# FRONTAGE HOLDINGS CORPORATION

# 方達控股公司*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1521)**

## ANNOUNCEMENT ON ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2020

### FINANCIAL HIGHLIGHTS

| | **2020** | 2019 | Change |
|---|---|---|---|
| | ***US$ million*** | *US$ million* | |
| Revenue | **125.8** | 100.4 | 25.3% |
| Gross Profit | **41.5** | 37.3 | 11.3% |
| Gross Profit Margin | **33.0%** | 37.1% | |
| EBITDA | **34.0** | 29.6 | 14.9% |
| EBITDA Margin | **27.1%** | 29.5% | |
| Adjusted EBITDA | **35.0** | 32.6 | 7.4% |
| Adjusted EBITDA Margin | **27.8%** | 32.4% | |
| Net Profit | **17.4** | 18.4 | -5.4% |
| Net Profit Margin | **13.8%** | 18.4% | |
| Adjusted Net Profit | **20.4** | 21.4 | -4.7% |
| Adjusted Net Profit Margin | **16.2%** | 21.3% | |
| | ***US$*** | *US$* | |
| Earnings per share | | | |
| – Basic | **0.0085** | 0.0102 | -16.7% |
| – Diluted | **0.0083** | 0.0099 | -16.2% |
| Adjusted Earnings per share | | | |
| – Basic | **0.0100** | 0.0119 | -16.0% |
| – Diluted | **0.0097** | 0.0115 | -15.7% |

The Board does not recommend any payment of final dividend for the Reporting Period.

**Non-IFRS Measures**

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

The Board of the Company is pleased to announce the consolidated annual results of the Group for the Reporting Period together with comparative figures for the corresponding period in 2019 as set out below:

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

FOR THE YEAR ENDED DECEMBER 31, 2020

| | NOTES | Year ended December 31, 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| Revenue | 4 | **125,811** | 100,415 |
| Cost of services | | **(84,326)** | (63,124) |
| Gross profit | | **41,485** | 37,291 |
| Other income | 6 | **6,261** | 5,545 |
| Other gains and losses, net | 7 | **(139)** | 1,937 |
| Research and development expenses | | **(1,841)** | (1,530) |
| Impairment losses (recognised)/reversal on | | | |
| – trade receivables | | **80** | (1,064) |
| – note receivables | | **–** | 1,072 |
| – others | | **(165)** | (12) |
| Selling and marketing expenses | | **(5,066)** | (3,864) |
| Administrative expenses | | **(18,829)** | (16,368) |
| Listing expenses | | **–** | (1,564) |
| Gain on disposal of associates | | **–** | 27 |
| Share of (loss)/profit of associates | | **(68)** | 625 |
| Finance costs | 8 | **(2,196)** | (1,232) |
| Profit before tax | 9 | **19,522** | 20,863 |
| Income tax expense | 10 | **(2,107)** | (2,431) |
| **Profit for the year** | | **17,415** | 18,432 |
| **Other comprehensive income/(expense)** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising from translation of foreign operations | | **3,219** | (421) |
| **Total comprehensive income for the year** | | **20,634** | 18,011 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **17,150** | 18,424 |
| Non-controlling interests | | **265** | 8 |
| | | **17,415** | 18,432 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **20,310** | 17,996 |
| Non-controlling interests | | **324** | 15 |
| | | **20,634** | 18,011 |
| Earnings per share | 11 | | |
| – Basic (US$) | | **0.0085** | 0.0102 |
| – Diluted (US$) | | **0.0083** | 0.0099 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
AS AT DECEMBER 31, 2020

| | NOTES | As at December 31, 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **42,445** | 28,258 |
| Right-of-use assets | | **39,836** | 21,086 |
| Goodwill | | **22,108** | 6,250 |
| Intangible assets | | **14,993** | 7,581 |
| Interests in associates | | **473** | 541 |
| Deferred tax assets | | **5,154** | 8,322 |
| Restricted bank deposits | *14* | **300** | 300 |
| Other long-term deposits | | **417** | 417 |
| Long-term note receivable | | **–** | 105 |
| | | **125,726** | 72,860 |
| **Current Assets** | | | |
| Inventories | | **724** | 173 |
| Trade and other receivables and prepayments | *12* | **27,251** | 24,927 |
| Unbilled revenue | *13* | **7,736** | 7,821 |
| Structured deposits | | **2,452** | – |
| Tax recoverable | | **4,131** | 1,287 |
| Restricted bank deposits | *14* | **8** | 448 |
| Cash and cash equivalents | *14* | **212,087** | 207,752 |
| | | **254,389** | 242,408 |
| **Current Liabilities** | | | |
| Trade and other payables | *15* | **19,601** | 10,393 |
| Advances from customers | *16* | **17,870** | 12,845 |
| Bank borrowings | | **–** | 500 |
| Income tax payable | | **2,475** | 1,355 |
| Amounts due to shareholders | | **210** | 210 |
| Lease liabilities | | **5,191** | 3,773 |
| | | **45,347** | 29,076 |

| | NOTES | As at December 31, 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **Net Current Assets** | | **209,042** | 213,332 |
| **Total Assets less Current Liabilities** | | **334,768** | 286,192 |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | **3,126** | 1,359 |
| Lease liabilities | | **35,431** | 16,629 |
| Other long-term liabilities | | **7,339** | 2,926 |
| | | **45,896** | 20,914 |
| **Net Assets** | | **288,872** | 265,278 |
| **Capital and Reserves** | | | |
| Share capital | *17* | **20** | 20 |
| Reserves | | **287,849** | 264,579 |
| Equity attributable to owners of the Company | | **287,869** | 264,599 |
| Non-controlling interests | | **1,003** | 679 |
| **Total Equity** | | **288,872** | 265,278 |

## 1. GENERAL INFORMATION

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

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

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

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

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

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standards Board (the "**IASB**") for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2020 for the preparation of the consolidated financial statements:

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

The application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements. The Group has not early applied any new or amended IFRSs that is not yet effective for the current accounting year.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

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

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

## 4. REVENUE

The Group's revenue streams are categorised as follows:

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

– CMC services involve assisting the customers with drug product development, analysis, and clinical trial materials' delivery and supply.

– 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.

– Chemistry services consist of providing contract research and custom synthesis services for biopharmaceutical company specialising in drug discovery and development.

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

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

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

**Transaction Price Allocated to Future Performance Obligations**

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

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

## 5. SEGMENT INFORMATION

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

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

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

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

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

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

**Segment revenues and results**

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

***For the year ended December 31, 2020***

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

***For the year ended December 31, 2019***

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

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

**Other segment information**

Amounts included in the measure of segment profit or loss:

***For the year ended December 31, 2020***

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

***For the year ended December 31, 2019***

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

**Geographical information**

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

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

| | **Year ended December 31,** | |
|---|---|---|
| | **2020** *US$'000* | 2019 *US$'000* |
| Revenue from external customers | | |
| – USA | **78,082** | 58,982 |
| – PRC | **33,984** | 30,284 |
| – Rest of the world | **13,745** | 11,149 |
| | **125,811** | 100,415 |

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

| | As at December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Non-current assets excluding financial assets and deferred tax assets | | |
| – North America | **89,339** | 38,851 |
| – PRC | **30,516** | 24,865 |
| | **119,855** | 63,716 |

**Information about major customers**

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

| | Year ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Company A | **19,710** | 19,452 |

## 6. OTHER INCOME

| | Year ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Interest income | **4,143** | 3,267 |
| Government grants related to income *(note)* | **942** | 454 |
| Income from rendering service | **1,176** | 1,824 |
| | **6,261** | 5,545 |

*Note:* During the year ended December 31, 2020, the Group recognised government grants of US$286,000 in respect of COVID-19-related subsidies, of which US$56,000 relates to Canada Emergency Wage Subsidy program provided by the Canadian government and US$230,000 relates to Bureau of Workman's Compensation provided by the USA government. The remaining government grants have been received for the Group's contribution to the local high-tech industry and economy. These grants are unconditional and accounted for as immediate financial support with neither future related costs expected to be incurred nor related to any assets.

## 7. OTHER GAINS AND LOSSES, NET

| | Year ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Net foreign exchange (loss)/gain | **(133)** | 2 |
| Gain arising on fair value change of previously held interest in an associate | **–** | 1,841 |
| Fair value change on financial liabilities measured at fair value through profit or loss ("**FVTPL**") | **18** | – |
| Loss on disposal of property, plant and equipment | **(53)** | (32) |
| Others | **29** | 126 |
| | **(139)** | 1,937 |

## 8. FINANCE COSTS

| | Year ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Interest expense on lease liabilities | **2,190** | 1,100 |
| Interest expense on bank borrowings | **6** | 117 |
| Interest expense on loan from a related party | **–** | 15 |
| | **2,196** | 1,232 |

## 9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

| | Year ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Staff costs (including directors' emoluments): | | |
| – Salaries and other benefits | **49,803** | 43,287 |
| – Share-based payment expense | **935** | 3,269 |
| – Retirement benefit scheme contributions | **1,404** | 1,107 |
| | **52,142** | 47,663 |
| Auditors' remuneration | **217** | 880 |

## 10. INCOME TAX EXPENSE

| | Year ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Current tax: | | |
| – EIT | **1,578** | 1,153 |
| – US Federal Tax | **(214)** | 3,120 |
| – US State Tax | **(13)** | 1,312 |
| Over provision of EIT, US Federal Tax and US State Tax in prior year | **(249)** | (712) |
| | **1,102** | 4,873 |
| Deferred tax: | | |
| – Current year | **1,005** | (2,442) |
| Total income tax expense | **2,107** | 2,431 |

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

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

Under the law of the PRC on the EIT Law and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiaries is 25% unless subject to tax exemption set out below.

Frontage Shanghai, a wholly owned subsidiary of the Group in the PRC, was accredited as a "High and new Technology Enterprise" in November 2017 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2017. Frontage Shanghai renewed its status in November 2020, and entitled to a preferential tax rate of 15% for another three-year period commencing from the beginning of 2020.

Frontage Suzhou, a 75% owned subsidiary of the Group in the PRC, was accredited as a "High and new Technology Enterprise" in November 2018 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2018.

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

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

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

## 11. EARNINGS PER SHARE

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

| | Year ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Earnings: | | |
| Earnings for the purpose of calculating basic and diluted earnings per share | **17,150** | 18,424 |

**Number of Shares:**

| | Year ended December 31, | |
|---|---|---|
| | **2020** | 2019 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **2,012,359,226** | 1,802,751,622 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **66,178,652** | 57,440,054 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **2,078,537,878** | 1,860,191,676 |

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

## 12. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | As at December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Trade receivables | | |
| – third parties | **25,522** | 19,784 |
| – related parties | **311** | 123 |
| Less: loss allowance for trade receivables | **(3,006)** | (3,353) |
| | **22,827** | 16,554 |
| Other receivables | | |
| – third parties | **1,149** | 1,426 |
| – related parties | **1,012** | 1,030 |
| Less: loss allowance for other receivables | **(70)** | (70) |
| | **2,091** | 2,386 |
| Note receivables | | |
| – third parties | **584** | 508 |
| – related parties | **–** | 3,795 |
| | **584** | 4,303 |
| Prepayments | | |
| – third parties | **1,727** | 1,386 |
| Value added tax recoverable | **22** | 298 |
| | **27,251** | 24,927 |

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

| | As at December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Within 90 days | **19,672** | 13,595 |
| 91 to 180 days | **1,475** | 1,472 |
| 181 days to 1 year | **910** | 709 |
| Over 1 year | **770** | 778 |
| | **22,827** | 16,554 |

## 13. UNBILLED REVENUE

| | As at December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Unbilled revenue | | |
| – third parties | **7,786** | 7,723 |
| – related parties | **409** | 351 |
| Less: loss allowance for unbilled revenue | **(459)** | (253) |
| | **7,736** | 7,821 |

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

## 14. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

Cash and cash equivalents comprise of cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry interest at market rates which ranged from 0.15% to 0.35% per annum as at December 31, 2020 (2019: from 0.30% to 0.385% per annum).

During 2015, the Group entered into a lease agreement for the property at Secaucus, NJ, as part of the lease agreement, a cash deposit of US$550,000 was required as a guarantee over the property and the required cash deposit was reduced to US$300,000 in 2018. The deposit is required for the duration of the lease agreement, which ends in 2027. And thus the US$300,000 remained on the consolidated statement of financial position as at December 31, 2020 and 2019 as other long-term deposits.

On August 20, 2019, the Group entered into an agreement to expand a lab in Pennsylvania, USA. As part of the agreement, US$1,370,000 was placed in a bank escrow account for funding the expenditures for such expansion, and the amount is restricted. As at December 31, 2020, the remaining amount in the escrow account is US$8,000 (2019: US$448,000), which is included in restricted bank deposits.

## 15. TRADE AND OTHER PAYABLES

| | As at December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Trade payables | | |
| – third parties | **7,113** | 4,241 |
| – related parties | **297** | 446 |
| | **7,410** | 4,687 |
| Other payables | | |
| – third parties | **3,682** | 1,814 |
| Contingent consideration payables | **2,220** | – |
| Consideration payables | **982** | – |
| Salary and bonus payables | **4,621** | 3,268 |
| Other taxes payable | **686** | 624 |
| | **19,601** | 10,393 |

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

| | As at December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Within 90 days | **6,960** | 3,632 |
| 91 days to 1 year | **219** | 657 |
| Over 1 year | **231** | 398 |
| | **7,410** | 4,687 |

## 16. ADVANCES FROM CUSTOMERS

| | As at December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| Advances from customers | | |
| – third parties | **17,499** | 12,341 |
| – related parties | **371** | 504 |
| | **17,870** | 12,845 |

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

Revenue of US$7,130,000 was recognised in 2020 (2019: US$11,350,000) that were included in the advances from customers at the beginning of the year.

## 17. SHARE CAPITAL

| | **Number of shares** | **Amount** *US$'000* |
|---|---|---|
| Ordinary shares of US$0.00001 each | | |
| Authorised: | | |
| As at January 1, 2019, December 31, 2019, January 1, 2020 and December 31, 2020 | 5,000,000,000 | 50,000 |

| | **Number of shares** | **Amount** *US$* | **Shown in the consolidated financial statements as** *US$'000* |
|---|---|---|---|
| Issued and Fully Paid: | | | |
| As at January 1, 2019 | 150,573,091 | 1,506 | 2 |
| Capitalisation issue *(note i)* | 1,355,157,819 | 13,553 | 13 |
| Issue of ordinary shares *(note ii)* | 501,910,000 | 5,019 | 5 |
| As at December 31, 2019 and January 1, 2020 | 2,007,640,910 | 20,078 | 20 |
| Exercise of share options *(Note iii)* | 29,837,000 | 298 | – |
| As at December 31, 2020 | 2,037,477,910 | 20,376 | 20 |

i) Pursuant to a shareholders' resolution passed on May 11, 2019, 1,355,157,819 ordinary shares of the Company were allotted and issued to the shareholders on the register of members or the principal share register of the Company at the close of business on the date immediately preceding the Listing Date 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.

ii) On the Listing Date, the Company issued a total of 501,910,000 ordinary shares at the price of HK$3.20 per share by means of the **Global Offering**.

iii) During the year ended December 31, 2020, 29,837,000 share options were exercised, with a deduction from equity-settled share based compensation reserve of US$1,454,000 (2019: nil) and an increase of US$4,849,000 (2019: nil) in share premium.

## 18. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | As at December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| **Financial assets** | | |
| Financial assets at amortised costs | **237,897** | 231,574 |
| Financial assets at FVTPL | **2,452** | – |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | **52,906** | 27,613 |
| Financial liabilities at FVTPL | **9,559** | 2,926 |

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

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

| | As at December 31, | |
|---|---|---|
| | **2020** | 2019 |
| | ***US$'000*** | *US$'000* |
| **Assets** | | |
| US$ | **1,726** | 948 |
| EUR | **–** | 32 |
| **Liabilities** | | |
| US$ | **136** | 469 |
| EUR | **–** | 6 |

***Liquidity risk***

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

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

| | Weighted average effective interest rate<br>*%* | On demand or less than one year<br>*US$'000* | One to five years<br>*US$'000* | Over five years<br>*US$'000* | Total undiscounted cash flows<br>*US$'000* | Carrying amount<br>*US$'000* |
|---|---|---|---|---|---|---|
| **As at December 31, 2020** | | | | | | |
| **Trade and other payables** | **N/A** | **14,294** | **–** | **–** | **14,294** | **14,294** |
| **Lease liabilities** | **5.49%** | **5,482** | **10,244** | **27,171** | **42,897** | **40,622** |
| **Amounts due to shareholders** | **N/A** | **210** | **–** | **–** | **210** | **210** |
| **Other long-term liabilities** | **N/A** | **–** | **7,339** | **–** | **7,339** | **7,339** |
| **Total** | | **19,986** | **17,583** | **27,171** | **64,740** | **62,465** |
| **As at December 31, 2019** | | | | | | |
| Trade and other payables | N/A | 6,501 | – | – | 6,501 | 6,501 |
| Lease liabilities | 5.8% | 3,992 | 17,593 | – | 21,585 | 20,402 |
| Bank borrowings | 3.63% | 518 | – | – | 518 | 500 |
| Amounts due to shareholders | N/A | 210 | – | – | 210 | 210 |
| Other long-term liabilities | N/A | – | 2,926 | – | 2,926 | 2,926 |
| Total | | 11,221 | 20,519 | – | 31,740 | 30,539 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### *Overview*

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

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

Despite the unprecedented challenges presented by the COVID-19 pandemic, we nevertheless achieved solid development in the past year. During the Reporting Period, revenue of the Group increased by 25.3% from approximately US$100.4 million for the year ended December 31, 2019 to approximately US$125.8 million for the year ended December 31, 2020. The Group's contract future revenue, which represents future service revenues from work not yet completed or performed under all signed contracts or customer's purchase orders in effect at that time, also achieved a record high with approximately US$172.0 million as at December 31, 2020, representing an increase of 57.1% compared to approximately US$109.5 million as at December 31, 2019.

## SERVICE OFFERINGS

### Drug Metabolism and Pharmacokinetics ("DMPK")

Our DMPK unit operates in six locations, including Exton, Pennsylvania ("**PA**"), North Wales, PA, Monmouth Junction, New Jersey ("**NJ**"), USA; Vancouver, Canada; Shanghai and Suzhou, China. Large animal pharmacokinetic studies are also supported by our Safety and Toxicology unit in Ohio. DMPK studies provide critical decision-making data during discovery and development of pharmaceutical and agrochemical products. We offer extensive DMPK services, performed in accredited facilities, that can provide critical data in all stages of drug discovery and development. For pharmaceuticals, we offer extensive DMPK capabilities for new chemical entities in discovery and compounds in development. This offering includes conducting pharmacokinetic ("**PK**") studies in small (e.g. rodents) and large animals (e.g. dogs, rabbits, Non-Human Primates ("**NHPs**")) in our Association for Assessment and Accreditation of Laboratory Animal Care ("**AAALAC**") certified facilities; *in vitro* and *in vivo* absorption, distribution, metabolism and excretion ("**ADME**") studies; non-good laboratory practice bioanalytical studies; metabolite identification and characterization; drug-drug interaction (including cytochrome P450 ("**CYP**") inhibition and induction, and transporters) studies, and radiolabeled studies (including mass

balance and QWBA). In addition, we provide a comprehensive portfolio of *in vitro* assays (such as metabolic soft spots, cross species metabolite profiling, protein binding, metabolic stability in liver microsomes/hepatocytes, CYP/UGT phenotyping) in support of lead optimization to candidate selection activities. For agrochemicals, our DMPK offerings include comprehensive residual analyses, syntheses of metabolite standards, animal, plant and soil metabolism, *in vitro* and *in vivo* studies, bioanalytical studies, chemistry support, physical and chemical profiling, product certification, formulation stability, and GLP mass balance studies with radiolabeled compounds. With the acquisition of RMI in November 2019, we increased our capacity to conduct metabolite identification and characterization of drug candidates. The acquisitions of BRI in December 2019 and Biotranex during the Reporting Period further enhanced our DMPK portfolio; namely, the acquisition of BRI broadened our geographic footprint into Canada and extended our current capabilities into human tumor xenograft mouse efficacy models, obesity and diabetes rodent metabolic disease models, and the growing research market in human gut microbiome metabolism and biomarker assays. The acquisition of Biotranex complemented our current scientific capabilities to include comprehensive transporter services to support projects from discovery to development including screening, and full characterization of both uptake and efflux transporters.

During the Reporting Period, our DMPK unit established a QWBA center of excellence ("**COE**") at our Exton, PA facility. The addition of QWBA and dosimetry programs increases the ability for the Group to provide more integrated preclinical drug metabolism services to our customers. QWBA studies are designed to evaluate the time course of elimination for total radioactivity from tissues in animals. Tissue distribution data obtained from a QWBA study will be utilized to support regulatory submissions, discovery projects, and to provide dosimetry calculations required by regulatory authorities and institutional review boards prior to the administration of radiolabeled drugs to human research subjects.

**Safety and Toxicology**

Our Safety and Toxicology unit operates from our facility in Concord, Ohio. Our Safety and Toxicology unit provides GLP and non-GLP services in support of investigational research, and regulatory submissions (e.g. IND-enabling, NDA-enabling) to the U.S. Food and Drug Administration (the "**FDA**") and other international regulatory bodies. The studies performed include assessments for toxicity, pathology, safety pharmacology and evaluation of organ systems including ophthalmology and cardiovascular studies. A typical program of studies (such as for an IND includes range-finding and definitive repeated (14 or 28 days) dose GLP toxicology studies in two species (a rodent and non-rodent), and often include translational biomarkers or investigational endpoints that assist with compound development. Toxicity studies are complemented by safety pharmacology studies, commonly conducted simultaneously to expedite development. All standard dosing regimens and common laboratory species (with multiple test species available including primates) are supported and definitive studies are conducted in strict compliance with GLP regulations. We have scientific and technical expertise in multiple pivotal biosciences research disciplines and our GLP toxicology studies have supported hundreds of successful client IND submissions, leading to first-in-human studies. Our IND-enabling toxicology is performed by experienced scientists who can recommend appropriate study parameters and protocol elements,

enabling the collection of a robust and comprehensive data package for IND submission and other safety assessment purposes. Our facility is AAALAC-accredited for animal welfare and is regularly inspected by the FDA and the United States Department of Agriculture. As researchers, we are responsible to our customers, our animals and the public for the health and well-being of the animals in our care. We honor an organizational commitment towards the ethical and humane use of laboratory animals and work closely with the scientific community to understand how living conditions, handling procedures and reduction of stress play an important role in the quality and efficiency of research.

**Bioanalytical and Biologics Services**

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

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

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

**Chemistry, Manufacturing and Control**

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

**Central Laboratory**

During the Reporting Period, we established a Central Laboratory unit operating in Exton, PA. Our Central Laboratory unit's service offerings include routine and ancillary central lab testing, kits-related logistics, and biorepository services. Our Central Laboratory unit has core competencies in hematology, urinalysis, coagulation, clinical chemistry, general immunoassay, allergen and autoimmune, infectious disease, flow cytometry, histology, immunohistochemistry, and pathology diagnostic capabilities. We also perform molecular and genetic testing for detection of pathogenic events at the genome level including viral load. In addition to clinical testing, our Central Laboratory unit provides kits-related logistics service including lab manual creation, kits design, kits building, shipment of kits/samples, clinical site training, kit re-ordering, specimen tracking, and sample reconciliation. Our biorepository services offering solutions for comprehensive specimen life cycle management. Our Central Laboratory unit sources state-of-the-art high throughput instrumentation and laboratory information system ("**LIS**") with a focus on consistent methodologies across all of our Central Laboratory facilities to ensure laboratory data consistency globally and overtime. Our cloud-based LIS technology serves as

a backbone of the laboratory workflow, with emphases on sample management, logistics, data regulatory compliance, and data analysis with possible artificial intelligence guided data mining. As 'the Next Generation Central Lab', our project management system will adopt a team-based approach (unlike the traditional individual-based arrangement) to ensure project continuity, operational agility, and the utmost customer satisfaction.

**Chemistry**

Our Chemistry unit operates in two locations: Palo Alto, CA and Shanghai, China. Our Chemistry unit offers a broad range of chemistry services which include discovery chemistry, medicinal chemistry, process chemistry research & development, scale-up, kilograms GMP synthesis, and non-GMP manufacturing. Our Chemistry unit has extensive experience in antiviral and anti-bacterial research, along with expertise in nucleotides, nucleosides, triphosphates pro-drugs, heterocycles, and boron containing compounds, and has partnered with many customers in developing new chemical entities.

**Bioequivalence**

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

**Our Growth Strategy**

During the Reporting Period, the Group continued to advance our position as a value-added partner with a focus on solving our customers' most significant and complex product discovery and development challenges. We believe that our comprehensive services, broad scientific and technical expertise, sophisticated equipment and technology, and our experience in global drug development and product launch services, represent our core strengths and are enabling us to cope with the challenges of the COVID-19 pandemic.

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

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

- **Quality and Customer Support.** We maintain scientific rigor and high-quality standards through management of key performance indicators and an intense focus on quality. We will continue to leverage our expertise embedded in our integrated and comprehensive service offering tailored to the specific need for a particular customer. By utilizing our streamlined and efficient facilities, we strive to continue to improve our customer's workload and staffing requirements. This allows our customers to reduce internal capacity and/or staff while ensuring the conduct of effective quality research for their projects. We intend to provide enhanced value to customers who use us as a preferred full-service CRO partner over a longer period of time.

- **Organic Growth and Targeted acquisitions.** We intend to continue to deploy capital in investments that enhance the Group's business, which includes pursuing organic expansion and strategic acquisitions to strengthen the Group's scientific capabilities and enhance global product development capabilities.

- **Geographical expansion.** We intend to expand our global commercial presence by continuing to selectively build out our global sales, marketing, and services infrastructure.

- **Operational efficiency.** We seek to expand operating margins through capacity utilization and process optimization strategies designed to increase our yields. We plan to invest in systems to support our global operations, optimizing resources across our global footprint to maximize productivity. Furthermore, we intend to engage with our vendors and suppliers in a meaningful way to drive efficiencies within our partnerships which will result in savings, support our growth strategy and position us to withstand external pressures that could interrupt our supply chain. When determined necessary, we expect to supplement our team via internal and/or external resources to allow us to build the global integrated structure and processes to support the global growth strategy.

- **Talent Development.** We see our employees and personnel as vital key to our success. As such, we intend to continue to invest in the development and retention of our talent pool by increasing the training and development opportunities for our team to allow career growth and internal advancement. We expect to remain a premier employer with an attractive and competitive total compensation strategy, allowing us to attract and retain top level talent.

## COVID-19 PANDEMIC AND EFFECTS ON OUR BUSINESS

### Background

On March 11, 2020, the World Health Organization ("**WHO**") declared the outbreak of a strain of novel coronavirus, COVID-19, a global pandemic. Governments and businesses worldwide have implemented travel bans, stay-at-home orders, quarantines, lock-down mandates, and other social distancing measures to mitigate the spread of COVID-19.

**Mitigation Measures**

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

We work closely with our customers and regulatory agencies to continuously monitor our employees' working conditions and implement measures to ensure their wellness. During the Reporting Period, we have employed various mitigation measures to minimize the adverse impacts of the COVID-19 pandemic on our ongoing projects, customer relationships, and procurement of supplies. These measures include: 1) leveraging virtual, cloud-based technologies to facilitate remote telework and devoting extra resources to manage business continuity plans and accelerate the execution of delayed projects while ensuring high-quality services and data protection; 2) implementing regional-specific contingency plans for our employees to work remotely and onsite with protective masks and sanitization supplies; 3) adopting protocols regarding employee travel and non-employee visitation; and 4) managing our response to the pandemic through a combination of enterprise-wide and regional governance teams, with particular focus on the scientific, information technology, human capital, legal, and financial impacts of the pandemic on our business. These efforts were further supported by extensive internal and external communications making all stakeholders aware of the precautions taken to protect the health and safety of our employees and their families, our customers, business partners, and communities.

**Effects on Our Global Operations**

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

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

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

In China, the bioequivalence and bioanalytical services we provided are both inextricably related to the operations of clinical trials in hospitals and other clinical sites. Based on official sources, the outbreak of the COVID-19 pandemic reached its peak in February 2020 in China. Accordingly, limited medical staff and facility resources were available to conduct clinical trials as hospitals and clinical sites had to divert significant healthcare resources away from clinical trials to focus on mitigating the impacts of the COVID-19 pandemic in China. These delays and difficulties in commencing new and operating ongoing clinical trials including the inability to access investigative sites, delays in enrolling subjects and patients, difficulty in obtaining necessary pharmaceutical products and supplies, shutdowns and other business disruptions, adversely impacted our bioequivalence and bioanalytical services during the first half of 2020. As the COVID-19 pandemic began to subside from the beginning of March 2020 in China, we mobilized internal resources and leveraged our project execution capabilities aiming to accelerate temporarily delayed projects in China and to reduce the impact to our profitability. During the second half of 2020, all Chinese cities had substantially eased or lifted domestic travel restrictions and resumed normal social activities, work and production due to the pandemic being under better control. We resumed normal operations in China according to the local government's guidelines, which resulted in a strong recovery of our business performance in China.

Despite these impacts, we remain confident in our liquidity position, which includes cash and cash equivalents of US$212.1 million as of December 31, 2020. Additionally, the U.S. federal, state and local governments have implemented economic and other stimulus measures to support individuals and businesses impacted by the COVID-19 pandemic, and while we intend to utilize such measures where appropriate and applicable, there can be no assurance that such measures will benefit us or otherwise offset any or all of the financial impacts from the COVID-19 pandemic.

Despite the unprecedented challenges presented by the COVID-19 pandemic, we maintained solid revenue growth during the Reporting Period. We attribute this to the combination of the mitigation measures as mentioned above, the ongoing efforts of our dedicated staff, and the effectiveness of our comprehensive business continuity plans. While the potential for further disruption to our global operations from the pandemic is difficult to predict and depends on factors not in our control, such as the degree of success of vaccinations and other treatments for COVID-19, we began to see a recovery in the latter half of 2020 in all of our business units and expect this recovery to continue in 2021.

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

**COVID-19 PROJECTS**

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

From assay development, validation to clinical testing and regulatory approval, we offer the technology and scientific expertise required for fast and complete vaccine development. One of our research projects is to provide integrated and science-driven product development services in inventing potential cocktail PK assay for hydroxy-chloroquine, chloroquine and azithromycin in human plasma. This novel 3-in-1 multiplex assay allows rapid and efficient clinical trials in evaluating the potential medical treatments with lower cost implications and sample volume requirements. Our Bioanalytical and Biologics Services unit is supporting the development of an assay kit designed to detect COVID-19 antibodies as a point of care test.

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

**The Group's Facilities**

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

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

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

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

**Quality Assurance**

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

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

Virtually all facets of the Group's service offerings are subject to quality programs and procedures, including accuracy and reproducibility of tests; turnaround time; customer service; and data integrity. This includes licensing, credentialing, training and competency of professional and technical staff, and internal auditing. In addition to the Group's internal quality programs, our laboratories, facilities, and processes are subject to on-site regulatory agency inspections and accreditation evaluations, as applicable, by local or national government agencies, and inspections and audits by customers and vendors.

During the Reporting Period, we continued to maintain a strong track record of successful regulatory inspection; namely, BRI's leased rodent vivarium facility was inspected by the AAALAC International and subsequently granted accreditation status which would facilitate the expansion of BRI's *in vivo* DMPK, oncology efficacy and metabolic disease efficacy testing services. Our facilities in China were also inspected by NMPA and none of the inspections resulted in any materially adverse issues being identified. Furthermore, Frontage Labs has been certified by Brazil's National Health Surveillance Agency, ANVISA, to conduct bioanalytical services to support bioequivalence studies in Brazil. ANVISA certified that Frontage Labs meets the agency's stringent biopharmaceutical safety guidelines allowing the company to conduct bioanalytical work on its customers drug products. The certification is valid until August 2022.

## BUSINESS DEVELOPMENT & MARKETING

### Business Development

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

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

**Marketing**

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

Our core marketing strategy continues to center around providing a one-stop integrated drug development support with the highest level of science and regulatory expertise while driving long term client engagement. The COVID-19 pandemic challenged us to modify the channels and platforms used to meet our objectives. As most in-person conferences and face-to-face activities have either been cancelled or moved to virtual platforms, we have increased our use of digital marketing to reach our customers and still meet business needs. More specifically:

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

- We have created virtual tours and quality audits for our facilities that provide customers with a 360-degree view of our U.S. facilities.

- We are working closely with our business development teams on customized account-based marketing initiatives. This approach targets specific accounts with customized email and scientific content focusing on a specific, modality technology or platform of interest to the client.

- We have updated our website to help customers better understand our integrated offering, enhance our navigation to increase access to content.

**Enhanced Capabilities and Expertise**

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

***1. Central Laboratory Capability Expansion in Exton, PA/Secaucus, NJ/Shanghai, China***

During the Reporting Period, Frontage Labs initiated the expansion of the capabilities of its Bioanalytical and Biologics unit by adding central laboratory services which include clinical collection kits, central laboratory testing, sample tracking, local laboratory normalization, biorepository, logistics, scientific operations, advanced therapy services, clinical, pharmacokinetic/pharmacodynamic (PK/PD), and COVID-19 testing. The kits-related logistic service and COVID-19 testing services launched successfully in November 2020 at our Exton, PA facility and we expect the rest of these services to be fully operational by the third quarter of 2021. In addition, a satellite laboratory dedicated for hematology, coagulation, chemistry, immunoassay, and basic infectious disease profile in Secaucus, NJ is expected to be operational by the fourth quarter of 2021. The Group also initiated the establishment of its central laboratory services in Shanghai, China.

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

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

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

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

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

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

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

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

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

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

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

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

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

***8. CMC Expansion in Suzhou, China***

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

**Acquisitions**

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

### *1. Acquisition of Biotranex*

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

### *2. Acquisition of Acme*

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

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

**Group Awards**

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

2. Frontage Labs has been named as *2020 TOP 10 CRO PROVIDERS* by Pharma Tech Outlook.

3. Frontage Labs has been named as *2020 Top 10 Most Innovative Pharma & Biotech Solution Providers* by Insight Success.

4. Frontage Labs has been named as *2020 Top 10 CRO Solution Providers* by Medhealth Outlook.

5. Frontage Shanghai has been named as *Top 20 Chinese R&D CRO Enterprise in 2020* in the 2020 Conference on High Quality Development of Healthcare Industry.

## EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

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

**Prospects**

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

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

## FINANCIAL REVIEW

### Revenue

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

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

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

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

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

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

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

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

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

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

**Cost of Services**

Associated with the revenue growth, the cost of services of the Group increased by 33.6% from approximately US$63.1 million for the year ended December 31, 2019 to approximately US$84.3 million for the year ended December 31, 2020. The increase of the cost of services was also attributed to the expansion of our capacity in North America and China which led to an increase in depreciation and employee compensation as more scientists were hired due to our enlarged operations.

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

**Gross Profit and Gross Profit Margin**

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

**Other Income**

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

**Other Gains and Losses**

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

**Impairment Losses Under Expected Credit Loss Model, Net of Reversal**

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

**Selling and Marketing Expenses**

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

**Administrative Expenses**

The Group's administrative expenses increased by 14.6% from approximately US$16.4 million for the year ended December 31, 2019 to approximately US$18.8 million for the year ended December 31, 2020. Excluding share-based compensation expenses and amortization of intangible assets acquired from mergers and acquisitions, the Group's administrative expenses increased by 23.3% from approximately US$12.9 million for the year ended December 31, 2019 to approximately US$15.9 million for the year ended December 31, 2020, primarily due to (i) workforce expansion to facilitate smooth operations and support the Group's growing business and its long-term development; (ii) an increase in its corporate governance related costs as the Shares were listed on the Stock Exchange in May 2019, such as the cost of legal services, compliance advisory and audit services; and (iii) an increase in office administration cost and other operational costs, which are in line with the Group's business growth and headcount growth.

**Donations**

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

**Research and Development Expenses**

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

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

**Finance Costs**

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

**Income Tax Expense**

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

On March 27, 2020, the U.S. government passed the Coronavirus Aid, Relief and Economic Security Act (the "**CARES Act**") in response to the COVID-19 pandemic. The CARES Act provides wide-ranging economic relief, including significant changes to U.S. business tax provisions. These changes include, in summary, (i) modifications to limitations on the deductibility of net operating losses, (ii) modifications to limitations on the deductibility of business interest, (iii) alternative minimum tax credit acceleration and (iv) the expensing of qualified improvement property. The most significant impact to the Company from the CARES Act relates to the modification to limitations on the deductibility of business interest, and the expensing of qualified improvement property. The Company is continuing to assess the income tax impact of the CARES Act and other legislative changes enacted and being considered by governments around the world in response to the COVID-19 pandemic. The Company's effective income tax rate was 10.8% and 11.7% for the year ended December 31, 2020 and 2019, respectively. The Company's income tax for the year ended December 31, 2020 was primarily due to the estimated tax effect on the Company's pre-tax income, and reduced by the impact of favorable tax benefits due to stock-based compensation.

**Net Profit and Net Profit Margin**

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

**Adjusted Net Profit**

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

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

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

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

**EBITDA**

The EBITDA[1] of the Group increased by 14.9% from approximately US$29.6 million for the year ended December 31, 2019 to approximately US$34.0 million for the year ended December 31, 2020. The EBITDA margin of the Group for the year ended December 31, 2020 was 27.1%, compared to 29.5% for the year ended December 31, 2019. The slightly lower EBITDA margin of the Group for the year ended December 31, 2020 was primarily due to a lower net profit margin as discussed above. However, with the strong recovery of our global operations, our EBITDA for the second half of 2020 increased by 43.2% from approximately US$15.5 million for the second half of 2019 to approximately US$22.2 million for the second half of 2020. The EBITDA margin of the Group improved from 23.4% for the first half of 2020 to 29.5% for the second half of 2020.

**Adjusted EBITDA**

The adjusted EBITDA[2] of the Group increased by 7.4% from approximately US$32.6 million[3] for the year ended December 31, 2019 to approximately US$35.0 million for the year ended December 31, 2020. The adjusted EBITDA margin of the Group decreased from 32.4% for the year ended December 31, 2019 to 27.8% for the year ended December 31, 2020. The decrease of adjusted EBITDA margin follows the same set of reasons as discussed in the EBITDA. However, with the strong recovery of our global operations, our adjusted EBITDA for the second half of 2020 increased by 44.6% from approximately US$15.7 million for the second half of 2019 to approximately US$22.7 million for the second half of 2020. The adjusted EBITDA margin of the Group improved from 24.3% for the first half of 2020 to 30.2% for the second half of 2020.

**Basic and Diluted Earnings Per Share**

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

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

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

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

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

**Non-IFRS Measures**

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

**Property, Plant and Equipment**

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

**Right-of-Use Assets**

The Group recorded approximately US$39.8 million right-of-use assets as at December 31, 2020, which increased by 88.6% from approximately US$21.1 million as at December 31, 2019. The increase was mainly due to the entering into of new leases in order to support business growth.

**Goodwill**

On July 2, 2020, Frontage Labs acquired the entire equity interest in Acme for a total consideration of US$27,397,000 from independent third parties. Acme is engaged in providing synthetic & medicinal chemistry and process research and development services for biopharmaceutical companies specializing in drug discovery and development. In particular, this acquisition has been accounted for using the acquisition method, resulting in approximately US$14.0 million increase in the goodwill. As at December 31, 2020, the Group recorded approximately US$22.1 million goodwill (2019: US$6.3 million). No impairment of goodwill was recorded upon the management's assessment.

**Intangible Assets**

The Group recorded approximately US$15.0 million intangible assets by the year ended December 31, 2020, compared to US$7.6 million by the end of December 31, 2019, primarily consisting of customer relationship and customer backlog acquired through business combinations.

**Trade and Other Receivables and Prepayments**

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

**Unbilled Revenue**

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

**Structured Deposits**

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

**Trade and Other Payable**

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

**Advances from Customers**

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

## Liquidity and Capital Resources

The Group's bank balances and cash amounted to approximately US$212.1 million in total as at December 31, 2020, as compared to approximately US$207.8 million as at December 31, 2019, as a result of proceeds from cash provided by operating activities, exercise of share options, and receiving remaining proceeds from the disposal of Tigermed-BDM, partially offset by payments for the purchase of plant and equipment and acquisition of subsidiaries. The cash and cash equivalents held by the Company are composed of RMB, HK$, CAD and US$. Currently, the Group follows a set of funding and treasury policies to manage its capital resources and prevent risks involved.

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

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

## Capital Expenditures

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

## Significant Investments, Material Acquisitions and Disposals

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

## Indebtedness

### *Borrowings*

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

### *Lease Liabilities*

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

### *Contingent Liabilities and Guarantees*

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

### *Currency Risk*

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

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

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

***Gearing Ratio***

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

**Employees and Remuneration Policies**

As at December 31, 2020, the Group had a total of 1,002 employees, of whom 463 were located in the U.S. and Canada and 539 were located in China. The staff costs, including Directors' emoluments but excluding any contributions to retirement benefit scheme contributions and share-based compensation expenses, were approximately US$49.8 million for the year ended December 31, 2020, as compared to approximately US$43.3 million for the year ended December 31, 2019. The remuneration packages of employees generally include salary and bonus elements. In general, the Group determines the remuneration packages based on the qualifications, position and performance of its employees. The Group also makes contributions to pension schemes, social insurance funds, including basic pension insurance, medical insurance, unemployment insurance, childbirth insurance, work-related injury insurance funds, and housing reserve fund as applicable to the countries where the Group operates.

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

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

**USE OF PROCEEDS FROM LISTING**

The total proceeds from the issue of new Shares by the Company in its Listing (after deducting the underwriting fees and related Listing expenses) amounted to approximately US$193.2 million, and the balance of unutilized net proceeds was approximately US$140.4 million as at December 31, 2020.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2020:

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

## FINAL DIVIDEND

The Board does not recommend any payment of a final dividend for the Reporting Period (2019: Nil).

## ANNUAL GENERAL MEETING

The AGM of the Company will be held on Thursday, May 27, 2021 and the notice of the AGM will be published and dispatched to the Shareholders in accordance with the Company's articles of association and the Listing Rules in due course.

## CLOSURE OF REGISTER OF MEMBERS

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

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## CORPORATE GOVERNANCE CODE

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

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, Dr. Zhihe Li, the executive Director, performed these two roles in the Company during the Reporting Period and until February 10, 2021 and Dr. Song Li, the executive Director, performs these two roles in the Company with effect from February 10, 2021. The Board believes that vesting the roles of the chairman and chief executive officer of the Company in the same person can help to improve the efficiency of the decision-making and execution process of the Company. The Company has put in place an appropriate check-and-balance mechanism through the Board and the independent non-executive Directors. Considering the above, the Board considers that the deviation from code provision A.2.1 of the CG Code is appropriate in the circumstances of the Company.

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

## REVIEW OF ANNUAL RESULTS BY THE AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has reviewed together with the Company's management and BDO Limited, the Company's external auditor, the accounting principles and policies, internal controls, risk management and financial reporting adopted by the Group, and the audited consolidated financial statements of the Group for the Reporting Period. The Audit and Risk Management Committee is satisfied that the audited consolidated financial statements of the Group for the Reporting Period were prepared in accordance with the applicable accounting standards and fairly present the Group's financial position and results for the Reporting Period.

## SCOPE OF WORK OF BDO LIMITED

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

## PUBLICATION OF THE 2020 ANNUAL RESULTS ANNOUNCEMENT AND 2020 ANNUAL REPORT

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

| | |
|---|---|
| "2008 Share Incentive Plan" | the pre-IPO share incentive plan approved by Frontage Labs in 2008 and assumed by the Company on April 17, 2018 |
| "2015 Share Incentive Plan" | the pre-IPO share incentive plan approved by Frontage Labs in 2015 and assumed by the Company on April 17, 2018 |
| "2017 Tax Act" or "Transition Tax" | The Tax Cuts and Jobs Act was signed into law on December 22, 2017, has resulted in significant changes to the U.S. corporate income tax system. These changes reduce tax rates and modify policies, credits and deductions for businesses. The 2017 Tax Act also transitions the U.S. international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings, which could result in subjecting certain earnings of Frontage Shanghai to U.S. taxation. These changes are effective beginning in 2018. The 2017 Tax Act also includes a tax on the mandatory deemed repatriation of accumulated previously untaxed foreign earnings of Frontage Shanghai (the "**Transition Tax**") |
| "2018 Share Incentive Plan" | the post-IPO share incentive plan adopted by the Company on May 11, 2019 |
| "2021 Share Award Scheme" | the "2021 Share Award Scheme" constituted by the rules adopted on January 22, 2021, in its present form or as amended from time to time in accordance with the provisions therein |
| "Acme" | Acme Biosciences, Inc., a corporation incorporated under the laws of Delaware, U.S. on January 16, 2001, and a subsidiary of Frontage Labs |
| "AGM" | the annual general meeting of the Company |
| "Audit and Risk Management Committee" | audit and risk management committee of the Board |
| "Awarded Share(s)" | the Shares granted by the Company to the selected participants pursuant to the terms of the 2021 Share Award Scheme |

| | |
|---|---|
| "Biotranex" | Biotranex, LLC, a company established under the laws of New Jersey, USA on February 19, 2009, and a subsidiary of Frontage Labs |
| "Board" | the board of directors of the Company from time to time |
| "BRI" | BRI Biopharmaceutical Research, Inc., a company incorporated under the laws of Canada on February 18, 2003, and a subsidiary of the Company |
| "Capitalisation Issue" | the issue of 1,355,157,819 Shares to the Shareholders to be made upon capitalisation 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 |
| "EUR" | Euros, the lawful currency of the European Union |
| "Frontage Labs" | Frontage Laboratories, Inc., a company incorporated under the laws of Pennsylvania, United States on April 21, 2004 and a wholly-owned subsidiary of the Company |
| "Frontage Shanghai" | Frontage Laboratories (Shanghai) Co., Ltd., a company established in the PRC on August 2, 2005 and a subsidiary of the Company |
| "Frontage Suzhou" | Frontage Laboratories (Suzhou) Co, Ltd., a company established in the PRC on January 7, 2014, and an associate of the Company |
| "Global Offering" | the Hong Kong Public Offering (as defined in the Prospectus) and the International Offering (as defined in the Prospectus) |
| "GLP" | Good Laboratory Practice, a quality system of management controls for research laboratories and 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 A shares being listed on ChiNext market of the Shenzhen Stock Exchange with stock code 300347 and its H shares being listed on the Main Board of the Hong Kong Stock Exchange with stock code 3347, which is one of the controlling shareholders of the Company |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Hongkong Tigermed" | Hongkong Tigermed Co., Limited, a company incorporated under the laws of Hong Kong with limited liability on September 14, 2011 and which is a wholly-owned subsidiary of Hangzhou Tigermed and one of the Controlling Shareholders |
| "IFRSs" | International Financial Reporting Standards |

| | |
|---|---|
| "IND" | Investigational New Drug |
| "IPO" | initial public offering |
| "Listing" | the listing of the Shares on the Main Board of the Stock Exchange |
| "Listing Date" | May 30, 2019, being the date of the Listing |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules |
| "NDA" | New Drug Application |
| "Non-connected Award Participants" | the selected participants who awarded the Awarded Shares under the 2021 Share Award Scheme but are not connected with the Company or connected persons of the Company |
| "PRC" or "China" | the People's Republic of China, but for the purposes of this announcement only, except where the context requires, references to the PRC or China exclude Hong Kong, Macau and Taiwan |
| "Pre-IPO Share Incentive Plans" | the 2008 Share Incentive Plan and the 2015 Share Incentive Plan |
| "Prospectus" | the prospectus of the Company dated May 17, 2019 |
| "QWBA" | Quantitative Whole Body Autoradiography |
| "Reporting Period" | the year ended December 31, 2020 |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "RMI" | RMI Laboratories, LLC, a limited liability company established under the laws of Pennsylvania, United States on September 22, 2008, and a subsidiary of the Company |
| "Share(s)" | ordinary shares(s) with nominal value USD0.00001 each in the issued share capital of the Company |

| | |
|---|---|
| "Shareholder(s)" | holder(s) of Share(s) |
| "Stock Exchange" | 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 |
| "US$" or "USD" | Dollars, the lawful currency of the U.S. |
| "USA", the "United States" or the "U.S." | the United States of America |
| "%" | per cent |

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

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

Hong Kong, March 29, 2021

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

* *For identification purpose only*