<b>7,311</b>	<b>(2,054)</b>	<b>523</b>	<b>(1,359)</b>	<b>1,645</b>	<b>6,963</b>



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

For the year ended 31 December 2019

### 21. DEFERRED TAXATION *(Continued)*

As at 31 December 2019, the Group had unused tax losses of US\$1,968,000 (2018: US\$586,000) available to offset against future profits. As at 31 December 2019, unused tax losses of US\$1,968,000 (2018: US\$586,000) had been recognised in deferred tax assets.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to US\$25,294,000 as at 31 December 2019 (2018: US\$14,954,000) and the temporary differences between the carrying amounts of investments in associates and the corresponding tax bases arising from fair value measurement upon losing control on Frontage Suzhou amounting to US\$615,000 as at 31 December 2018 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

### 22. LONG-TERM NOTE RECEIVABLE

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

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

For the year ended 31 December 2019



## 23. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

### The Group

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

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

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

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

For the year ended 31 December 2019

### 23. TRADE AND OTHER RECEIVABLES AND PREPAYMENT *(Continued)*

#### The Group *(Continued)*

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

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

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US\$10,883,000 (2018: US\$8,528,000) which are past due at the reporting date. Out of the past due balances, US\$1,851,000 has been past due 90 days or more and is considered as recoverable based on historical receivable experience on the past due status of these customers and no evidence indicating that these customers were in a significant financial difficulty.

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

	<b>US\$'000</b>
As at 1 January 2018	(1,816)
ECL provided	(727)
Reversal of ECL <i>(note)</i>	119
Write off	85
Exchange effect	24
As at 31 December 2018	(2,315)
ECL provided	(1,108)
Reversal of ECL <i>(note)</i>	44
Write off	17
Exchange effect	9
As at 31 December 2019	<b>(3,353)</b>

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

Details of impairment assessment of trade and other receivables are set out in on Note 37.

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

For the year ended 31 December 2019



## 23. TRADE AND OTHER RECEIVABLES AND PREPAYMENT *(Continued)*

### The Group *(Continued)*

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

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b><i>US\$'000</i></b>	<i>US\$'000</i>
US\$	<b>421</b>	101
Euro ("EUR")	<b>4</b>	–

## 24. UNBILLED REVENUE

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

As at 1 January 2018, unbilled revenue amounted to US\$12,635,000.

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

Details of the unbilled revenue due from related parties are set out in Note 42.



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

For the year ended 31 December 2019

### 24. UNBILLED REVENUE *(Continued)*

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

	<i>US\$'000</i>
As at 1 January 2018	(556)
ECL provided	(39)
Derecognised on disposal of subsidiaries	279
Exchange effect	(6)
As at 31 December 2018	<u>(322)</u>
ECL reversed	58
Exchange effect	<u>11</u>
As at 31 December 2019	<u><u>(253)</u></u>

Details of the impairments assessment are set out in Note 37.

Unbilled revenue that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<i>US\$'000</i>	<i>US\$'000</i>
US\$	<b>286</b>	148
EUR	<b>28</b>	6

### 25. 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 31 December 2019 (2018: from 0.30% to 0.385% per annum).

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

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

For the year ended 31 December 2019



## 25. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS *(Continued)*

On 20 August 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 31 December 2019, the remaining amount in the escrow account is US\$440,000, which is included in restricted bank deposits.

Cash and cash equivalents that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>US\$'000</b>	US\$'000
US\$	<b>241</b>	631

## 26. TRADE AND OTHER PAYABLES

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

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



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

For the year ended 31 December 2019

### 26. TRADE AND OTHER PAYABLES *(Continued)*

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

	As at 31 December	
	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
	<u>4,687</u>	<u>3,573</u>

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

	As at 31 December	
	2019	2018
	US\$'000	US\$'000
US\$	<u>4</u>	<u>24</u>

### 27. ADVANCES FROM CUSTOMERS

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

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

For the year ended 31 December 2019



## 27. ADVANCES FROM CUSTOMERS *(Continued)*

Advances from customers that are denominated in currencies other than the functional currencies of the respective group entities are set out below:

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>US\$'000</b>	US\$'000
US\$	465	503
EUR	6	–
	<u>465</u>	<u>503</u>

Amounts received in accordance with contracted payment schedules but in excess of revenues earned are recognised as contract liabilities and disclosed in the consolidated 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.

Details of the advances from customers which are related parties are set out in Note 42.

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

## 28. BANK BORROWINGS

### Bank Loans

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>US\$'000</b>	US\$'000
Secured and unguaranteed bank loans	<u>500</u>	<u>3,167</u>

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>US\$'000</b>	US\$'000
Within one year	500	2,667
Within a period of more than one year but not exceed two years	<u>–</u>	<u>500</u>
	500	3,167
Less: Amounts due within one year shown under current liabilities	<u>(500)</u>	<u>(2,667)</u>
	<u>–</u>	<u>500</u>



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

For the year ended 31 December 2019

### 28. **BANK BORROWINGS** *(Continued)*

#### **Bank Loans** *(Continued)*

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 London Interbank Offered Rate (“LIBOR”) plus 1.85% per annum.

#### **Bank Facilities**

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

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

### 29. **LOANS FROM A RELATED PARTY**

The amount as at 31 December 2018 represented the loan from Dr. Song Li and the amount has been paid off during the year 2019.

### 30. **AMOUNTS DUE TO SHAREHOLDERS**

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

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

For the year ended 31 December 2019



## 31. LEASE LIABILITIES

	<b>As at 31 December 2019 US\$'000</b>
<b>Lease liabilities payable:</b>	
Within one year	3,773
Within a period of more than one year but not exceed two years	2,790
Within a period of more than two years but not exceed five years	6,519
Within a period of more than five years	<u>7,320</u>
	<b>20,402</b>
Less: Amounts due for settlement with 12 months shown under current liabilities	<u>3,773</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u><u>16,629</u></u>

## 32. OBLIGATIONS UNDER FINANCE LEASES

	<b>Minimum lease payments As at 31 December 2018 US\$'000</b>	<b>Present value minimum lease payments 2018 US\$'000</b>
<b>Obligations under finance leases payable:</b>		
Within one year	2,014	1,864
Within a period of more than one year but not exceed two years	1,521	1,443
Within a period of more than two years but not exceed five years	<u>914</u>	<u>868</u>
	4,449	4,175
Less: future finance charges	<u>274</u>	<u>—</u>
Present value of lease obligations	<u><u>4,175</u></u>	<u>—</u>
Less: Amounts due for settlement with 12 months (shown under current liabilities)		<u>1,864</u>
Amounts due for settlement after 12 months (shown under non-current liabilities)		<u><u>2,311</u></u>



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

For the year ended 31 December 2019

### 33. OTHER LONG-TERM LIABILITIES

	As at 31 December	
	2019	2018
	US\$'000	US\$'000
Consideration payable on acquisition of subsidiaries	2,926	—
Accrued rent-long term	—	518
	<u>2,926</u>	<u>518</u>

As at 31 December 2019, other long-term liabilities represent the long-term notes payable in relation to the acquisitions of BRI and RMI, details are set out to Note 43.

Balance as at 31 December 2018 represented accrued rent for the rentals increase progressively, which were adjusted to right-of-use assets upon the initial application of IFRS 16. Details of the adjustments are set out in Note 2.

### 34. SHARE CAPITAL

	Number of shares	Amount US\$'000
Ordinary shares of US\$0.00001 each		
Authorised:		
As at 1 January 2018,		
1 January 2019 and 31 December 2019	<u>5,000,000,000</u>	<u>50,000</u>

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

For the year ended 31 December 2019



## 34. SHARE CAPITAL *(Continued)*

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

- i) Pursuant to a shareholders' resolution passed on 11 May 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 ("30 May 2019") in proportion to their then respective shareholdings in the Company by way of capitalisation of certain sums standing to the credit of the share premium account of the Company (the "Capitalisation Issue").
- ii) On 30 May 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").





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

For the year ended 31 December 2019

### 35. SHARE OPTION PAYMENT

#### Pre-IPO share incentive plans

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

On 17 April 2018, the Company, Frontage Labs and corresponding employees have entered into an agreement pursuant to which Frontage Labs has assigned, and the Company has assumed, the rights and obligations of Frontage Labs under the Pre-IPO Share Incentive Plans. The total outstanding share options under Pre-IPO share incentive plans as at 31 December 2018 were 4,035,000 shares.

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

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

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

For the year ended 31 December 2019



## 35. SHARE OPTION PAYMENT *(Continued)*

### Pre-IPO share incentive plans *(Continued)*

Set out below are details of the movements of the outstanding options granted during the year ended 31 December 2019 by taking into account of the Capitalisation Issue:

	Weighted average exercise price (US\$)	Number
Outstanding as at 1 January 2019	0.05	40,350,000
Granted during the year	0.20	79,900,000
Forfeited during the year	0.12	(4,600,000)
Exercised during the year	—	—
Outstanding as at 31 December 2019	<u>0.15</u>	<u>115,650,000</u>
Options exercisable		76,750,000
Weighted average contractual life (years)		<u>5.50</u>

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

Each option granted generally vests over a three-year period with an agreed award vesting on the anniversary one year after grant date.

The estimated fair value of the share options granted under the 2015 share incentive plan in 2019 is approximately US\$5,001,000. The fair value is calculated using the Black-Scholes model. The major inputs into the model are as follows:

<b>Grant date</b>	<b>28 February 2019</b>
Share price (US\$)	0.22
Exercise price (US\$)	0.20
Expected volatility	30.0%
Expected life (years)	5
Risk-free interest rate	2.5%
Expected dividend yield	—



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

For the year ended 31 December 2019

### 35. SHARE OPTION PAYMENT *(Continued)*

#### **Pre-IPO share incentive plans** *(Continued)*

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

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

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

The Group recognised total expenses of approximately US\$3,269,000 for the year ended 31 December 2019 (2018: US\$371,000) in relation to share options granted by the Company.

#### **2018 share incentive plan**

On 11 May 2019, the Board of Directors approved an incentive plan to grant share options, restricted share units and any other types of award to eligible employees, included the directors of the Company and the employees of the Group. The total number of shares in respect of which the awards may be granted pursuant to the 2018 share incentive plan and any other equity-based incentive plans of the Company, being 10% of the shares of the Company. No awards have been granted under the 2018 Share Incentive Plan by 31 December 2019.

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

For the year ended 31 December 2019



## 36. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities comprising the Group will be able to continue as going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of loans from a related party, consideration payable on acquisition of subsidiaries, bank borrowings (net of cash and cash equivalents), lease liabilities and equity attributable to owners of the Company (comprising capital and reserves).

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital.

The Group monitors the following key covenant ratios which were applied to the credit facilities in use during the relevant periods, to ensure compliance with the agreed target ratios as required by the underlying agreements:

For the years ended 31 December 2019 and 2018 – Net worth, Maximum leverage ratio (which was defined as Total Funded Debt to earnings before interest, taxes, depreciation and amortisation (“EBITDA”), tested quarterly on a rolling four quarter basis) and Debt service Coverage (which was defined as EBITDA less cash distributions less maintenance capital expenditures (15% of additions in property, plant and equipment)).

The Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debts.

## 37. FINANCIAL INSTRUMENTS

### Categories of financial instruments

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



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

For the year ended 31 December 2019

## 37. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and other receivables, restricted bank deposits, cash and cash equivalents, other long-term deposits, long-term note receivable, trade and other payables, bank borrowings, loans from a related party, consideration payable on acquisition of subsidiaries, amounts due to shareholders and obligations under finance leases. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Market risk*

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

#### *Currency risk*

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

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

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:

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>US\$'000</b>	US\$'000
<b>Assets</b>		
US\$	948	880
EUR	<u>32</u>	<u>6</u>
<b>Liabilities</b>		
US\$	469	24
EUR	<u>6</u>	<u>—</u>

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

For the year ended 31 December 2019



## 37. FINANCIAL INSTRUMENTS *(Continued)*

### Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US\$, the foreign currency with which the Group may have a material exposure. No sensitivity analysis has been disclosed for the EUR denominated assets/liabilities as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rate. A positive (negative) number below indicates an increase (a decrease) in profit where RMB strengthens 5% against US\$. For a 5% weakening of RMB against US\$, there would be an equal and opposite impact on profit.

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b><i>US\$'000</i></b>	<i>US\$'000</i>
<b>Impact on profit or loss</b>		
US\$	<u><b>(6)</b></u>	<u>(31)</u>

### *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to restricted bank deposits, long-term note receivable, lease liabilities, obligations under finance leases, loans from a related party and consideration payables on acquisition of subsidiaries. Borrowing agreements include a mix of fixed and variable rate loans, the exposure in relation to fixed rate agreements is considered to be minimal.

The Group is also exposed to cash flow interest rate risk in relation to variable rate bank borrowings. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Prime Rate and LIBOR benchmark rates. For the variable rate bank borrowings, the Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

If the interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by US\$3,000 for the year ended 31 December 2019 (2018: US\$6,000).



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

For the year ended 31 December 2019

### 37. FINANCIAL INSTRUMENTS *(Continued)*

#### **Sensitivity analysis** *(Continued)*

##### *Credit risk and impairment assessment*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of each reporting period, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of the financial position.

In order to minimise credit risk, the Group has tasked its finance team to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default.

Management uses publicly available financial information and the Group's own historical repayment records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate exposure is spread amongst approved counterparties.

For trade receivables and unbilled revenue, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix within lifetime ECL (not credit impaired) estimated based on the financial quality of debtors and historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The Group's current credit risk grading framework comprises the following categories:

<b>Category</b>	<b>Description</b>
Current	The counterparty has an invoice that is current at reporting date
Within 90 days	The counterparty has an invoice that is past due within 90 days of the reporting date
91 to 180 days	The counterparty has an invoice that is past due within 91 to 180 days of the reporting date
181 days to 1 year	The counterparty has an invoice that is past due within 181 days to 1 year at reporting date
Over 1 year	The counterparty has an invoice that is past due over 1 year at reporting date

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

For the year ended 31 December 2019



## 37. FINANCIAL INSTRUMENTS *(Continued)*

### Sensitivity analysis *(Continued)*

#### *Credit risk and impairment assessment (Continued)*

The following table details the risk profile of trade receivables and unbilled revenue:

#### As at 31 December 2019

North America operation	Not credit impaired		Credit impaired			Total
	Current	Within 90 days	91 to 180 days	181 days to 1 year	Over 1 year	
Expected credit loss rate	2.14%	7.45%	24.72%	49.42%	72.62%	13.90%
Gross carrying amount (US\$'000)	11,010	5,755	614	1,031	2,101	20,511
Lifetime ECL (US\$'000)	(236)	(429)	(152)	(510)	(1,526)	(2,853)
	<u>10,774</u>	<u>5,326</u>	<u>462</u>	<u>521</u>	<u>575</u>	<u>17,658</u>

#### As at 31 December 2019

PRC operation	Not credit impaired		Credit impaired			Total
	Current	Within 90 days	91 to 180 days	181 days to 1 year	Over 1 year	
Expected credit loss rate	3.96%	4.95%	27.75%	61.22%	77.95%	10.08%
Gross carrying amount (US\$'000)	6,088	607	227	49	499	7,470
Lifetime ECL (US\$'000)	(241)	(30)	(63)	(30)	(389)	(753)
	<u>5,847</u>	<u>577</u>	<u>164</u>	<u>19</u>	<u>110</u>	<u>6,717</u>



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

For the year ended 31 December 2019

## 37. FINANCIAL INSTRUMENTS *(Continued)*

### Sensitivity analysis *(Continued)*

#### *Credit risk and impairment assessment (Continued)*

As at 31 December 2018

North America operation	Not credit impaired		Credit impaired			Total
	Current	Within 90 days	91 to 180 days	181 days to 1 year	Over 1 year	
Expected credit loss rate	1.35%	5.59%	19.72%	60.83%	91.30%	11.13%
Gross carrying amount (US\$'000)	8,835	5,350	1,061	587	970	16,803
Lifetime ECL (US\$'000)	(118)	(299)	(209)	(357)	(886)	(1,869)
	<u>8,717</u>	<u>5,051</u>	<u>852</u>	<u>230</u>	<u>84</u>	<u>14,934</u>

As at 31 December 2018

PRC operation	Not credit impaired		Credit impaired			Total
	Current	Within 90 days	91 to 180 days	181 days to 1 year	Over 1 year	
Expected credit loss rate	5.58%	6.32%	36.88%	59.01%	73.76%	10.15%
Gross carrying amount (US\$'000)	7,007	–	63	93	404	7,567
Lifetime ECL (US\$'000)	(391)	–	(24)	(55)	(298)	(768)
	<u>6,616</u>	<u>–</u>	<u>39</u>	<u>38</u>	<u>106</u>	<u>6,799</u>

For the purposes of impairment assessment, other receivables and other financial assets that are subject to impairment are considered to have low credit risk as the counterparties to these items have a high credit rating. Accordingly, for the purpose of impairment assessment for these items assets, the loss allowance is measured at an amount equal to 12m ECL. In determining the ECL for other receivables, other financial assets that are subject to impairment, the directors of the Company have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of the other receivables, other financial assets that are subject to impairment occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the ECL allowance is insignificant at 31 December 2018 and 2019.

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

For the year ended 31 December 2019



### 37. FINANCIAL INSTRUMENTS *(Continued)*

#### **Sensitivity analysis** *(Continued)*

##### *Credit risk and impairment assessment (Continued)*

In order to minimise the credit risk, management has designated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of the Company review the recoverability of each significant trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk with respect to trade receivables as 26.74% of the total trade receivables was due from the Group's top five customers as at 31 December 2019 (2018: 26.45%).

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because majority of the counterparties are banks with good reputation or banks with good credit rating.

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

For the year ended 31 December 2019

## 37. FINANCIAL INSTRUMENTS *(Continued)*

### Sensitivity analysis *(Continued)*

#### Liquidity risk

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

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

	Weighted average effective interest rate %	On demand or less than one year US\$'000	One to five years US\$'000	Over five years US\$'000	Total undiscounted cash flows US\$'000	Carrying amount US\$'000
<b>As at 31 December, 2019</b>						
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
<b>As at 31 December, 2018</b>						
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



## 37. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value measurements of financial instruments

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end each reporting period. The fair value of contingent consideration for business combination is determined using level 3 inputs.

Discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, based on an appropriate discount rate. The significant unobservable inputs are discount rate and probability-adjusted revenues and profits.

The only financial liability subsequently measured at fair value on Level 3 fair value measurement represents contingent consideration relating to the acquisition of RMI and BRI (see Note 43). No gain or loss for the current year relating to this contingent consideration has been recognised in profit or loss.

*Financial instruments not measured at fair value on a recurring basis*

Financial instruments not measured at fair value on a recurring basis includes cash and cash equivalents, trade and other receivables, restricted bank deposits, long-term note receivable, trade and other payables, bank borrowings, loans from a related party and amounts due to shareholders.

The fair value of these financial assets and financial liabilities measured at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

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

For the year ended 31 December 2019

### 38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Bank borrowings <i>(Note 28)</i> <i>US\$'000</i>	Loans from related parties <i>(Note 29)</i> <i>US\$'000</i>	Lease liabilities/ obligations under finance leases <i>(Note 31,32)</i> <i>US\$'000</i>	Amounts due to shareholders <i>(Note 30)</i> <i>US\$'000</i>	Accrued issue costs <i>(Note 26)</i> <i>US\$'000</i>	Total <i>US\$'000</i>
As at 1 January 2018	3,412	3000	4,258	210	–	10,880
Financing cash flows	(372)	4,932	(1,996)	–	(1,284)	1,280
Non-cash changes						
Interest expenses	127	68	183	–	–	378
Issue costs	–	–	–	–	2,206	2,206
Acquisition of a subsidiary	–	–	627	–	–	627
New finance leases	–	–	1,103	–	–	1,103
Settlement of loans from related parties	–	(6,500)	–	–	–	(6,500)
As at 31 December 2018	3,167	1,500	4,175	210	922	9,974
Adjustment upon application of IFRS 16	–	–	13,365	–	–	13,365
As at 1 January 2019 (restated)	<b>3,167</b>	<b>1,500</b>	<b>17,540</b>	<b>210</b>	<b>922</b>	<b>23,339</b>
Financing cash flows	<b>(2,784)</b>	<b>(1,515)</b>	<b>(4,475)</b>	<b>–</b>	<b>(9,978)</b>	<b>(18,752)</b>
Non-cash changes						
Interest expenses	<b>117</b>	<b>15</b>	<b>1,100</b>	<b>–</b>	<b>–</b>	<b>1,232</b>
Issue costs	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>9,056</b>	<b>9,056</b>
New leases	<b>–</b>	<b>–</b>	<b>6,237</b>	<b>–</b>	<b>–</b>	<b>6,237</b>
As at 31 December 2019	<b>500</b>	<b>–</b>	<b>20,402</b>	<b>210</b>	<b>–</b>	<b>21,112</b>

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

For the year ended 31 December 2019



### 39. OPERATING LEASES

#### The Group as lessee

The Group has commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	As at 31 December 2018 <i>US\$'000</i>
Within one year	2,834
In the second year to fifth year inclusive	10,828
Over five years	<u>4,512</u>
	<u><u>18,174</u></u>

Operating lease payments represent rentals payable by the Group for certain of its office premises and laboratories.

### 40. CAPITAL COMMITMENTS

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

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<i>US\$'000</i>	<i>US\$'000</i>
Contracted but not provided for	<u><u>3,866</u></u>	<u><u>—</u></u>

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

For the year ended 31 December 2019

## 41. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

A defined contribution plan in the USA pursuant to which the Group matches 50 cents for every dollar contributed by each qualifying member of staff up to 4% of their salary. The maximum match is 2% of the qualifying member of staff's gross pay.

The total cost charged to profit or loss in respect of the above-mentioned schemes amounted to approximately US\$1,107,000 for the year ended 31 December 2019 (2018: US\$1,055,000).

## 42. RELATED PARTY TRANSACTIONS AND BALANCES

Other than as disclosed elsewhere in these consolidated financial statements, the Group has following transactions and balances with related parties:

### (1) Related party transactions:

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

	Year ended 31 December	
	2019	2018
	US\$'000	US\$'000
Hangzhou Tigermed	1,978	2,516
Taiwan TigerMed Consulting Co., Ltd.	51	—
Shanghai Tigermed Technology Co., Ltd.	37	375
Frontida	30	—
Tigermed-BDM	10	—
Frontage Suzhou	7	23
Frontage Clinical	—	77
TigerMed India Data Solutions PVT. Ltd.	—	8
	<u>2,113</u>	<u>2,999</u>

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

For the year ended 31 December 2019



## 42. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (1) Related party transactions: *(Continued)*

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

	<b>Year ended 31 December</b>	
	<b>2019</b>	2018
	<i>US\$'000</i>	<i>US\$'000</i>
Frontage Clinical	<b>1,080</b>	544
Jiaying EDC Computer Technology Co., Ltd.	<b>146</b>	53
Tigermed-BDM	<b>111</b>	–
FJ Pharma LLC	<b>75</b>	–
Jyton-Kannel Medical Technology Co., Ltd.	<b>13</b>	–
Frontida	<b>11</b>	37
Hangzhou Simo Laboratories Co., Ltd.	<b>8</b>	20
Hangzhou Tigermed	<b>–</b>	76
Jiaying Tigermed Data Management Co., Ltd.	<b>–</b>	81
	<b>1,444</b>	811

(c) *Interest expense on loans from related parties*

	<b>Year ended 31 December</b>	
	<b>2019</b>	2018
	<i>US\$'000</i>	<i>US\$'000</i>
Dr. Song Li	<b>15</b>	45
Tigermed-BDM	<b>–</b>	23
	<b>15</b>	68

(d) *Interest income on loan to a related party*

	<b>Year ended 31 December</b>	
	<b>2019</b>	2018
	<i>US\$'000</i>	<i>US\$'000</i>
Hong Kong Tigermed Healthcare	<b>195</b>	–





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

For the year ended 31 December 2019

### 42. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

#### (1) Related party transactions: *(Continued)*

##### *(e) Administrative services provided to related parties*

	Year ended 31 December	
	2019	2018
	US\$'000	US\$'000
Frontage Suzhou	1,583	297
Frontage Clinical	474	623
FJ Pharma LLC	230	209
Tigermed-BDM	152	80
Frontida	86	101
Hangzhou Tigermed	39	65
Tigermed MacroStat, LLC	—	220
	<u>2,564</u>	<u>1,595</u>

##### *(f) Reversal of impairment losses recognised on notes receivables*

In 2019, the Company reversed US\$1,072,000 impairment losses recognised in prior years on the notes receivables due from Frontage Clinical, which included the principle amounts of US\$1,009,000 plus the accrued interests of US\$63,000, Frontage Clinical has settled the notes receivables of US\$1,072,000 during the year.

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

For the year ended 31 December 2019



## 42. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (2) Related party balances:

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

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Trade receivables</b>		
Frontida	110	77
Tigermed-BDM	10	–
Frontage Clinical	3	–
Frontage Suzhou	–	92
Hangzhou Tigermed	–	397
Shanghai Tigermed Technology Co., Ltd.	–	5
	<u>123</u>	<u>571</u>
<b>Note receivable</b>		
Hong Kong Tigermed Healthcare	<u>3,795</u>	<u>–</u>

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

For the year ended 31 December 2019

## 42. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

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

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Other receivables</b>		
Frontida	526	347
Frontage Clinical	467	221
Tigermed-BDM	19	80
FJ Pharma LLC	18	17
Frontage Suzhou	—	682
	<u>1,030</u>	<u>1,347</u>
<b>Unbilled revenue</b>		
Hangzhou Tigermed	349	572
Shanghai Tigermed Technology Co., Ltd.	2	—
	<u>351</u>	<u>572</u>
<b>Trade payables</b>		
Tigermed-BDM	424	525
Jyton-Kannel Medical Technology Co., Ltd.	13	—
Hangzhou Simo Laboratories Co., Ltd.	7	23
Hangzhou Tigermed	2	—
Jiaxing Tigermed Data Management Co., Ltd.	—	92
Jiaxing EDC Computer Technology Co., Ltd.	—	15
Frontage Clinical	—	3
Frontida	—	30
	<u>446</u>	<u>688</u>
<b>Other payables</b>		
Dr. Song Li	—	4
<b>Advances from customers</b>		
Hangzhou Tigermed	423	543
Shanghai Tigermed Technology Co., Ltd.	78	20
Frontida	3	—
	<u>504</u>	<u>563</u>
<b>Loans from a related party</b>		
Dr. Song Li	—	1,500

All the above balances with related parties are unsecured and interest free, except for the loans from a related party, which is unsecured and carrying interest at the fixed rate of 3% per annum.

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

For the year ended 31 December 2019



## 42. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

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

Hangzhou Tigermed is the ultimate holding company of the Company. Dr. Song Li is the largest individual shareholder of the Company. Frontage Clinical and FJ Pharma LLC are associates of the Group. Frontida was an associate of the Group prior to 1 March 2018 before the Group disposed its shares. After 1 March 2018, Frontida is still considered as a related party of the Group because Dr. Song Li is Frontida's controlling shareholder. Tigermed-BDM was an associate of the Company, and now is the fellow subsidiary of the Company after it was disposed to Hong Kong Tigermed on 30 June 2019. Frontage Suzhou was a 49.04% owned associate of the Company and now is a 75% owned subsidiary of the Company since 31 October 2019 (Details are set out in Note 44). Save as disclosed in this paragraph, all of the other abovementioned related parties are the fellow subsidiaries of the Group.

### (3) Compensation of key management personnel

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

The remuneration of the directors of the Company and other members of key management of the Group during the Reporting Period were as follows:

	Year ended 31 December	
	2019	2018
	US\$'000	US\$'000
Salaries and other benefits	2,778	2,177
Share-based compensation	1,662	127
Performance-based bonus	1,304	264
Retirement benefits scheme contributions	30	25
	<u>5,774</u>	<u>2,593</u>

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

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

For the year ended 31 December 2019

## 43. ACQUISITION OF SUBSIDIARIES

### Acquisition of Frontage Suzhou

On 25 October 2019, the Group entered into an agreement to acquire an additional 25.96% of the equity interests of Frontage Suzhou for a cash consideration of US\$2,046,000 (RMB14,433,800) from the then equity owner. Such acquisition was made so as to expand the Group's CMC business in PRC.

The purchase price has been preliminarily allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition. The preliminary purchase price allocation is subject to further refinement and may require adjustments to arrive at the final purchase price allocation. These adjustments will primarily relate to property, plant and equipment and intangible assets and income tax-related items. We expect the purchase price allocation to be completed in the second quarter of 2020.

Details of the preliminary fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill recognised are as follows:

	<b>Fair Value</b> <b>US\$'000</b>
Property, plant and equipment	1,378
Intangible assets	1,939
Trade and other receivables	1,392
Cash and cash equivalents	1,452
Deferred tax assets	122
Trade and other payables	(3,321)
Deferred tax liabilities	(287)
Current income tax liabilities	(18)
	<hr/>
Net assets acquired	2,657
	<hr/> <hr/>
Cash consideration	2,046
Fair value of the 49.04% owned equity investment	3,866
Plus: non-controlling interests (25% in Frontage Suzhou)	664
	<hr/>
Total transferred consideration	6,576
Less: net assets acquired	2,657
	<hr/>
Goodwill arising on acquisition	3,919
	<hr/> <hr/>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	2,046
Less: Cash and cash equivalents acquired	1,452
	<hr/>
	594
	<hr/> <hr/>

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

For the year ended 31 December 2019



### 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

#### Acquisition of Frontage Suzhou *(Continued)*

Acquisition-related costs amounting to US\$5,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit and other comprehensive income.

The fair value of trade and other receivables at the date of acquisition amounted to US\$1,392,000. The gross contractual amounts of those trade and other receivables acquired amounted to US\$1,447,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amount to US\$55,000.

The non-controlling interests Frontage Suzhou recognised at the acquisition date was measured at 25% of the net assets acquired. The fair value of the 49.04% equity interests was estimated by applying an income approach. The following were the key model inputs used in determining the fair value:

- assumed discount rate of 21%;
- assumed long-term sustainable growth rate of 3%; and
- assumed adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interests in Frontage Suzhou.

Goodwill arose in the acquisition of Frontage Suzhou because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Frontage Suzhou. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Included in the profit for the year is US\$23,000 (NCI: US\$8,000) attributable to the additional business generated by Frontage Suzhou. Revenue for the year includes US\$769,000 generated from Frontage Suzhou.

Had the acquisition been completed on 1 January 2019, revenue for the year of the Group would have been US\$103,916,000, and profit for the year of the Group would have been US\$18,761,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.



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

For the year ended 31 December 2019

### 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

#### **Acquisition of Frontage Suzhou** *(Continued)*

In determining the 'pro-forma' revenue and profit of the Group had Frontage Suzhou been acquired at the beginning of the current year, the directors of the Company have:

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

#### **Acquisition of RMI**

On 31 October 2019, Frontage Labs entered into an equity purchase agreement to acquire the entire equity interests of RMI from the independent third party at US\$4,800,000, payable by certain instalments with the last instalment to be paid no later than 30 days after 31 December 2022. These instalment payments would be subject to post-acquisition price adjustments with reference to the financial performance of RMI for the years 2020 to 2022. Fair value of the consideration is assessed as US\$4,579,000, taking into consideration of the probability of potential purchase price adjustments and also the contingent payments.

This acquisition has been accounted for using the purchase method. The purchase price has been preliminarily allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition. The preliminary purchase price allocation is subject to further refinement and may require adjustments to arrive at the final purchase price allocation. These adjustments will primarily relate to intangible assets and income tax-related items. We expect the purchase price allocation to be completed in the second quarter of 2020.

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

For the year ended 31 December 2019



### 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

#### Acquisition of RMI *(Continued)*

Details of the preliminary fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill recognised are as follows:

	<b>Fair Value</b> <b>US\$'000</b>
Property, plant and equipment	154
Intangible assets	3,300
Trade and other receivables	543
Cash and cash equivalents	95
Trade and other payables	(38)
Deferred tax liabilities	<u>(748)</u>
Net assets acquired	<u><u>3,306</u></u>
	<b>US\$'000</b>
Cash consideration	2,300
Contingent consideration	<u>2,279</u>
Total consideration transferred	4,579
Less: Fair value of net assets acquired	<u>3,306</u>
Goodwill arising on acquisition	<u><u>1,273</u></u>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	2,300
Less: Cash and cash equivalents acquired	<u>95</u>
	<u><u>2,205</u></u>

Acquisition-related costs amounting to US\$16,000 have been excluded from the consideration transferred and recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit and other comprehensive income.





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

For the year ended 31 December 2019

### 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

#### Acquisition of RMI *(Continued)*

RMI is a Contract Research Organisation locating in Pennsylvania in the United States, and providing a full range of metabolite profiling and identification, and pre-clinical animal radiolabeled mass balance studies services to pharmaceutical and biotechnology companies. In acquiring RMI, the Group would expand its capacity provision of existing and novel services to its customers, effectively expand the current client base that the Group currently serves in this specific field, with the potential to increase the Group's revenue generated through this highly specialized service.

Goodwill arose in the acquisition of RMI because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of RMI. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Included in the profit for the year is US\$134,000 attributable to the additional business generated by RMI. Revenue for the year includes US\$411,000 generated from RMI.

Had the acquisition been completed on 1 January 2019, revenue for the year of the Group would have been US\$103,061,000, and profit for the year of the Group would have been US\$19,601,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had RMI been acquired at the beginning of the current year, the directors of the Company have:

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

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

For the year ended 31 December 2019



### 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

#### Acquisition of BRI

On 13 December 2019, the Group acquired entire equity interests of BRI in Canada from the independent third party for consideration of approximately US\$3,193,000 (CAD 4,200,000). These instalment payments would be subject to post-acquisition price adjustments with reference to the performance results of BRI for the years 2020 to 2022. In addition, there will be contingent payments for BRI to achieve the pre-determined revenue targets for the three years 2020 to 2022. Fair value of the consideration is assessed as US\$2,903,000, taking into consideration of the probability of potential purchase prices adjustments and also the contingent payments.

BRI is engaged in providing science-driven drug discovery and IND/NDA-enabling studies for pharmaceutical and biotechnology companies. In completing the Acquisition, the combined resources upon the acquisition would enable the Group to expand the capacity in existing and new clients in pharmaceutical and agrochemical industries.

This acquisition has been accounted for using the purchase method. The purchase price has been preliminarily allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition. The preliminary purchase price allocation is subject to further refinement and may require adjustments to arrive at the final purchase price allocation. These adjustments will primarily relate to intangible assets and income tax-related items. We expect the purchase price allocation to be completed in the second quarter of 2020.



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

For the year ended 31 December 2019

### 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

#### Acquisition of BRI *(Continued)*

Details of the preliminary fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill recognised are as follows:

	<b>Fair Value</b> <b>US\$'000</b>
Property, plant and equipment	342
Right-of-use assets	180
Intangible assets	1,517
Tax recoverable	370
Trade and other receivables	302
Unbilled revenue	174
Inventories	29
Cash and cash equivalents	63
Trade and other payables	(486)
Advances from customers	(54)
Deferred tax liabilities	(345)
Lease liabilities	(180)
Net assets acquired	<u>1,912</u>
Cash consideration	2,273
Contingent consideration	<u>630</u>
Total transferred consideration	2,903
Less: Fair value of net assets acquired	<u>1,912</u>
Goodwill arising on acquisition	<u>991</u>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	2,273
Less: Cash and cash equivalents acquired	<u>63</u>
	<u>2,210</u>

Acquisition-related costs amounting to US\$57,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit and other comprehensive income.

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

For the year ended 31 December 2019



### 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

#### Acquisition of BRI *(Continued)*

Goodwill arose in the acquisition of BRI because the consideration paid effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of BRI. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Included in the profit for the year is nil attributable to the additional business generated by BRI. Revenue for the year includes US\$71,000 generated from BRI.

Had the acquisition been completed on 1 January 2019, revenue for the year of the Group would have been US\$101,284,000, and profit for the year of the Group would have been US\$18,434,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had BRI been acquired at the beginning of the current year, the directors of the Company have:

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

#### Acquisition of Concord in 2018

On 1 April 2018, Frontage Labs acquired 100% equity interest in Concord, a Delaware corporation from an independent third party, for a cash consideration of US\$4,317,000. Concord owns 100% of Concord Biosciences, LLC and Concord Holdings, LLC, whose principal activities are to provide safety and toxicology to supplement the Group's existing DMPK service division. This acquisition has been accounted for using the acquisition method.

The Concord business was acquired to fill a strategic gap in the Group's clinical service offering, with this acquisition the Group expands its revenue streams to include safety and toxicology services, which will allow the Group to offer a complete clinical service testing offering in the US.

The purchase price has been allocated based on the estimated fair value of net assets acquired and liabilities assumed at the date of the acquisition.



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

For the year ended 31 December 2019

### 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

#### Acquisition of Concord in 2018 *(Continued)*

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and are as follows:

	<b>Fair Value</b> <b>US\$'000</b>
Property, plant and equipment	7,187
Intangible assets – Trade name	100
Other long-term deposit	2
Deferred tax assets	248
Inventories	52
Trade and other receivables	1,049
Unbilled revenue	2,096
Cash and cash equivalents	129
Trade and other payables	(5,131)
Obligations under a finance lease	(627)
Net assets acquired	<u>5,105</u>
Cash consideration paid	4,317
Less: Fair value of net assets acquired	<u>5,105</u>
Bargain purchase gain	<u>788</u>
Net cash outflow arising on acquisition of a subsidiary:	
Cash consideration paid	4,317
Less: Cash and cash equivalents acquired	<u>129</u>
	<u>4,188</u>

The fair value of trade and other receivables at the date of acquisition amounted to US\$1,049,000. The gross contractual amounts of those trade and other receivables acquired amounted to US\$1,113,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected was US\$64,000.

Total acquisition costs in relation to the purchase of Concord were US\$8,000, which have been expensed as incurred as part of administrative expenses in the consolidated statements of profit or loss and other comprehensive income.

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

For the year ended 31 December 2019



## 43. ACQUISITION OF SUBSIDIARIES *(Continued)*

### Acquisition of Concord in 2018 *(Continued)*

The bargain purchase gain of US\$788,000 is presented on a separate line on the face of the consolidated statements of profit or loss and other comprehensive income. The gain arose as a result of the Group negotiating a good price when acquiring Concord, due to the prior owners not being able to profitably operate a business of this nature, this led to a negotiation during which the Group was able to agree a cash consideration that was below the assessed fair value of the assets and liabilities acquired.

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

### 44.1 General information of subsidiaries

	As at 31 December	
	2019	2018
	US\$'000	US\$'000
Unlisted shares, at cost <i>(note)</i>	<u>28,421</u>	<u>28,421</u>

*Note:* The amount represents the initial costs of investment amounted to US\$30,565,000 in Frontage Labs, which was equal to the carrying amount of the Company's shares of the equity items shown in the separate financial statements of Frontage Labs on the date of completion of the Reorganisation.

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

For the year ended 31 December 2019

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

### 44.1 General information of subsidiaries *(Continued)*

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiaries	Place and date of incorporation/ establishment	Authorised share capital registered capital	Paid up capital	Equity interest attributable to the Group as at		Principal activities
				31 December 2019 %	2018 %	
<b>Directly held:</b>						
Frontage Labs	USA, 24 April 2004	US\$20,000	US\$16,215	100	100	Bioanalytical, CMC and DMPK services
<b>Indirectly held:</b>						
Frontage Shanghai	PRC, 2 August 2005	US\$4,355,050	US\$4,355,050	100	100	Bioanalytical and bioequivalence services
上海方達生物技術有限公司 Shanghai Frontage Biotech Co., Ltd. ("Shanghai Frontage Biotech") <i>(note(i))</i>	PRC, 24 May 2016	RMB1,000,000	RMB1,000,000	-	-	Bioanalytical services
蘇州方達生物技術有限公司 Suzhou Frontage Biotech Co., Ltd. ("Suzhou Frontage Biotech") <i>(note(i))</i>	PRC, 30 December 2016	RMB1,000,000	RMB1,000,000	-	-	Bioanalytical services
Croley Martell Holdings, Inc. <i>(note(ii))</i>	USA, 6 February 2017	US\$2,000	US\$1,000	100	100	Investing holding
Concord Holdings, LLC <i>(note(ii))</i>	USA, 23 February 2017	-	-	100	100	Investing holding
Concord Biosciences, LLC <i>(note (ii))</i>	USA, 29 December 1999	-	-	100	100	Safety and Toxicology Services

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

For the year ended 31 December 2019



## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

### 44.1 General information of subsidiaries *(Continued)*

Name of subsidiaries	Place and date of incorporation/ establishment	Authorised share capital registered capital	Paid up capital	Equity interest attributable to the Group as at		Principal activities
				31 December 2019 %	2018 %	
方達醫藥技術(漯河)有限公司 Frontage Laboratories (Luohe) Co., Ltd. ("Frontage Luohe") <i>(note(iii))</i>	PRC, 29 October 2019	RMB50,000,000	-	100	N/A	CMC
Frontage Suzhou <i>(note(iv))</i>	PRC, 7 January 2014	RMB10,000,000	RMB10,000,000	75	<i>note(iv)</i>	CMC
RMI <i>(note(v))</i>	USA, 15 September 2008	-	US\$100	100	-	DMPK
11736655 Canada Ltd. <i>(note(vi))</i>	Canada, 13 November 2019	Unlimited	CAD\$5,000,000	100	-	Investing holding
BRI <i>(note(vii))</i>	Canada, 4 February 1999	-	CAD\$700	100	-	DMPK

**Notes:**

- (i) On 27 April 2018 and 28 April 2018, Frontage Shanghai transferred to an independent third party its entire shareholding interest in its subsidiaries, Suzhou Frontage Biotech and Shanghai Frontage Biotech.
- (ii) On 1 April 2018, the Group acquired 100% of the shares of Croley Martell Holdings, Inc, Concord Holdings, LLC and Concord Biosciences, LLC (collectively known as "Concord"), details of which are set out in Note 43. Concord Holdings, LLC and Concord Biosciences, LLC are both limited liability corporations in the USA, and as such do not have share capital.
- (iii) On 29 October 2019, the Group set up Frontage Luohe.
- (iv) Frontage Suzhou was a 49.04% owned associate of the Group as at 31 December 2018. In October 2019, the Group has acquired an additional 25.96% equity interests of Frontage Suzhou and since then Frontage Suzhou has become a 75% owned subsidiary of the Group. Details are set out in Note 43.
- (v) On 31 October 2019, the Group acquired 100% of the shares of RMI details of which are set out in Note 43.
- (vi) On 13 November 2019, the Group set up 11736655 Canada Ltd.
- (vii) On 13 December 2019, the Group acquired 100% of the shares of BRI details of which are set out in Note 43.



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

For the year ended 31 December 2019

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

### 44.2. Details of Non-Wholly Owned Subsidiaries That Have Material Non-Controlling Interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
				US\$'000	US\$'000	US\$'000	US\$'000
Frontage Suzhou	PRC	75%	N/A	8	N/A	679	N/A

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	<b>As at 31 December 2019 US\$'000</b>
Current assets	3,305
Non-current assets	3,960
Current liabilities	(4,074)
Non-current liabilities	(475)
Equity attributable to owners of the Company	2,037
Non-controlling interests of Frontage Suzhou	<u>679</u>

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

For the year ended 31 December 2019



## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

### 44.2. Details of Non-Wholly Owned Subsidiaries That Have Material Non-Controlling Interests *(Continued)*

	<b>31 October, 2019- 31 December 2019</b>
	<b><i>US\$'000</i></b>
Revenue	769
Expenses	(163)
Profit and total comprehensive income attributable to owners of the Company	22
Profit and total comprehensive income attributable to the non-controlling interests of Frontage Suzhou	8
Profit and total comprehensive income for the period	<u>30</u>
	<b>31 October, 2019- 31 December 2019</b>
	<b><i>US\$'000</i></b>
Net cash inflow from operating activities	26
Net cash inflow	<u>26</u>

## 45. EVENTS AFTER REPORTING PERIOD

Since the outbreak of the COVID-19 epidemic in China and around the world in January 2020, the Group has taken preventative measures to ensure the health of its employees and operational safety in strict compliance with the governmental guidance and requirements for disease control and prevention. Business plan of the Group is adjusted to minimize the risks arising from the suspension of operation due to the outbreak of COVID-19. 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 the issuance of the consolidation financial statements, the Group is still evaluating the impact of the COVID-19 epidemic on the operating activities and financial condition of the Group.



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

For the year ended 31 December 2019

## 46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	<b>As at 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Non-current Assets</b>		
Unlisted investments in subsidiaries	28,421	28,421
Deferred tax assets	2,144	–
	<u>30,565</u>	<u>28,421</u>
<b>Current Assets</b>		
Bank balances and cash	186,770	–
Trade and other receivables and prepayment	750	2,206
Amount due from subsidiaries	455	–
	<u>187,975</u>	<u>2,206</u>
<b>Current Liabilities</b>		
Trade and other payables	90	3,455
Amount due to subsidiaries	–	5,137
Income tax payable	802	–
	<u>892</u>	<u>8,592</u>
<b>Net Current Assets</b>	<u>187,083</u>	<u>(6,386)</u>
<b>Total Assets less Current Liabilities</b>	<u>217,648</u>	<u>22,035</u>
<b>Capital and Reserves</b>		
Share capital	20	2
Reserves	217,628	22,033
<b>Total Equity</b>	<u>217,648</u>	<u>22,035</u>

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

For the year ended 31 December 2019



## 46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Reserves movement of the Company	Share premium <i>USD'000</i>	Accumulated losses <i>USD'000</i>	Equity-settled share-based compensation reserve <i>USD'000</i>	Total <i>USD'000</i>
As at 16 April, 2018 (date of incorporation)	–	–	–	–
Loss and total comprehensive expense for the year	–	(6,386)	–	(6,386)
Issue of shares	<u>28,419</u>	<u>–</u>	<u>–</u>	<u>28,419</u>
At 31 December 2018	<u>28,419</u>	<u>(6,386)</u>	<u>–</u>	<u>22,033</u>
Loss and total comprehensive expense for the year	–	(2,644)	–	(2,644)
Recognition of deferred tax assets related to equity-settled share-based compensation	–	–	5,044	5,044
Capitalisation issue	(13)	–	–	(13)
Issue of shares	<u>193,208</u>	<u>–</u>	<u>–</u>	<u>193,208</u>
At 31 December 2019	<u><u>221,614</u></u>	<u><u>(9,030)</u></u>	<u><u>5,044</u></u>	<u><u>217,628</u></u>



## DEFINITIONS

“2008 Share Incentive Plan”	the pre-IPO share incentive plan approved by Frontage Labs in 2008 and assumed by the Company on April 17, 2018
“2015 Share Incentive Plan”	the pre-IPO share incentive plan approved by Frontage Labs in 2015 and assumed by the Company on April 17, 2018
“2017 Tax Act” or “Transition Tax”	The Tax Cuts and Jobs Act was signed into law on December 22, 2017, has resulted in significant changes to the U.S. corporate income tax system. These changes reduce tax rates and modify policies, credits and deductions for businesses. The 2017 Tax Act also transitions the U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which could result in subjecting certain earnings of Frontage Shanghai to U.S. taxation. These changes are effective beginning in 2018. The 2017 Tax Act also includes a tax on the mandatory deemed repatriation of accumulated previously untaxed foreign earnings of Frontage Shanghai (the “Transition Tax”)
“2018 Share Incentive Plan”	the post-IPO share incentive plan adopted by the Company on May 11, 2019
“AGM”	the annual general meeting of the Company
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Audit and Risk Management Committee”	the audit and risk management committee of the Board
“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

## DEFINITIONS *(Continued)*

“Capitalization Issue”	the issue of 1,355,157,819 Shares to the Shareholders to be made upon capitalization of certain sums standing to the credit of the share premium account of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“CMC”	stands for Chemistry, Manufacturing and Controls. The Group’s portfolio of CMC services spans from drug discovery to the post-approval phase, including lead compound quantification and analytical testing for the discovery phase, formulation development, Good Laboratory Practice toxicology batch studies, release and product testing, stability testing, Clinical Trial Materials and Good Manufacturing Practice manufacturing, extractability and leachability studies and commercial product release following approval of an application
“CODM”	the chief operating decision maker of the Group
“Company”	Frontage Holdings Corporation, a company incorporated under the laws of the Cayman Islands with limited liability on April 16, 2018
“Controlling Shareholder(s)”	has the meaning given to it under the Listing Rules and unless the context requires otherwise, refers to Hangzhou Tigermed and 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



## DEFINITIONS *(Continued)*

“Frontage Labs”	Frontage Laboratories, Inc., a company incorporated under the laws of Pennsylvania, United States on April 21, 2004 and the wholly-owned subsidiary of the Company
“Frontage Shanghai”	Frontage Laboratories (Shanghai) Co., Ltd., a company established in the PRC on August 2, 2005 and a subsidiary of the Company
“Frontage Suzhou”	Frontage Laboratories (Suzhou) Co., Ltd., a company established in the PRC on January 7, 2014, and an associate of the Company
“Global Offering”	the Hong Kong Public Offering (as defined in the Prospectus) and the International Offering (as defined in the Prospectus)
“GLP”	Good Laboratory Practice, a quality system of management controls for research laboratories and organizations to try to ensure the uniformity, consistency, reliability, reproducibility, quality and integrity of chemical and pharmaceuticals non-clinical safety tests
“Group”, “We”, “Our” or “Us”	the Company and its subsidiaries
“Hangzhou Tigermed”	Hangzhou Tigermed Consulting Co., Ltd., a company established in the PRC on December 15, 2004 with its shares being listed on ChiNext market of the Shenzhen Stock Exchange with stock code 300347, which is one of the Controlling Shareholders of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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

## DEFINITIONS *(Continued)*



“IPO”	initial public offering
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	May 30, 2019, being on the date the Shares were listed on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issues contained in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Board
“PRC” or “China”	the People’s Republic of China, but for the purposes of this report only, except where the context requires, references to the PRC or China exclude Hong Kong, Macau and Taiwan
“Pre-IPO Share Incentive Plans”	the 2008 Share Incentive Plan and the 2015 Share Incentive Plan
“Prospectus”	the prospectus of the Company dated May 17, 2019
“R&D”	research and development
“Remuneration Committee”	the remuneration committee of the Board
“Reporting Period”	the year ended December 31, 2019
“RMB”	Renminbi, the lawful currency of the PRC
“RMI”	RMI Laboratories, LLC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time





## DEFINITIONS *(Continued)*

“Share(s)”	ordinary shares(s) with nominal value USD0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“square feet” or “sq. ft.”	square feet
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tigermed-BDM”	Tigermed-BDM, Inc., a company incorporated under the laws of New Jersey, United States, and was a former associate of the Company
“Tigermed-Xinze”	Tigermed-Xinze Medical Technology (Jiaxing) Co., Ltd., a company established in the PRC on December 25, 2013 and a former associate of the Company
“US\$” or “US dollars”	Dollars, the lawful currency of the U.S.
“USA”, the “United States” or the “U.S.”	United States of America
“USDA”	United States Department of Agriculture
“U.S. EPA”	United States Environmental Protection Agency
“%”	per cent

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