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, 2023

FINANCIAL HIGHLIGHTS

		2023 ***US$ million***	2022 *US$ million*	Change
Revenue		**259.9**	250.4	**3.8%**
Gross Profit		**78.4**	89.2	**(12.1%)**
Gross Profit Margin		**30.2%**	35.6%	
EBITDA		**57.2**	69.9	**(18.2%)**
EBITDA Margin		**22.0%**	27.9%	
Adjusted EBITDA		**63.2**	73.2	**(13.7%)**
Adjusted EBITDA Margin		**24.3%**	29.3%	
Net Profit		**10.7**	25.9	**(58.7%)**
Net Profit Margin		**4.1%**	10.3%	
Adjusted Net Profit		**24.0**	36.2	**(33.7%)**
Adjusted Net Profit Margin		**9.2%**	14.4%	
		US$	US$	
Earnings per share	– Basic	**0.0053**	0.0126	**(57.9%)**
	– Diluted	**0.0052**	0.0123	**(57.7%)**
Adjusted Earnings per share	– Basic	**0.0118**	0.0176	**(33.0%)**
	– Diluted	**0.0116**	0.0173	**(32.9%)**

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

(1) Calculation of adjusted EBITDA is modified and calculated as EBITDA for the Reporting Period, excluding the share-based compensation expenses, gain or loss arising from financial liabilities measured as fair value through profit or loss, gain arising from fair value change of previously held interest in an associate, goodwill impairment and expenses in relation to mergers and acquisitions to better reflect the Company's current business and operations.

(2) Calculation of adjusted net profit is modified and calculated as net profit for the Reporting Period, excluding the share-based compensation expenses, amortization of acquired intangible assets from mergers and acquisitions, gain or loss arising from financial liabilities measured as fair value through profit or loss, gain arising from fair value change of previously held interest in an associate, goodwill impairment and expenses in relation to mergers and acquisitions to better reflect the Company's current business and operations.

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with the IFRSs, the Company has provided adjusted net profit, adjusted net profit margin and adjusted basic and diluted earnings per share (excluding the share-based compensation expenses, amortization of acquired intangible assets from mergers and acquisitions, gain or loss arising from financial liabilities measured as fair value through profit or loss, gain arising from fair value change of previously held interest in an associate, goodwill impairment and expenses in relation to 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 2022 as set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2023

	NOTES	**2023** ***US$'000***	2022 *US$'000*
Revenue	*4*	**259,855**	250,360
Cost of services		**(181,461)**	(161,166)
Gross profit		**78,394**	89,194
Other income	*6*	**4,785**	4,157
Other gains and losses, net	*7*	**(1,062)**	2,549
Research and development expenses		**(6,038)**	(3,884)
(Impairment losses)/reversal of recognized on			
– trade receivables		**58**	(419)
– unbilled revenue		**9**	(181)
– other receivables		**(37)**	–
– goodwill		**(1,893)**	–
Selling and marketing expenses		**(8,177)**	(7,196)
Administrative expenses		**(44,552)**	(44,433)
Share of profit of associates		**162**	257
Finance costs	*8*	**(7,072)**	(3,948)
Profit before tax	*9*	**14,577**	36,096
Income tax expense	*10*	**(3,849)**	(10,196)
Profit for the year		**10,728**	25,900
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign operations		**(47)**	(7,918)
Share of other comprehensive income of associates		**(92)**	(459)
		(139)	(8,377)
Total comprehensive income for the year		**10,589**	17,523

	NOTES	2023 *US$'000*	2022 *US$'000*
Profit/(loss) for the year attributable to:			
Owners of the Company		**10,808**	25,735
Non-controlling interests		**(80)**	165
		10,728	25,900
Total comprehensive income for the year attributable to:			
Owners of the Company		**10,714**	17,626
Non-controlling interests		**(125)**	(103)
		10,589	17,523
		US$	US$
Earnings per share	*11*		
– Basic		**0.0053**	0.0126
– Diluted		**0.0052**	0.0123

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2023

	NOTES	2023 US$'000	2022 US$'000
Non-current Assets			
Property, plant and equipment		**124,695**	114,988
Right-of-use assets		**59,091**	65,207
Goodwill		**183,918**	149,211
Intangible assets		**37,155**	33,458
Interests in associates		**6,587**	5,140
Deferred tax assets		**7,036**	6,223
Financial assets at fair value through profit or loss ("**FVTPL**")		**3,530**	3,590
Restricted bank deposits	*14*	**300**	300
Other long-term deposits		**636**	636
Prepayment for acquisition of subsidiary		**7,357**	–
		430,305	378,753
Current Assets			
Inventories		**2,801**	3,185
Trade and other receivables and prepayments	*12*	**61,328**	57,598
Unbilled revenue	*13*	**18,828**	17,705
Structured deposits		**1,412**	3,087
Income tax recoverable		**3,603**	2,437
Restricted bank deposits	*14*	**406**	396
Cash and cash equivalents	*14*	**53,186**	87,433
		141,564	171,841
Current Liabilities			
Trade and other payables	*15*	**38,731**	37,544
Advances from customers	*16*	**27,705**	34,797
Bank borrowings	*17*	**20,129**	13,725
Income tax payable		**1,125**	678
Amounts due to shareholders		**210**	210
Lease liabilities		**11,680**	10,518
		99,580	97,472
Net Current Assets		**41,984**	74,369
Total Assets less Current Liabilities		**472,289**	453,122

	NOTES	2023 US$'000	2022 US$'000
Non-current Liabilities			
Bank borrowings	*17*	**61,307**	35,126
Deferred government grant		**2,061**	2,123
Deferred tax liabilities		**11,793**	10,859
Lease liabilities		**51,981**	58,817
Other long-term liabilities		**–**	10,349
		127,142	117,274
Net Assets		**345,147**	335,848
Capital and Reserves			
Share capital	*18*	**21**	21
Treasury shares	*19*	**(4,232)**	(1)
Reserves		**346,714**	333,059
Equity attributable to owners of the Company		**342,503**	333,079
Non-controlling interests		**2,644**	2,769
Total Equity		**345,147**	335,848

1. GENERAL INFORMATION

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

The Company is a holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are to provide laboratory and related services to pharmaceutical and agrochemical companies. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The principal place of business in the United States of America (the "USA") and Hong Kong is 700 Pennsylvania Drive, Exton, PA 19341, USA and 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong, respectively.

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

2. APPLICATION OF NEW AND AMENDMENTS TO IFRS ACCOUNTING STANDARDS ("IFRSs")

Adoption of new/revised IFRSs – effective January 1, 2023

In the current year, the Group has applied 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, 2023 for the preparation of the consolidated financial statements:

IFRS 17	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosures of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules

The application of the 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. MATERIAL ACCOUNTING POLICY INFORMATION

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

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

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

4. REVENUE

The Group's revenue streams are categorized as follows:

– Drug Discovery Unit, consisting of medicinal chemistry, pharmacology, and efficacy & absorption, distribution, metabolism, and excretion ("ADME") screening.

– Drug Development Unit, comprising drug metabolism and pharmacokinetics ("DMPK"), Safety and Toxicology, early phase clinical services, as well as a suite of bioequivalence and related services such as pharmacology, medical writing and regulatory support.

– Pharmaceutical Product Development Unit, encompassing intermediate and active pharmaceutical ingredient ("API") synthesis, process and formulation development, and clinical trial material manufacturing.

– Laboratory Testing Unit is to offer extensive laboratory testing support to clients worldwide involved in drug development. Their services encompass regulated and non-regulated bioanalysis (both small and large molecules), biomarkers, genomics, chemistry, manufacturing and controls ("CMC") Analytical Testing, and Central Laboratory services.

In 2023, the Group underwent a restructuring to improve efficiency and alignment of its business units. This resulted in the creation of two main divisions: Global Drug Discovery & Development Services and Global Laboratory Services.

The Global Drug Discovery & Development Services division aims to provide comprehensive services in the drug discovery and development process. It includes three subunits: (i) the Drug Discovery Unit, (ii) the Drug Development Unit, and (iii) the Pharmaceutical Product Development Unit.

The Global Laboratory Services division offers laboratory testing support for clients involved in drug development.

The consolidation of services allows the Group to respond to client needs more effectively and provide tailored solutions of exceptional quality. By aligning and streamlining operations, the Group can optimize synergies, allocate resources efficiently, and foster innovation and growth across all business units. This strategic realignment sets the foundation for the Group to achieve its goals and sustain growth in the global drug discovery and development services industry.

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

	2023	2022
	US$'000	*US$'000* (re-presented)
– Drug discovery	**33,456**	46,596
– Drug development	**95,132**	85,922
– Pharmaceutical product development	**7,615**	10,948
– Laboratory testing	**123,652**	106,894
	259,855	250,360

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

Transaction Price Allocated to Future Performance Obligations

IFRS 15 requires that the Group 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 recognized at the amount to which the Group has the right to invoice for services performed.

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

The Group's consolidated revenue and results are primarily attributable to the markets in the USA and Canada (together as "North America") and the PRC 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 drug discovery, drug development, pharmaceutical product development and laboratory testing in the USA and Canada;

– PRC segment, including drug discovery, drug development, pharmaceutical product development and laboratory testing in the PRC.

The change in operating business units is consistent with the way in which segment information is presented in the internal reports provided to CODMs. The comparative amounts have been re-presented to conform with the current period's presentation.

Segment revenues and results

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

For the year ended December 31, 2023

	North America *US$'000*	**PRC** *US$'000*	**Total** *US$'000*
Revenue			
– Drug discovery	**22,348**	**11,108**	**33,456**
– Drug development	**77,507**	**17,625**	**95,132**
– Pharmaceutical product development	**3,145**	**4,470**	**7,615**
– Laboratory testing	**96,065**	**27,587**	**123,652**
	199,065	**60,790**	**259,855**
Cost of services	**(133,060)**	**(48,401)**	**(181,461)**
Other income	**1,406**	**3,379**	**4,785**
Other gains and losses, net	**(72)**	**(990)**	**(1,062)**
Research and development expenses	**–**	**(6,038)**	**(6,038)**
(Impairment losses)/reversal of recognized on			
– trade receivables, unbilled revenue and other receivables	**130**	**(100)**	**30**
– goodwill	**(879)**	**(1,014)**	**(1,893)**
Selling and marketing expenses	**(6,326)**	**(1,851)**	**(8,177)**
Administrative expenses	**(36,872)**	**(7,680)**	**(44,552)**
Share of profit of associates	**–**	**162**	**162**
Finance costs	**(5,096)**	**(1,976)**	**(7,072)**
Profit before tax	**18,296**	**(3,719)**	**14,577**

For the year ended December 31, 2022

	North America *US$'000*	PRC *US$'000*	Total *US$'000*
Revenue (re-presented)			
– Drug discovery	33,322	13,274	46,596
– Drug development	73,758	12,164	85,922
– Pharmaceutical product development	4,579	6,369	10,948
– Laboratory testing	84,674	22,220	106,894
	196,333	54,027	250,360
Cost of services	(119,235)	(41,931)	(161,166)
Other income	494	3,663	4,157
Other gains and losses, net	1,860	689	2,549
Research and development expenses	–	(3,884)	(3,884)
Impairment losses recognized on trade receivables and unbilled revenue	(420)	(180)	(600)
Selling and marketing expenses	(5,186)	(2,010)	(7,196)
Administrative expenses	(36,679)	(7,754)	(44,433)
Share of profit of associates	–	257	257
Finance costs	(2,531)	(1,417)	(3,948)
Profit before tax	34,636	1,460	36,096

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, 2023

	North America ***US$'000***	**PRC** ***US$'000***	**Total** ***US$'000***
Depreciation of property, plant and equipment	**(9,743)**	**(7,879)**	**(17,622)**
Depreciation of right-of-use assets	**(6,343)**	**(4,062)**	**(10,405)**
Amortization of intangible assets	**(7,165)**	**(382)**	**(7,547)**
Interest income	**1,242**	**513**	**1,755**
Loss on disposal of property, plant and equipment	**(17)**	**(1)**	**(18)**
Income tax (expense)/income	**(4,661)**	**812**	**(3,849)**

For the year ended December 31, 2022

	North America *US$'000*	PRC *US$'000*	Total *US$'000*
Depreciation of property, plant and equipment	(8,202)	(5,489)	(13,691)
Depreciation of right-of-use assets	(5,351)	(3,540)	(8,891)
Amortization of intangible assets	(6,605)	(680)	(7,285)
Interest income	123	375	498
Loss on disposal of property, plant and equipment	(26)	(23)	(49)
Gain arising from fair value change of previously held interest in an associate	2,047	–	2,047
Income tax (expense)/income	(10,958)	762	(10,196)

Geographical information

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

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

	2023 ***US$'000***	2022 *US$'000*
Revenue from external customers		
– USA	**183,788**	178,641
– PRC	**49,451**	48,189
– Rest of the world	**26,616**	23,530
	259,855	250,360

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

	2023 ***US$'000***	2022 *US$'000*
Non-current assets excluding financial assets and deferred tax assets		
– North America	**325,017**	271,891
– PRC	**93,786**	96,113
	418,803	368,004

Information about major customers

No customers contributed more than 10% of the Group revenue during the year ended December 31, 2023 and 2022.

6. OTHER INCOME

	2023	2022
	US$'000	*US$'000*
Interest income	**1,755**	498
Government grants related to income	**820**	1,582
Income from rendering service	**2,210**	2,077
	4,785	4,157

7. OTHER GAINS AND LOSSES, NET

	2023	2022
	US$'000	*US$'000*
Net foreign exchange (loss)/gain	**(173)**	795
Fair value change on financial liabilities measured at FVTPL	**(511)**	(193)
Loss on disposal of property, plant and equipment	**(18)**	(49)
Gain arising from fair value change of previously held interest in an associate	**–**	2,047
Others	**(360)**	(51)
	(1,062)	2,549

8. FINANCE COSTS

	2023	2022
	US$'000	*US$'000*
Interest expense on lease liabilities	**3,270**	3,129
Interest expense on bank borrowings	**3,802**	819
	7,072	3,948

9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2023	2022
	US$'000	*US$'000*
Staff costs (including directors' emoluments):		
– Salaries and other benefits	**112,179**	102,933
– Share-based payment expense	**3,044**	4,702
– Retirement benefit scheme contributions	**7,748**	5,251
	122,971	112,886
Auditors' remuneration	**284**	320

10. INCOME TAX EXPENSE

	2023	2022
	US$'000	*US$'000*
Current tax:		
– PRC Enterprise Income Tax ("EIT")	**1,298**	976
– US Federal Tax	**5,440**	7,245
– US State Tax	**1,404**	2,247
– Canada Corporate Tax	**182**	–
Under-provision of EIT, US Federal Tax and US State Tax in prior year	**697**	350
	9,021	10,818
Deferred tax:		
– Current year	**(5,172)**	(622)
Total income tax expense	**3,849**	10,196

The group entities incorporated in the USA are subject to Federal and State Income taxes, and the effective weighted average income tax rate is 25.77% for the year ended December 31, 2023 (2022: 24.95%). The Tax Cuts and Jobs Act (the "2017 Tax Act") was signed into law on December 22, 2017. The 2017 Tax Act includes a tax on the mandatory deemed repatriation of accumulated previously untaxed foreign earnings (the "Transition Tax"). The USA group entities are subject to Transition Tax for the years ended December 31, 2023 and December 31, 2022, which is included in the Federal tax expense above.

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

Nucro Technics, Inc., a wholly owned subsidiary of the Group, as a non-CCPC and engaged in active business in Ontario, Canada, has been subject an effective corporate tax rate of 26.5%.

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

Frontage Laboratories (Shanghai) Co., Ltd. ("Frontage Shanghai"), a wholly owned subsidiary of the Group in the PRC, was accredited as a "High and New Technology Enterprise" in November 2020 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2020. Frontage Shanghai renewed its status in November 2023, and is entitled to preferential tax rate of 15% for a three-year period commencing from the beginning of 2023.

Frontage Laboratories (Suzhou) Co., Ltd. ("Frontage Suzhou"), a 75% owned subsidiary of the Group in the PRC, was accredited as a "High and New Technology Enterprise" in November 2021 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2021.

Acme Biopharma Co. (Shanghai) Ltd., a wholly owned subsidiary of the Group in the PRC, was accredited as an "Advanced Technology Enterprise" in December 2022 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2022.

Wuhan Heyan Biomedical Technology Co., Ltd. ("Heyan Biotech"), a 70% owned subsidiary of the Group in the PRC, was accredited as a "High and New Technology Enterprise" in December 2020 and therefore is entitled to a preferential tax rate of 15% for a three-year period commencing from the beginning of 2020. Heyan Biotech renewed its status in October 2023, and is entitled to preferential tax rate of 15% for a three-year period commencing from the beginning of 2023.

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 years ended December 31, 2023 and 2022. 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:

	2023	2022
	US$'000	*US$'000*
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**10,808**	25,735

Number of Shares:

	2023	2022
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**2,039,736,531**	2,048,288,128
Effect of dilutive potential ordinary shares:		
Share options	**26,917,067**	35,075,999
Share awards	**3,056,710**	1,067,862
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,069,710,308**	2,084,431,989

Note:

(i) The weighted average number of ordinary shares shown above has been adjusted for issue of new shares and treasury shares.

12. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2023	2022
	US$'000	*US$'000*
Trade receivables		
– third parties	**54,854**	50,081
– related parties	**244**	259
Less: loss allowance for trade receivables	**(3,761)**	(4,016)
	51,337	46,324
Other receivables		
– third parties	**3,088**	2,713
– related parties	**53**	109
Less: loss allowance for other receivables	**(37)**	–
	3,104	2,822
Notes receivable		
– third parties	**30**	428
Prepayments		
– third parties	**4,619**	5,570
Value added tax recoverable	**2,238**	2,454
	61,328	57,598

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:

	2023	2022
	US$'000	*US$'000*
Within 90 days	**43,296**	34,291
91 to 180 days	**4,469**	7,581
181 days to 1 year	**2,007**	2,771
Over 1 year	**1,565**	1,681
	51,337	46,324

13. UNBILLED REVENUE

	2023	2022
	US$'000	*US$'000*
Unbilled revenue		
– third parties	**19,145**	18,062
– related parties	**380**	359
Less: loss allowance for unbilled revenue	**(697)**	(716)
	18,828	17,705

Generally, significant payment terms are disclosed within the contents of a given contract and are in the form of either milestone payment terms representing a percentage of the total budgeted contract price or corresponding directly with the value to the customer of the Group's performance. Revenues recognized in excess of billings are recognized as contract assets and disclosed in the consolidated 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 0.02% to 4.2% per annum as at December 31, 2023 (2022: from 0.02% to 4.2% per annum).

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

As at December 31, 2023, a cash deposit of US$369,000 (2022: US$357,000) was required by Pennsylvania Department of Environmental Protection, Bureau of Radiation Protection in the USA for radiology license in the USA, and the amount is restricted. As at December 31, 2023, the remaining amount in the collateral account was US$369,000 (2022: US$357,000), which has been included in restricted bank deposits.

As at December 31, 2023, certain bank deposits with balances of approximately RMB208,000 (equivalent to approximately US$29,000) (2022: RMB218,000 (equivalent to approximately US$31,000)) was required by Shanghai Customs District for import valued-added tax in China.

15. TRADE AND OTHER PAYABLES

	2023	2022
	US$'000	*US$'000*
Trade payables		
– third parties	**12,475**	10,923
– related parties	**139**	77
	12,614	11,000
Other payables		
– third parties	**3,069**	2,691
– related parties	**2**	1
	3,071	2,692
Contingent consideration payables	**6,141**	11,403
Salary and bonus payables	**16,114**	11,687
Other taxes payable	**791**	762
	38,731	37,544

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:

	2023	2022
	US$'000	*US$'000*
Within 90 days	**11,804**	10,435
91 days to 1 year	**797**	549
Over 1 year	**13**	16
	12,614	11,000

16. ADVANCES FROM CUSTOMERS

	2023	2022
	US$'000	*US$'000*
Advances from customers		
–third parties	**27,008**	34,186
–related parties	**697**	611
	27,705	34,797

Amounts received in accordance with contracted payment schedules but in excess of revenues earned are recognized 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$25,807,000 was recognized in 2023 (2022: US$15,637,000) that were included in the advances from customers at the beginning of the year.

17. BANK BORROWINGS

Bank Loans

	2023	2022
	US$'000	*US$'000*
Secured and unguaranteed bank loans	**81,436**	48,851

	2023	2022
	US$'000	*US$'000*
Within one year and shown under current liabilities	**20,129**	13,725
More than one year, but not exceeding two years	**11,611**	4,132
More than two years, but not exceeding five years	**49,696**	23,738
More than five years	**–**	7,256
	81,436	48,851
Less: Amounts shown under current liabilities	**(20,129)**	(13,725)
Amounts shown under non-current liabilities	**61,307**	35,126
Loan interest at rate per annum in the range of	**3.35% – 7.6%**	3.85% – 7.5%

Bank Facilities

The Group has used certain restricted bank deposits to secure banking facilities of RMB517,000,000 (equivalent to US$72,995,000) (2022: RMB360,000,000 (equivalent to approximately US$51,690,000)), of which RMB177,327,000 (equivalent to approximately US$25,036,000) (2022: RMB149,136,000 (equivalent to approximately US$21,413,000)) was utilized as borrowings as at December 31, 2023.

On May 31, 2022, Frontage Labs, one of the subsidiaries of the Company, entered into a three-year committed senior secured revolving credit agreement with a bank under which the bank has agreed to extend to Frontage Labs a revolving line of credit in the maximum principal amount of US$45,000,000. As at December 31, 2023, US$9,000,000 (2022: US$3,000,000) of the facility were utilized as borrowings. Frontage Labs is obligated to grant to the bank security interest in and to the collateral of some of its designated subsidiaries in the U.S.

On July 22, 2022, Frontage Labs entered into a credit agreement with a bank under which the bank has agreed to provide Frontage Labs a term loan facility in an aggregate principal amount of US$49,000,000. As at December 31, 2023, US$47,400,000 (2022: US$15,000,000) of the facility were utilized as borrowings. The Company, as the guarantor, is obligated to guarantee for the liabilities, obligations and the full satisfaction of Frontage Labs under this facility. This facility is collateralized by Frontage Labs' assets in some of its designated subsidiaries in the U.S.

On September 16, 2022, Quintara, one of the subsidiaries of the Company, entered into a loan agreement with a bank under which the bank has agreed to provide Quintara with a loan in an aggregate principal amount of up to US$20,000,000 with multiple loan advances. As at December 31, 2023, the loan in the amount US$nil (2022: US$10,000,000) were utilized as borrowings.

The Group had aggregated banking facilities of RMB335,780,000 (equivalent to approximately US$47,408,000) (2022: RMB210,864,000 (equivalent to approximately US$30,277,000)) and US$36,000,000 (2022: US$66,000,000) which were unutilized as at December 31, 2023.

18. SHARE CAPITAL

	Number of shares	Amount *US$*
Ordinary shares of US$0.00001 each		
Authorized:		
As at January 1, 2022, December 31, 2022, January 1, 2023 and December 31, 2023	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, 2022	2,051,455,410	20,516	20
Issue of shares under 2021 Frontage Share Award Scheme	22,950,500	230	1
Exercise of share options *(note (a))*	6,227,500	62	–
Cancellation of shares *(note (b))*	(24,922,000)	(249)	–
As at December 31, 2022 and January 1, 2023	2,055,711,410	20,559	21
Exercise of share options *(note (a))*	6,934,500	69	–
As at December 31, 2023	2,062,645,910	20,628	21

Notes:

(a) During the year ended December 31, 2023, 6,934,500 (2022: 6,227,500) share options were exercised, with a deduction from equity-settled share based compensation reserve of US$444,000 (2022: US$406,000) and an increase of US$1,785,000 (2022: US$1,594,000) in share premium.

(b) During the year ended December 31, 2022, the Company repurchased and cancelled 24,922,000 shares with a deduction from the treasury shares of US$8,378,000, including a reduction of US$nil in share capital, and US$8,378,000 in share premium.

19. TREASURY SHARES

	2023		2022	
	Number of shares	**Cost of acquisition *US$'000***	Number of shares	Cost of acquisition *US$'000*
At beginning of year	**17,588,126**	**1**	–	–
Repurchase of shares	**15,848,000**	**4,231**	24,922,000	8,378
Cancellation of shares	**–**	**–**	(24,922,000)	(8,378)
Issue of shares under 2021 Frontage Share Award Scheme	**–**	**–**	22,950,500	1
Vesting of share awards	**(4,695,062)**	**–**	(5,362,374)	–
At end of year	**28,741,064**	**4,232**	17,588,126	1

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

Frontage is a science-driven, global CRO focused on providing research and development services to the pharmaceutical, biotechnology, agrochemical, animal health and chemical industries. We offer biopharmaceutical and life science companies enhanced and integrated services to help them meet their product development goals. With operations in North America (including the U.S. and Canada) and China, we are strategically positioned to capture growth opportunities in these two largest economies in the world. In North America and China, the Group provides a comprehensive portfolio of services, including drug discovery, drug development, pharmaceutical product development, and laboratory testing services.

In 2023, we undertook a restructuring of our global business organizations to harmonize and enhance efficiencies and alignment of various business units. This restructuring resulted in the formation of two principal business divisions within our Group: the Global Drug Discovery & Development Services and the Global Laboratory Services. The Global Drug Discovery & Development Services aim to provide customers with a one-stop service in the drug discovery & development process, ranging from drug discovery, preclinical development, to early phase clinical development. Within this division, there are three subunits: the Drug Discovery Unit, consisting of medicinal chemistry, pharmacology, and efficacy & ADME screening; the Drug Development Unit, comprising DMPK, Safety and Toxicology, early phase clinical services, as well as a suite of bioequivalence and related services such as pharmacology, medical writing and regulatory support; and the Pharmaceutical Product Development Unit, encompassing intermediate and API synthesis, process and formulation development, and clinical trial material manufacturing. The Global Laboratory Services is to offer extensive laboratory testing support to clients worldwide involved in drug development. Their services encompass regulated and non-regulated bioanalysis (both small and large molecules), biomarkers, genomics, CMC analytical testing, and central laboratory services.

The strategic restructuring of our global business structure into two primary divisions, the Global Drug Discovery & Development Services and the Global Laboratory Services, is motivated by the necessity to vertically align management and processes across North America and China. This alignment will enhance decision-making, foster better communication, and ensure a unified strategic vision across regions seamlessly. Through harmonizing operations in North America and China, our objective is to provide standardized, top-tier services to our clients, solidifying Frontage's reputation as a dependable and credible industry partner.

Moreover, the new global business structure will bolster our market competitiveness through increased flexibility, reliability, and cost-effectiveness. This consolidated and unified service provision enables Frontage to adeptly respond to the evolving needs of our clientele and provide tailored solutions that are not only competitive but also of exceptional quality. Through the alignment and streamlining of our operations, we can maximize operational synergies, refine resource distribution, and foster innovation and growth across all business units. This strategic realignment establishes the foundation for Frontage to achieve its strategic goals and maintain sustainable growth in the global arena of drug discovery and development services.

We seek to utilize our expanding range of skills expertise and capabilities to become a global CRO providing high-quality services to our customers and rewarding career opportunities for our employees. Our 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, China, Europe, India, Japan, South Korea and Australia.

Frontage also further expanded its footprint in Canada by acquiring Nucro-Technics Inc. and its affiliate Nucro-Technics Holdings, Inc. (collectively, "**Nucro-Technics**") in August of 2023. Located in Toronto, Canada, Nucro-Technics is a pharmaceutical CRO that conducts analytical chemistry, microbiology, toxicology, bioanalytical, and stability sample storage and testing services. Furthermore, it offers consulting services, especially in quality control and assurance as well as in Natural Health Product Regulations. For more than half a century, Nucro-Technics has conducted studies for a diverse range of clients, spanning major pharmaceutical, biotechnology, and medical device companies, as well as smaller organizations such as industry trade groups and academic institutions. Nucro-Technics has a proven track record of developing and validating numerous methods, as well as contributing to the creation of comprehensive Investigational New Drug ("**IND**") packages for clients' regulatory submissions.

This acquisition ensures Frontage has strategic presence across both the eastern and western coasts of Canada, building upon its acquisition of BRI in Vancouver several years ago. With these two sites (Toronto and Vancouver) now established in Canada, Frontage is strategically positioned to expand its presence by extending its services to biotechnology companies not only in Vancouver and Toronto but also beyond.

In the first half of 2023, the global biopharmaceutical industry experienced a challenging investment and financing environment, as pharmaceutical and biotechnology companies reprioritized their drug development initiatives and exercised greater caution with their budgetary spending amidst the uncertainty in the broader market environment. Moving into the second half of the year, there were indications of stabilization in the biopharmaceutical investment and financing environment in North America. The emergence of increased activity in biotechnology financing, accompanied by a rise in venture capital investments, indicated a gradual improvement in the sector. However, the biopharmaceutical financing landscape in China remained muted, with several biopharmaceutical companies contending with liquidity pressures that had a consequential impact on our business demand in the region. While these market dynamics present challenges for companies operating within the biopharmaceutical R&D space, it is crucial for us to navigate these external factors strategically and adaptively. By monitoring industry developments and proactively responding to evolving market conditions, we aim to position ourselves resiliently and sustainably in the face of these shifting industry landscapes.

While facing challenging circumstances, we have managed to maintain positive revenue growth. However, decreased customer demand has led to lower capacity utilization in certain facilities, particularly newer ones. The utilization rates of these facilities have fallen short of initial expectations and have negatively impacted our profit margins in 2023. Overall, the Group's revenue increased by 3.8% from approximately US$250.4 million for the year ended December 31, 2022 to approximately US$259.9 million for the year ended December 31, 2023. Additionally, the Group's contract future revenue, which represents future service revenues from work not yet completed or performed under all signed contracts or customer's purchase orders in effect at that time, achieved approximately US$342.2 million as at December 31, 2023, representing a slight increase of 0.1% compared to approximately US$341.8 million as at December 31, 2022.

ENHANCED CAPABILITIES AND EXPERTISE

We firmly believe that aspiring to excel in the CRO industry requires a steadfast commitment to continuously enhancing our service capabilities, regardless of macro-environmental fluctuations. During the Reporting Period, we continued to enhance our capabilities and expertise in each of our service unit through organic growth and strategic acquisitions in order to provide more comprehensive and high-quality services for our customers on a global scale.

North America

In today's CRO market, pharmaceutical companies contract a significant portion of drug discovery and development activities to laboratories across the globe, most notably in North America and China. Sponsors for these activities include major pharmaceutical/biopharmaceutical companies, venture capital groups, and government-or private-funded virtual entities, all carefully selecting different CROs based on capabilities, expertise, quality, and cost. Although many CROs may aspire to be "one-stop shops" capable of meeting all of their clients' drug discovery and development needs, we believe that substantial gaps in service offerings and drug regulatory expertise have hindered these endeavors. As a result, the industry has persisted in adopting a selective outsourcing approach. We believe that there is currently a significant unmet need for CROs that can offer a combined service of chemistry, DMPK, preclinical safety/toxicology, and clinical trial services with strategic and regulatory support to effectively advance new lead candidates from the IND stage to clinical trials.

Frontage's strategy is to develop capability to address and fill this market gap. In addition to conventional service offerings, Frontage plans to undertake the role of a drug developer for its clients. This effort will involve, among other things, scientific and regulatory consulting, conducting all necessary testing for the IND, preparing submissions, and conducting clinical trials.

In North America, we have established a collaborative network of interdisciplinary teams with expertise in DMPK, CMC, Safety/Tox, Bioanalytical, Clinical and Regulatory Compliance. This enables us to offer a comprehensive one-stop solution to our clients.

During the Reporting Period, our DMPK unit in the U.S. continued to strategically expand our portfolio to meet the growing needs of our clients' complex discovery and development projects. In Exton, PA, our DMPK unit had fully integrated the operations of Biotranex Laboratories, LLC into Frontage's DMPK unit and started to offer transporter studies (as part of IND-supporting studies) to clients. We have also strengthened our comprehensive drug transporter research service offerings to support projects from discovery to development including screening, and full characterization of both uptake and efflux transporters.

During the Reporting Period, our Safety & Toxicology unit in the U.S. witnessed exciting developments with the addition of three industry veterans – John Kapeghian, Ph.D, DABT (Senior Vice President, Global Safety & Toxicology), John Bernal, DVM (Vice President, Global Animal Welfare & Veterinary Resources), and Stewart Jacobson, DVM, DACVP (Vice President, Global Pathology Services). Under the leadership of Dr. Stewart Jacobson, Frontage launched the establishment of a Pathology Services group. This initiative resulted in an immediate return, as numerous previously-outsourced pathology tasks are now being completed in-house, delivering instant benefits to Frontage. We are committed to further grow and strengthen the Pathology Services group to ensure we can fulfill all internal requirements across our Safety & Toxicology sites, including those in the U.S., China, and Canada. In 2023, our operation in Chicago successfully completed another year of Association for Assessment and Accreditation of Laboratory Animal Care ("**AAALAC**") – Accreditation, underwent a U.S. Department of Agriculture ("**USDA**") inspection, completed a weeklong U.S. Food and Drug Administration ("**FDA**") inspection, and underwent twelve (12) Sponsor-directed Quality Assurance audits, all receiving very positive feedback.

Furthermore, our Chicago operation focuses on developing the Agro-chemical toxicology business and exploring in vitro alternatives to animal testing. During the Reporting Period, it advanced its efforts in ocular toxicology and Developmental And Reproductive Toxicology, both of which show promising and anticipated growth in the coming year. Meanwhile, the Safety and Toxicology team at our facility in Concord, OH has expanded its genetic toxicology services to include the Enhanced Ames Test for nitrosamines and phosphatidylinositol glycan class A gene (Pig-a) mutation assay and improved the in vivo cardiovascular telemetry study to comply with ICH E14 & S7B, Clinical and Nonclinical Evaluation of QT/QTc Interval Prolongation and Proarrhythmic Potential.

During the Reporting Period, Frontage also started new initiatives including Global Drug Discovery & Development Services and Global Laboratory Services within the organization. Global Drug Discovery Services will unify all operations in chemistry, biology, ADME/PK and pharmacology at various subsidiaries in the United States and Canada. Global Laboratory Services is a centralized project management system which encompasses a comprehensive suite of services, including global logistics, a range of laboratory testing and biomarker services. This system ensures efficient service delivery, from lab manual creation, kit design and production, to sample shipment and reconciliation. Global Drug Discovery Services and Global Laboratory Services both exemplify Frontage's dedication and commitment to offering a one-stop solution to clients.

During the Reporting Period, Frontage completed the acquisition of Nucro-Technics, a renowned CRO in Toronto, Canada. For over 50 years, Nucro-Technics has been conducting studies for various clients including major pharmaceutical, biotech, and medical device companies, as well as smaller organizations including industry trade groups and academia. Nucro-Technics has over the years successfully provided comprehensive IND packages to clients for regulatory submissions. As an ISO 9001:2015 certified organization, Nucro-Technics conducts studies that align with GLP and Good Manufacturing Practice ("**GMP**") regulations. With this strategic acquisition, Frontage now holds a presence in two major metropolitan centers of Canada, Vancouver and Toronto, facilitating access to the thriving biopharmaceutical industries in the Canadian market and expanding Frontage's overall presence in North America.

Looking ahead, we aim to develop and enhance our one-stop-solution services by broadening our offerings and increasing our capacity. Additionally, we will continue to invest in new technologies and improve our facilities to maintain our position as a premier contract research organization and aid clients in bringing new drugs and medical products to market swiftly and efficiently.

China

In China, we are committed to continuing to improve our service capacities and capabilities. This commitment entails strengthening our research and development teams, laboratory infrastructure, equipment, technological platforms, and professional skills to establish a comprehensive foundation for drug discovery and development. Our primary objective is to deliver top-notch services to our clients. By the end of the Reporting Period, our service offerings in China cover a wide spectrum of drug discovery, preclinical research, and clinical research. Specifically, this includes activities such as chemical synthesis and medicinal chemistry, pharmacodynamics, drug metabolism and pharmacokinetics, safety and toxicology, CMC formulation development, clinical sample production, biological analysis, biological agents, central laboratory services, and bioequivalence ("**BE**") clinical studies. Through the establishment of a total of 11 laboratory and manufacturing facilities in Shanghai, Suzhou, Wuhan, and Zhengzhou, spanning a total of 810,000 square feet, we have significantly bolstered the capabilities of our diverse service platforms in China. Furthermore, we are actively engaged in expanding the technical prowess across each service platform.

In June 2023, our Suzhou safety assessment center, encompassing an impressive 215,000 square feet, successfully obtained GLP certification from the National Medical Products Administration ("**NMPA**"). This notable achievement highlights our proficiency in conducting preclinical toxicology and safety evaluations that are essential for IND applications, significantly enhancing our competitive edge in the realm of preclinical research. Additionally, our facility received accreditation from AAALAC in March 2023, further affirming our steadfast commitment to upholding high standards of quality, reliability, and conformity to industry best practices. Our safety and toxicology services have consistently demonstrated excellence in a diverse range of tests, encompassing clinical pathology, histopathology, general toxicology, and genotoxicity assessments. Notable successes include the official FDA approval of a small molecule anti-tumor drug that we contributed to for a U.S. client, as well as the NMPA's endorsement of an antibody drug with dual targets developed for a Chinese-based customer, showcasing our dedication to fostering innovation and delivering impactful solutions in the field of drug development.

The DMPK unit of our company has harnessed specialized patented technology to create a research platform centered around the bile salt export pump (BSEP) using human liver cells. This advancement allows for a more precise assessment of mechanisms and potential risks associated with pharmaceuticals designed for liver diseases. Additionally, we have implemented a high-throughput parallel artificial membrane permeability assay (PAMPA) screening platform to improve the efficiency of evaluating compound membrane permeability. Our pharmacodynamics services have been expanded with the inclusion of more than 50 new enzymology testing targets and the establishment of over 30 distinct cell lines, which encompass G protein-coupled receptors (GPCRs), ion channels, transporters, and signaling pathways. Moreover, our focus on tumor vaccines is expanding through animal model studies that concentrate on the immunogenicity of infectious vaccines, immunization protocols, adjuvant exploration, and delivery systems.

Our bioanalytical services are at the forefront of advanced scientific and technological advancements. Specifically, we have made significant progress in developing testing platforms for a variety of drugs, including antibody-drug conjugates (ADC), small nucleic acid drugs, biomarkers, and cell and gene therapy (CGT) drugs. Our focus on ADC projects has allowed us to create effective solutions and gain valuable experience in overcoming challenges related to stability and interference in methodology development, showcasing our dedication to exceptional scientific analysis. Moreover, our bioanalytical laboratories in China maintain high standards of service capability and quality system, receiving recognition from national authoritative institutions. During the Reporting Period, our laboratories operating in Shanghai and Suzhou successfully passed the inter-laboratory quality evaluation organized by the National Institutes for Food and Drug Control. To date, our participation in the inter-laboratory quality evaluations organized by national authoritative institutions has consistently been successful, positioning our laboratories as the leader of the industry with recognized capabilities in bioanalytical testing.

During the Reporting Period, our 89,000-square-foot clinical sample manufacturing facility in Suzhou commenced partial operations This facility includes an oral solid dosage form workshop, a sterile parenteral dosage form workshop, a topical semi-solid dosage form workshop, and an analytical testing laboratory. With these enhancements, we are strategically positioned to fortify our proficiency in the production of clinical trial samples/materials across various dosage forms. With the operation of this facility, we have established a seamless process integrating drug research and development, production of investigational drugs/placebos for clinical trials, and clinical supply of drugs, which assisting in clients in quickly initiating and advancing clinical trials.

In May 2023, we successfully launched the first phase of our drug development center in Wuhan. The facility includes fifty (50) advanced medicinal chemistry laboratories, four (4) cutting-edge process research and development laboratories, and one (1) specialized analytical and testing service center. The core objective with this project is to create a strong foundation for the innovative research and development of small molecule drugs. We are deeply committed to offering our global clients comprehensive pharmaceutical R&D services, from target screening to preclinical pharmaceutical research. This highlights our dedication to being a reliable and highly effective partner in the worldwide pharmaceutical research and development field.

Our BE services have demonstrated expertise in a wide range of specialized dosage forms, such as inhalers, transdermal formulations, composite injections, as well as intricate projects involving endogenous substances and biosimilar drugs. Additionally, we have successfully managed multi-center BE studies, providing comprehensive support including protocol development, project oversight, clinical and medical monitoring, data management, statistical analysis, pharmacokinetic evaluations, and timely report submissions. Noteworthy is our track record of assisting several clinical partners in achieving favorable outcomes during FDA clinical inspections, underscoring the broad recognition of our quality assurance system in BE clinical operations by domestic and international regulatory authorities.

As our diverse business units in China continue to make progress, particularly in the field of drug discovery and preclinical research, our integrated service offerings have shown significant advancement. During the Reporting Period, we obtained multiple contracts for integrated service projects, covering medicinal chemistry, API research and development, pharmacodynamics, drug metabolism and pharmacokinetics, safety and toxicology, CMC formulation development, and bioanalysis. This demonstrates that our one-stop-shop service model is gaining increasing recognition and trust from our clients.

Furthermore, with the continual expansion and enhancement of our service portfolio, our business development team has effectively leveraged our well-established comprehensive drug R&D service platform to cultivate greater synergy between our Chinese and North American markets. In 2023, as the COVID-19 restrictions in China eased, we expedited collaboration between our laboratories in China and North America, further strengthening their technical and business synergies. A series of strategic initiatives, such as customer referral programs, cross-border project exchanges, and shared technological advancements, were implemented to markedly improve our operational efficiency and market reach. Concurrently, we deepened our partnership with our controlling shareholder, Hangzhou Tigermed, capitalizing on their extensive customer network, particularly focusing on preclinical projects with Hangzhou Tigermed's strategic clients. This enhanced collaboration has accelerated the recognition of our new service platforms among international and domestic clientele. Consequently, we have observed a steady increase in our facility capacity utilization and service standards, thereby contributing to the overall growth and progress of our business.

Throughout the latter part of 2022 and over the course of the Reporting Period, we have noted a marked increase in operational expenses and costs in China. This upward trajectory is largely driven by the establishment and commencement of operations at our new facilities in China, including the Suzhou preclinical animal research facility, Shanghai Lin-Gang laboratory, Wuhan pharmacodynamics laboratory, Phase I of the Wuhan drug R&D center, and Suzhou clinical sample production facility. Further contributing to this rise is the launch of our newly established service platforms, which specialize in pharmacodynamics, DMPK, safety and toxicology, and central laboratory services. Key expenditure categories primarily encompass depreciation and amortization related to the newly established facilities and services, as well as labor costs associated with the expansion of the mentioned new business teams. These factors have had an impact on the profitability of our operations in China. Nevertheless, by the end of the Reporting Period, we have successfully established the requisite infrastructure, equipment, personnel, and quality systems for our new business ventures. These platforms have commenced generating revenue during the Reporting Period. Looking ahead, we anticipate that through continued operation and improved capacity utilization of these advanced facilities and high-quality service platforms, we will generate revenue of a sufficient magnitude to offset developmental costs and expenses. Ultimately, this will serve to bolster the profitability of our operations in China.

THE GROUP'S FACILITIES

As of December 31, 2023, the Group had twelve (12) facilities in North America, consisting of:

- three (3) facilities in Exton, PA, USA;
- two (2) facilities in Hayward, CA, USA;
- one (1) facility in Secaucus, NJ, USA;
- one (1) facility in Concord, OH, USA;
- one (1) facility in Deerfield, FL, USA;
- one (1) facility in Palo Alto, CA, USA;
- one (1) facility in Chicago, IL;
- one (1) facility in Vancouver, Canada; and
- one (1) facility in Toronto, Canada.

In addition, as of December 31, 2023, the Group had eleven (11) facilities in China, consisting of:

- four (4) facilities in Shanghai;
- four (4) facilities in Suzhou, Jiangsu Province;
- one (1) facility in Zhengzhou, Henan Province; and
- two (2) facilities in Wuhan, Hubei Province.

QUALITY ASSURANCE

The Group's quality compliance programs are managed by a dedicated group responsible for quality compliance. Our independent quality units have overseen and also implemented 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 ("**SOPs**") 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.

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, our facilities in the U.S. and Canada were inspected by the FDA, DEA (Drug Enforcement Administration), CNSC (Canadian Nuclear Safety Commission; for radiation safety), PHAC (Public Health Agency of Canada; for biosafety), Clinical Laboratory Improvement Amendments/The College of American Pathologists (CLIA/CAP), DOH, AAALAC, USDA DOH (Department of Health), AAALAC, and USDA (United States Department of Agriculture). and none of the inspections resulted in any materially adverse issues being identified.

Our facilities in China were also inspected by the NMPA and none of the inspections resulted in any materially adverse issues being identified.

Animal Welfare

We focus on animal welfare issues in our business operations and are committed to following strict procedures in upholding animal rights. According to the Guide of the Care and Use of Laboratory Animals and all relevant laws and regulations, we implement our SOPs and quality animal care program to treat animals humanely. As responsible researchers, we have established plans and procedures on the living environment, animal facility control, back – up veterinary care plan, transferal, and termination/euthanasia procedures. We regularly monitor animal conditions and assess the adequacy of our existing protocols, as well as keeping abreast of recent scientific developments in this area. Training and education are also provided to the responsible people for carrying out their duties. During the Reporting Period, we did not receive any non-compliance reports from the USDA and FDA.

BUSINESS DEVELOPMENT & MARKETING

Business Development

Our global business development team supports global commercial activities by creating relationships with prospective customers and growing relationships with our existing customers. We rely heavily on our past project performance, experienced teams, and 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 personnel work with our clients 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 located across the United States, China, 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 our project managers possess advanced scientific and technical degrees to support our customers' complex product development endeavors and challenges within various market segments (global biopharmaceutical, small and mid-sized pharmaceutical and biotechnology companies, and academic and government institutions). This enhances our ability to meet client needs by offering customized solutions across our entire portfolio ranging from discovery services to late phase clinical trial management specifically through the application of central laboratory and early phase clinical services.

Marketing

The 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 to include digital marketing, conferences and events, and high-profile publications. Potential customers are directed 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 initiatives focus on driving long-term client engagement and stimulating demand for our entire services portfolio. We believe that our ability to provide comprehensive solutions addressing all aspects of our customers' research and development needs are increasingly attractive. As a result, we continue to market our ability to provide clients with scientific expertise, complex solutions that meet high quality standards.

Group Awards

During the Reporting Period, Frontage Labs has been selected as a winner of a 2023 CRO Leadership Award in multiple categories (Capabilities, Compatibility, Expertise, Reliability and Quality) issued by the magazines Life Science Leader and Clinical Leader.

Furthermore, Frontage Shanghai was named as a Top 20 Chinese R&D CRO Enterprise in the 2023 Conference on High Quality Development of Healthcare Industry.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Acquisitions

Acquisition of 100% of equity interests in Nucro-Technics Inc. and Nucro-Technics Holdings Inc.

In August 2023, Frontage Canada, Inc. (an indirect wholly owned subsidiary of the Company, as the purchaser) and Frontage Labs, (a direct wholly owned subsidiary of the Company, as the guarantor of the Purchaser's obligations), entered into the Share Purchase Agreement with Nucro-Technics and its shareholders to purchase 100% of the equity interest in Nucro-Technics for a cash consideration of approximately CAD70,000,000 (equivalent to approximately HKD410,431,000). Nucro-Technics, Inc. is a corporation formed under the laws of Canada with its 60,000 square foot state-of-the-art facility located in Ontario, Canada. It provides comprehensive services in DMPK, formulation development, analytical testing, bioanalysis, preclinical safety and toxicology and early phase clinical studies.

For further details, please refer to the Company's announcement dated August 15, 2023.

EVENTS AFTER THE REPORTING PERIOD

On June 16, 2023, Frontage Labs entered into a Going Concern Purchase Agreement (together with all amendments thereto, the "**Agreement**") with Accelera S.r.l. ("**Accelera**") and its parent company, NMS Group S.p.A., pursuant to which Frontage Labs agreed to purchase, through its wholly-owned subsidiary Frontage Europe S.r.l., the Bioanalytical and Drug Metabolism & Pharmacokinetics businesses of Accelera for a cash consideration of approximately EUR6,835,000 subject to the terms and conditions of the Agreement.

The acquisition was completed on January 1, 2024 (New York Time). Immediately following the completion of acquisition, the financial results, assets and liabilities of the Bioanalytical and Drug Metabolism & Pharmacokinetics businesses of Accelera will be consolidated into the consolidated financial statements of the Group.

The acquisition did not constitute a notifiable transaction and was not subject to the reporting, disclosure or shareholder approval requirements under the Listing Rules.

PROSPECTS

As a full-service CRO in the dynamic and constantly evolving life sciences industry, market trends play a crucial role in shaping our business prospects. Over the past year, the global biopharmaceutical market has witnessed a slowdown in investment and financing activities, resulting in a more judicious approach to biopharmaceutical research and development.

However, we believe that trends such as the increasing complexity of drug development, rising demand for specialized knowledge and skills, and the ongoing need to reduce costs and enhance efficiency, are likely to promote the further outsourcing drug research and development services. According to the IQVIA Institute, the largest driver of medicine spending growth through the next five years is still expected to be the introduction and use in developed markets of innovative therapeutics. This includes new drugs, therapies, or medical technologies that offer improved or novel approaches to treating various health conditions. As the demand for advanced and groundbreaking therapeutics continues to drive spending in the healthcare sector, the strategic use of outsourcing drug research is poised to be a key enabler for biopharmaceutical companies striving to stay at the forefront of medical advancements and meet the evolving needs of the market.

Looking ahead, we are committed to enhancing our position as a value-added partner in the biopharmaceutical industry, focusing on providing high-quality services to customers in the biopharmaceutical sector to help them solve the most critical and complex drug development challenges. We plan to continue to optimize our integrated service platform and develop cutting-edge and leading technology platforms to ensure that we can meet the diverse needs of customers from drug discovery to development. We will consider making reasonable investments in areas with strong demand and higher growth opportunities, such as pathology, genotoxicity, and other specialized fields.

Drawing on our dual operational presence in North America and China, we intend to capitalize on our shared adherence to stringent quality system standards. By leveraging the synergies between our North American and Chinese operations, we aim to optimize our use of business and technical resources, in the expectation that doing so will enhance our operational efficiency and enable us to deliver top-quality services to a wider global customer base. Additionally, we will consider exploring commercial opportunities in certain promising regions, such as Japan, South Korea, Europe, and South America.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 3.8% from approximately US$250.4 million for the year ended December 31, 2022 to approximately US$259.9 million for the year ended December 31, 2023.

Revenue from operations in North America increased by 1.4% from approximately US$196.3 million for the year ended December 31, 2022 to approximately US$199.1 million for the year ended December 31 2023. Excluding the impact of currency translation, the revenue from operations in China increased by 17.5% from approximately RMB365.1 million (equivalent to approximately US$54.0 million) for the year ended December 31, 2022 to approximately RMB428.9 million (equivalent to approximately US$60.8 million) for the year ended December 31, 2023. The slow increase in the North America market was mainly due to marketing and business development efforts made by the Group, resulting in resilient marketing performance in North America, partially offset by the decrease of revenue generated from early drug discovery business which was negatively affected by the weak global investment and financing environment in the biopharmaceutical field. The revenue increase in the operations in China was mainly attributable to improvement of capacity utilization and acceleration of execution of clients' projects after recovery from COVID-19 and positive impact of investments in the preclinical and GLP bioanalytical services from Suzhou facility.

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

	For the year ended December 31,	
	2023	2022
	US$'000	*US$'000* (re-presented)
Drug discovery	**33,456**	46,596
Drug Development	**95,132**	85,922
Pharmaceutical Product Development	**7,615**	10,948
Laboratory testing	**123,652**	106,894
	259,855	250,360

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

	For the year ended December 31,			
	2023		2022	
	US$'000	*%*	*US$'000*	*%*
Revenue				
– USA	**183,788**	**70.8%**	178,641	71.4%
– China	**49,451**	**19.0%**	48,189	19.2%
– Rest of the world *(Note)*	**26,616**	**10.2%**	23,530	9.4%
Total	**259,855**	**100%**	250,360	100%

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

Top 5 customers' revenue decreased by 12.2% from approximately US$49.0 million for the year ended December 31, 2022 to approximately US$43.0 million for the year ended December 31, 2023, accounting for 16.5% of total revenue for the year ended December 31, 2023 as compared to 19.6% for the year ended December 31, 2022.

Top 10 customers' revenue decreased by 5.4% from approximately US$63.3 million for the year ended December 31, 2022 to approximately US$59.9 million for the year ended December 31, 2023, accounting for 23.0% of total revenue for the year ended December 31, 2023, as compared to 25.3% for the year ended December 31, 2022.

Cost of Services

Associated with the revenue growth, the cost of services of the Group increased by 12.6% from approximately US$161.2 million for the year ended December 31, 2022 to approximately US$181.5 million for the year ended December 31, 2023. The increase of the cost of services was mainly attributed to the expansion of our service capability and capacity in both capacity in North America and China which led to an increase in depreciation and other overhead cost, and employee compensation as more scientists were hired.

The cost of services of the Group consists of direct labor costs, cost of raw materials and overhead. Direct labor costs primarily consist of salaries, bonuses and social security costs for the employees in the Group's business units. Cost of raw materials primarily consists of costs incurred for the purchase of raw materials used in rendering the Group's services. Overheads primarily consist 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 decreased by 12.1% from approximately US$89.2 million for the year ended December 31, 2022 to approximately US$78.4 million for the year ended December 31, 2023. The Group's gross profit margin decreased from approximately 35.6% for the year ended December 31, 2022 to approximately 30.2% for the year ended December 31, 2023. In particular, gross profit margin in North America decreased from approximately 39.3% for the year ended December 31, 2022 to approximately 33.2% for the year ended December 31, 2023, which driven by the decrease of revenue generated from drug discovery business which was negatively affected by the weak global investment and financing environment in the biopharmaceutical field. Whereas gross profit margin in China decreased from approximately 22.4% for the year ended December 31, 2022 to approximately 20.4% for the year ended December 31, 2023, primary due to (a) effected by a relatively lower gross profit margin contributed by newly established pre-clinical business (b) increasing overhead cost associated with service in new facilities that recently started operation (c) proactive marketing and pricing strategies were adopted while facing the severe market competition in China due to the weak investment and financing environment in the biopharmaceutical field.

Other Income

The Group's other income increased by 14.3% from approximately US$4.2 million for the year ended December 31, 2022 to approximately US$4.8 million for the year ended December 31, 2023, primarily due to an increased interest income.

Other Gains and Losses, Net

The Group's net other gains and losses decreased from approximately US$2.5 million of gain for the year ended December 31, 2022 to approximately US$1.1 million of loss for the year ended December 31, 2023, primarily due to gain arising from fair value change of previously held interest in an associate during 2022.

Selling and Marketing Expenses

Selling and marketing expenses of the Group increased by 13.9% from approximately US$7.2 million for the year ended December 31, 2022 to approximately US$8.2 million for the year ended December 31, 2023, which demonstrated our continuous efforts in the capability enhancement in business development to capture the growing demand in the CRO industry.

Administrative Expenses

The Group's administrative expenses increased by 0.5% from approximately US$44.4 million for the year ended December 31, 2022 to approximately US$44.6 million for the year ended December 31, 2023. Excluding share-based compensation expenses, amortization of intangible assets acquired from mergers and acquisitions and expenses in relation to mergers and acquisitions, the Group's administrative expenses increased by 4.3% from approximately US$32.3 million for the year ended December 31, 2022 to approximately US$33.7 million for the year ended December 31, 2023, primarily due to an increase in depreciation and employee compensation support the Group's growing business and its long-term development.

Research and Development Expenses

Our R&D 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 R&D expenses increased by 53.8% from approximately US$3.9 million for the year ended December 31, 2022 to approximately US$6.0 million for the year ended December 31, 2023, primarily due to our efforts in enhancing investment in new technologies and platforms.

Finance Costs

The Group's finance costs increased by 82.1% from approximately US$3.9 million for the year ended December 31, 2022 to approximately US$7.1 million for the year ended December 31, 2023, primarily due to interest expenses on bank borrowings, as a result of increased borrowings to finance our expansion, investments and business operation during the Reporting Period.

Income Tax Expense

The income tax expense of the Group decreased by 62.7% from approximately US$10.2 million for the year ended December 31, 2022 to approximately US$3.8 million for the year ended December 31, 2023, primarily due to a decrease in pretax income.

Net Profit and Net Profit Margin

The net profit of the Group decreased by 58.7% from approximately US$25.9 million for the year ended December 31, 2022 to approximately US$10.7 million for the year ended December 31, 2023. The net profit margin of the Group for the year ended December 31, 2023 was 4.1%, compared to 10.3% for the year ended December 31, 2022. The lower net profit and net profit margin compared to the year ended December 31, 2022 was primarily effected by (i) revenue decrease of a relatively lower net profit margin contributed by the Group's drug discovery business due to the weak global investment and financing environment; and (ii) the increase of operating expenses and depreciation and other overhead associated with newly established preclinical business as well as facilities that recently started operation in relation to significant investments made in China.

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,	
	2023	2022
	US$'000	*US$'000*
Net Profit	**10,728**	25,900
Add: Share-based compensation expense	**3,044**	4,702
Loss arising on financial liabilities measured as fair value through profit or loss	**511**	193
Amortization of acquired intangible assets from mergers and acquisitions	**7,283**	6,947
Gain arising from fair value change of previously held interest in an associate	**–**	(2,047)
Goodwill impairment	**1,893**	–
Expenses in relation to mergers and acquisitions	**515**	473
Adjusted Net Profit	**23,974**	36,168
Adjusted Net Profit Margin	**9.2%**	14.4%

The adjusted net profit of the Group decreased by 33.7% from approximately US$36.2 million for the year ended December 31, 2022 to approximately US$24.0 million for the year ended December 31, 2023. The adjusted net profit margin of the Group for the year ended December 31, 2023 was 9.2%, compared to 14.4% for the year ended December 31, 2022. The lower adjusted net profit margin of the Group for the year ended December 31, 2023 was primarily due to a lower net profit margin as discussed above.

EBITDA

The EBITDA[1] of the Group decreased by 18.2% from approximately US$69.9 million for the year ended December 31, 2022 to approximately US$57.2 million for the year ended December 31, 2023. The EBITDA margin of the Group for the year ended December 31, 2023 was 22.0%, compared to 27.9% for the year ended December 31, 2022. Compared with 58.7% net profit decrease, EBITDA has a much smaller decrease, primary due to the exclusion of deprecation cost associated with newly established preclinical business as well as facilities that recently started operation in China.

Adjusted EBITDA

The adjusted EBITDA[2] of the Group decreased by 13.7% from approximately US$73.2 million for the year ended December 31, 2022 to approximately US$63.2 million for the year ended December 31, 2023. The adjusted EBITDA margin of the Group decreased from 29.3% for the year ended December 31, 2022 to 24.3% for the year ended December 31, 2023. The decrease of adjusted EBITDA is in line with the EBITDA which had been discussed above.

Basic and Diluted Earnings Per Share

The basic earnings per share of the Group decreased by 57.9% from US$0.0126 for the year ended December 31, 2022 to US$0.0053 for the year ended December 31, 2023. The diluted earnings per share of the Group decreased by 57.7% from US$0.0123 for the year ended December 31, 2022 to US$0.0052 for the year ended December 31, 2023. The decrease in the basic and diluted earnings per share was primarily due to the decrease in the net profit as discussed above.

The adjusted basic earnings per share for the year ended December 31, 2023 amounted to US$0.0118, representing a decrease of 33.0% as compared with that of US$0.0176 for the year ended December 31, 2022. The adjusted diluted earnings per share for the year ended December 31, 2023 amounted to US$0.0116, representing a decrease of 32.9% as compared with that of US$0.0173 for the year ended December 31, 2022. The decrease in both the adjusted basic and the adjusted diluted earnings per share was primarily due to the decrease in the adjusted net profit as discussed in the above.

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

2 Calculation of adjusted EBITDA is modified and calculated as EBITDA for the Reporting Period, excluding the share-based compensation expenses, gain or loss arising from financial liabilities measured as fair value through profit or loss, gain arising from fair value change of previously held interest in an associate, goodwill impairment and expenses in relation to mergers and acquisitions to better reflect the Company's current business and operations.

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with the IFRSs, the Company has provided adjusted net profit, adjusted net profit margin and adjusted basic and diluted earnings per share (excluding the share-based compensation expenses, amortization of acquired intangible assets from mergers and acquisitions, gain or loss arising from financial liabilities measured as fair value through profit or loss, gain or loss arising from fair value change of previously held interest in an associate, goodwill impairment and expenses in relation to 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.

Property, Plant and Equipment

The property, plant and equipment of the Group increased by 8.4% from approximately US$115.0 million as at December 31, 2022 to approximately US$124.7 million as at December 31, 2023, primarily as a result of the expansion of research, development and manufacturing capacities.

Right-of-Use Assets

The Group recorded approximately US$59.1 million right-of-use assets as at December 31, 2023, which decreased by 9.4% from approximately US$65.2 million as at December 31, 2022. The decrease was mainly due to the depreciation charges of existing leases.

Goodwill

The goodwill of the Group increased by 23.3% from approximately US$149.2 million as at December 31, 2022 to approximately US$183.9 million as at December 31, 2023, which was primarily due to the goodwill arising from the acquisitions of Nucro-Technics.

Intangible Assets

The Group recorded approximately US$37.2 million intangible assets by the year ended December 31, 2023, compared to US$33.5 million by the end of December 31, 2022, primarily consisting of customer relationship acquired through business combinations.

Trade and Other Receivables and Prepayments

Trade and other receivables and prepayments of the Group increased by 6.4% from approximately US$57.6 million as at December 31, 2022 to approximately US$61.3 million as at December 31, 2023, primarily due to the growth of the Group's business.

Unbilled Revenue

The Group recorded a 6.2% increase in unbilled revenue from approximately US$17.7 million as at December 31, 2022 to approximately US$18.8 million as at December 31, 2023, primarily due to the growth of the Group's business.

Structured Deposits

As at December 31, 2023, the Group recorded approximately US$1.4 million structured deposits to improve the return of available cash balance.

Advances from Customers

The Group has recorded a decrease of 20.4% in advance from customers which converted to revenue during the Reporting Period.

Liquidity and Capital Resources

The Group's bank balances and cash amounted to approximately US$53.2 million in total as at December 31, 2023, as compared to approximately US$87.4 million as at December 31, 2022, as a result of payments for purchase of property, plant and equipment and payments related to acquisition of subsidiaries, plus cash inflow from operating activities. The cash and cash equivalents held by the Company are composed of RMB, HK$, EUR, CAD and US$. Currently, the Group follows a set of funding and treasury policies to manage its capital resources and prevent risks involved.

The Group had aggregated banking facilities of RMB335.8 million (equivalent to approximately US$47.4 million) (2022: RMB210.9 million (equivalent to approximately US$30.3 million)) and US$36.0 million (2022: US$66.0 million) which were unutilized as at December 31, 2023.

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

	For the year ended December 31,	
	2023	2022
	US$'000	*US$'000*
Net cash generated from operating activities	**39,740**	62,442
Net cash used in investing activities	**(87,626)**	(147,910)
Net cash generated from financing activities	**12,910**	30,659
Net decrease in cash and cash equivalents	**(34,976)**	(54,809)
Cash and cash equivalents at the beginning of the year	**87,433**	144,629
Effect of exchange rate changes	**729**	(2,387)
Cash and cash equivalents at the end of the year	**53,186**	87,433

Capital Expenditures

Our principal capital expenditures relate primarily to purchases of property, plant and equipment, and intangible assets in relation to the expansion and enhancement of our facilities and purchases of equipment and intangible assets used in providing our services. US$21.2 million capital expenditures were incurred for the year ended December 31, 2023, which decreased by 55.8% when compared to US$48.0 million for the year ended December 31, 2022.

Indebtedness

Borrowings

The Group had total bank borrowings of US$81.4 million as at December 31, 2023 compared to US$48.9 million as at December 31, 2022. US$ borrowings amounted to US$56.4 million and RMB borrowings amounted to RMB177.3 million (equivalent to US$25.0 million).

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$63.7 million lease liabilities as at December 31, 2023, compared to approximately US$69.3 million as at December 31, 2022 due to the payments for existing leases.

Contingent Liabilities and Guarantees

As at December 31, 2023, the Group did not have material contingent liabilities nor guarantees.

Currency Risk

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

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 26.2% and 8.2% as at December 31, 2023 and 2022, respectively, The increase is primarily due to significant financing activities to support business expansion.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2023, the Group had a total of 1,759 employees, of whom 851 were located in North America and 908 were located in China; 1,478 were scientific and technical support staff and 281 were sales, general & administrative staff. Approximately 81% of employees hold a bachelor's degree or above, and we have 540 employees that hold an advanced degree (a master's level degree or higher such as Ph.D, M.D. or other doctorate level degrees).

The staff costs, including Directors' emoluments but excluding any contributions to retirement benefit scheme contributions and share-based compensation expenses, were approximately US$112.2 million for the year ended December 31, 2023, as compared to approximately US$102.9 million for the year ended December 31, 2022. 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 the 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$193.2 million, and the balance of unutilized net proceeds was US$ nil million as at December 31, 2023.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been 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, 2023:

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, 2023 *(US$ million)*	Net proceeds brought forward for the Reporting Period *(US$ million)*	Unutilized net proceeds as at December 31, 2023 *(US$ million)*
Expand and enhance existing capacities to meet anticipated increased demand for services	38.6	20%	38.6	–	–
Expand and broaden range of capabilities and services organically	77.3	40%	77.3	11.6	–
Expand capacity and/or capabilities through potential acquisitions	58.0	30%	58.0	–	–
Working capital and general corporate purposes	19.3	10%	19.3	–	–
Total	193.2	100%	193.2	11.6	–

FINAL DIVIDEND

The Board does not recommend any payment of a final dividend for the Reporting Period (2022: Nil).

ANNUAL GENERAL MEETING

The Annual General Meeting ("**AGM**") of the Company will be held on Tuesday, May 28, 2024 and the notice of the AGM will be published in accordance with the Articles of Association and the Listing Rules and dispatched to the Shareholders in due course upon request of the Shareholders.

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 Thursday, May 23, 2024 to Tuesday, May 28, 2024, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, May 22, 2024.

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

For the year ended December 31, 2023, the Company repurchased a total of 15,848,000 Shares (the "**Shares Repurchased**") on the Stock Exchange at an aggregate consideration (including transaction cost) of approximately HK$33,009,920. The repurchased Shares have not been cancelled. The repurchase was effected because the Board considered that a share repurchase in the then conditions demonstrates the Company's confidence in its own business outlook and prospects and would, in the long term, benefit the Company and create value to the Shareholders.

Particulars of the Shares Repurchased in 2023 are as follows:

Month of repurchase	**No. of Shares repurchased**	**Highest price paid per Share** *(HK$)*	**Lowest price paid per Share** *(HK$)*	**Aggregate consideration** *(HK$)*
March	2,000,000	2.4	2.31	4,745,680
August	3,000,000	2.35	2.16	6,820,620
October	3,000,000	1.96	1.75	5,705,560
November	7,848,000	2.07	1.91	15,738,060
Total	15,848,000			33,009,920

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) for the year ended December 31, 2023.

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 Part 2 of the CG Code which are applicable to the Company, except for the deviation from code provisions C.2.1. in Part 2 of the CG Code.

Pursuant to code provision C.2.1. in Part 2 of the CG Code, the responsibilities between the chairman and the chief executive officer should be separate and should not be performed by the same individual. However, Dr. Song Li, an executive Director, performed these two roles in the Company till January 3, 2023. With effect from January 3, 2023, Dr. Song Li resigned from his role of the Chief Executive Officer but continues to serve as an Executive Director and the Chairman of the Board (among other roles). Taking into account code provision C.2.1 of the CG Code, Dr. Abdul Mutlib has been promoted to the Chief Executive Officer of the Company as successor to Dr. Song Li with effective from January 3, 2023 and the roles of Chairman and the Chief Executive Officer have been performed by different individuals since then.

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, 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 compared by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the Reporting Period and the amounts were found to be in agreement. The work performed by BDO Limited in this respect did not constitute an audit, review or other 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 2023 ANNUAL RESULTS ANNOUNCEMENT AND 2023 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 upon request of the Shareholders.

"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
"Articles of Association"	the articles of association of the Company, as amended from time to time
"Audit and Risk Management Committee"	the audit and risk management committee of the Board
"Award Participants"	the selected participants who were awarded the Awarded Shares under the 2021 Share Award Scheme
"Awarded Shares"	the 22,950,500 Shares granted by the Company to the Award Participants pursuant to the terms of the 2021 Share Award Scheme
"Board of Directors" or "Board"	the board of directors of the Company from time to time
"BRI"	BRI Biopharmaceutical Research Inc., a company incorporated under the laws of Canada on February 18, 2003, and a subsidiary of the Company

"CAD"	Canadian Dollars, the lawful currency of Canada
"CG Code"	the Corporate Governance Code as set out in Appendix C1 (formerly named as Appendix 14) to the Listing Rules, as amended, supplemented or otherwise modified from time to time
"CMC"	stands for Chemistry, Manufacturing and Controls. The Group's portfolio of CMC services spans from drug discovery to the post-approval phase, including lead compound quantification and analytical testing for the discovery phase, formulation development, Good Laboratory Practice toxicology batch studies, release and product testing, stability testing, Clinical Trial Materials and Good Manufacturing Practice manufacturing, extractability and leachability studies and commercial product release following approval of an application
"CODM"	the chief operating decision maker of the Group
"Company"	Frontage Holdings Corporation, a company incorporated under the laws of the Cayman Islands with limited liability on April 16, 2018
"Controlling Shareholder(s)"	has the meaning given to it under the Listing Rules and unless the context requires otherwise, refers to Hangzhou Tigermed and Hongkong Tigermed
"COVID-19"	the novel coronavirus (COVID-19), a coronavirus identified as the cause of an outbreak of respiratory illness
"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
"FDA"	the U.S. Food and Drug Administration
"Frontage Labs"	Frontage Laboratories, Inc., a company incorporated under the laws of Pennsylvania, United States on April 21, 2004 and the wholly-owned subsidiary of the Company

"Frontage Shanghai"	Frontage Laboratories (Shanghai) Co., Ltd., a company established in the PRC on August 2, 2005 and a subsidiary of the Company
"Frontage Suzhou"	Frontage Laboratories (Suzhou) Co, Ltd., a company established in the PRC on January 7, 2014, and a subsidiary of the Company
"GLP"	Good Laboratory Practice, a quality system of management controls for research laboratories and organizations to try to ensure the uniformity, consistency, reliability, reproducibility, quality and integrity of chemical and pharmaceuticals non-clinical safety tests
"Group", "We", "Our" or "Us"	the Company and its subsidiaries
"Hangzhou Tigermed"	Hangzhou Tigermed Consulting Co., Ltd., a company established in the PRC on December 15, 2004 with its shares being listed on ChiNext market of the Shenzhen Stock Exchange with stock code 300347 and on the Main Board of the Hong Kong Stock Exchange with stock code 3347, which is one of the controlling shareholders of the Company
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hongkong Tigermed"	Hongkong Tigermed Co., Limited, a company incorporated under the laws of Hong Kong with limited liability on September 14, 2011 and which is a wholly-owned subsidiary of Hangzhou Tigermed and one of the controlling shareholders of the Company
"IFRSs"	IFRS Accounting Standards
"IPO"	initial public offering
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	May 30, 2019, being on the date the Shares were listed on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 (formerly named as Appendix 10) to the Listing Rules

"PRC" or "China"	the People's Republic of China, but for the purposes of this announcement only, except where the context requires, references to the PRC or China exclude Hong Kong, Macau and Taiwan
"Pre-IPO Share Incentive Plans"	the 2008 Share Incentive Plan and the 2015 Share Incentive Plan
"Prospectus"	the prospectus of the Company dated May 17, 2019
"Quintara"	Quintara Discovery, Inc., a corporation incorporated under the laws of California, U.S. on May 17, 2013, of which 42%, 26%, and 32% of its Equity Interests are owned by Dr. Wentao Zhang, Dr. Qiulei Ren and Dr. Xiang Wu respectively immediately prior to the acquisition by Frontage Labs
"Reporting Period"	the year ended December 31, 2023
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary shares(s) with nominal value USD0.00001 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

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 28, 2024

As at the date of this announcement, the Board comprises Dr. Song Li as executive Director; Dr. Zhihe Li, Ms. Zhuan Yin and Mr. Hao Wu as non-executive Directors; and Mr. Yifan Li, Mr. Erh Fei Liu and Dr. Jingsong Wang as independent non-executive Directors.

* *For identification purpose only*