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## **FRONTAGE HOLDINGS CORPORATION**

**方達控股公司\***

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

**(Stock Code: 1521)**

### **DISCLOSEABLE TRANSACTION ACQUISITION OF 100% OF THE MEMBERSHIP INTERESTS IN EXPERIMUR LLC, EXPERIMUR INTERMEDIATE LLC & EXPERIMUR PROPERTIES LLC**

The Board is pleased to announce that, on December 29, 2021 (New York time), Purchaser, a wholly owned subsidiary of Company, entered into a Membership Interest Purchase Agreement (the “**Agreement**”) with Sellers, Representative, OpCo, Experimur Holdings, Experimur Intermediate, and PropertyCo in respect of the Acquisition, pursuant to which Sellers agreed to sell and Purchaser agreed to purchase 100% of the Membership Interests for a cash consideration of up to USD76,000,000 (equivalent to approximately HKD592,800,000) in accordance with the terms and conditions of the Agreement.

#### **LISTING RULES IMPLICATION**

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 5% but all of them are less than 25%, the Agreement and the Acquisition constitute a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements but not subject to the circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

**Shareholders and potential investors of the Company should note that the Closing is subject to the fulfilment (or waiver, if applicable) of the conditions precedent as set out in the section headed “Conditions Precedent” of this announcement, and the Closing may or may not proceed. Shareholders and potential investors of the Company are therefore advised to exercise caution when dealing in the shares of the Company.**

## THE MEMBERSHIP INTEREST PURCHASE AGREEMENT

The Board is pleased to announce that on December 29, 2021 (New York time), Purchaser entered into the Agreement with Sellers, Representative, Experimur Holdings and Targets, pursuant to which Purchaser agreed to purchase and Sellers agreed to sell the Membership Interests for a cash consideration of up to USD76,000,000 (equivalent to approximately HKD592,800,000) in accordance with the terms and conditions of the Agreement.

The principal terms of the Agreement are set forth below:

**Date of Agreement** December 29, 2021 (New York time)

**Parties:**

- (1) Frontage Laboratories, Inc., as Purchaser;
- (2) OpCo, Experimur Intermediate and PropertyCo (collectively as “**Targets**”);
- (3) Experimur Holdings;
- (4) the Sellers; and
- (5) Nabil Hatoum, as Sellers’ representative (“**Representative**”).

**Subject Interest:** Sellers own an aggregate of 16,504 membership interests of OpCo (the “**OpCo Membership Interests**”) and 16,304 membership interests of PropertyCo (the “**PropertyCo Membership Interests**”), which constitute all the issued and outstanding membership interests of Targets as of the date hereof. Following the Reorganization, Experimur Holdings will own 100% of the membership interests in Experimur Intermediate, which in turn will own 100% of the OpCo Membership Interests, (the “**Intermediate Membership Interests**”, and collectively with the OpCo Membership Interests and PropertyCo Membership Interests, the “**Membership Interests**”). Subject to the terms and conditions set forth in the Agreement, Sellers agreed to sell and transfer, and Purchaser agreed to purchase and acquire, 100% of the Membership Interests through the Purchaser’s acquisition of the Intermediate Membership Interests from Experimur Holdings.

**Consideration and Payment Terms:** The total consideration for the Membership Interests is USD76,000,000 (equivalent to approximately HKD592,800,000) (“**Consideration**”), comprising (i) USD4,000,000 (equivalent to approximately HKD31,200,000) for PropertyCo; and (ii) USD72,000,000 (equivalent to approximately HKD561,600,000) for OpCo.

The Consideration shall be subject to (i) an upward or downward adjustment in respect of Targets' net working capital as of the Closing; (ii) an upward adjustment in respect of Targets' cash and cash equivalents as of the Closing; and (iii) a downward adjustment in respect of Targets' indebtedness as of the Closing, which shall be paid on the Closing as follows:

- a. to an escrow agent, in the amount of USD7,600,000 (the "**Escrow Amount**"), pursuant to an escrow agreement to be entered into among Purchaser, Representative, and the escrow agent, as security for Sellers' indemnification obligations pursuant to the Agreement;
- b. to Representative, in the amount of USD100,000 (the "**Representative Expense Amount**");
- c. to the persons owed costs, fees and expenses incurred by Targets in connection with the negotiation, execution and delivery of the Agreement and the consummation of the Acquisition that are unpaid as of immediately prior to the Closing (the "**Transaction Expenses**"); and
- d. the remainder to Sellers pursuant to the payment procedures outlined in the Agreement.

**Conditions Precedent:** The respective obligations of each party to the Agreement to consummate the Acquisition will be subject to the fulfillment or waiver, at or prior to the Closing, of certain customary closing conditions ("**Conditions Precedent**"), including:

- (a) In the case of the Sellers:
  - i. the fundamental representations made by Purchaser shall be true and correct and the other representations and warranties of Purchaser contained in the Agreement shall be true and correct (without giving effect to any qualification as to "**materiality**") in all material respects; and
  - ii. no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or governmental order that prohibits or makes illegal the Acquisition.

- (b) In the case of Purchaser:
- i. the fundamental representations made by Sellers and Targets shall be true and correct and the other representations and warranties of Sellers and Targets set forth in the Agreement shall be true and correct (without giving effect to any qualification as to “**materiality**” or “**Material Adverse Effect**”) in all material respects except as would not have a Material Adverse Effect;
  - ii. the covenants and agreements contained in the Agreement to be complied with by Representative, Sellers, Experimur Holdings, or Targets on or before the Closing shall have been complied with in all material respects;
  - iii. no Material Adverse Effect shall have occurred since the date of the Agreement and be continuing;
  - iv. Targets shall have delivered to Purchaser, each in form and substance reasonably satisfactory to Purchaser in its sole discretion, all third-party consents listed in Agreement;
  - v. no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or governmental order that prohibits or makes illegal the Acquisition;
  - vi. Sellers and OpCo shall have completed the Reorganization;
  - vii. A title insurance policy shall have been issued and delivered to Purchaser in accordance with the Agreement; and
  - viii. Certain key employees of OpCo shall have executed offer letters with Purchaser.

## **Closing**

The closing of the Acquisition is anticipated to take place at a closing (the “**Closing**”) to be held on January 10, 2022, at the offices of Purchaser and by remote exchange of electronic signature and documents (or at such other place or on such other date as Sellers and Purchaser may mutually agree upon in writing), for the purpose of confirming the satisfaction or waiver, as the case may be, of the Conditions Precedent (other than those conditions which, by their terms, cannot be satisfied until the Closing, but subject to the satisfaction or waiver of such conditions).

In the event such conditions in the Conditions Precedent are not so satisfied or waived as of such date, then the Closing shall take place on the third (3<sup>rd</sup>) Business Day following such satisfaction or waiver thereof (or on such other date as Sellers and Purchaser may mutually agree upon in writing).

If the Closing does not take place at or prior to February 1, 2022, either party may terminate the Agreement, subject to the terms of the Agreement. In addition, the parties have other termination rights that are customary for a transaction of this nature.

After the Closing, Targets will become indirect wholly-owned subsidiaries of the Company and the financial results, assets and liabilities of Targets will be consolidated into the financial statements of the Group.

## **BASIS OF CONSIDERATION**

In determining the Consideration for the Acquisition, the management of the Group considered a number of factors including, among others, (i) the business model of Targets, (ii) Targets' capabilities, (iii) the historical Adjusted EBITDA of Targets, (iv) future prospects of Targets, and (v) certain relevant past sale and purchase transactions of companies of a similar business nature to Targets.

The Company believes that in the CRO industry, the net asset value of a company is not indicative of its market value, as the assets held by a CRO company such as Targets primarily consist of land, buildings and laboratory equipment, which does not include the value of the know-how and goodwill possessed by a CRO company. The Company believes as a service business, the know-how and goodwill possessed by a CRO company is a significant component of its value. Based on the above mentioned factors, through arm's length negotiations, the parties agreed that the amount of the Consideration is USD76,000,000 (equivalent to approximately HKD592,800,000), which is approximately 11.0 times the Adjusted EBITDA of Targets for the 12 months' period ended July 31, 2021. For purposes hereof, "**Adjusted EBITDA**" means the unaudited EBITDA of Targets as adjusted solely for the purpose of assisting the Company in determining the Consideration as follows:

	For the Year ended December 31,		For the Last- 12-Month ended July 31, 2021, Pro Forma
	2019 (USD'000)	2020 (USD'000)	(USD'000)
Combined Reported EBITDA, unaudited	4,810	4,706	<b>8,071</b>
Adjustments:			
(1) Removal of PPP loan proceed	(0)	(741)	<b>(1,478)</b>
(2) Other adjustments to remove non-recurring transactions, including non-recurring bonus payment, charitable contributions, etc.	648	(62)	<b>316</b>
Adjusted EBITDA (note)	5,458	3,904	<b>6,909</b>

*Note:* Adjusted EBITDA declined in year 2020 which was mainly due to the Covid-19 impact. The business has picked up rapidly during the year of 2021.

OpCo elected to be an S Corporation and to pass corporate income, losses, deductions, and credits through to its equityholders for U.S. federal tax purposes. Equityholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates. Therefore, there was no Corporate income tax paid by OpCo in the two financial years ended December 31, 2020 and seven months ended July 31, 2021. In addition, PropertyCo was treated as a partnership for U.S. federal income tax purposes, which also resulted in a pass through of tax reporting obligations to the equityholders of PropertyCo. If the Group's Corporate Income Tax rate were applied to Targets after deduction of the depreciation, amortization and interest expenses from the Adjusted EBITDA for the 12 months period ended July 31, 2021, the adjusted pro-forma net profit of the Targets, combining both the OpCo and the PropertyCo, would be approximately USD4,818,000. Applying USD76,000,000 as the consideration, the price-to-earnings ("P/E") ratio would be approximately 15.8 times. Compared to the Company's P/E ratio of approximately 54.5 times based on its market capitalization of approximately USD949,375,000 as of December 29, 2021, the implied P/E ratios of comparable transactions of approximately 15.8 times is relatively low.

In addition to the above, the management of the Group believes the Acquisition is in line with the Company's growth strategy:

- Compared with the option of building a new toxicology facility, the Acquisition could immediately double the existing operation capacity, without going through a relatively long process of GLP readiness for a new facility which may take 2 to 3 years' time;
- The Group's existing business and operations capability are complementary to Targets, and synergy value could materialize after the Acquisition.

Having considered the above mentioned factors in arriving at the Consideration, the Board is of the view that the Consideration is fair and reasonable. The Consideration will be funded by the Group's internal resources.

## **INFORMATION ON THE GROUP**

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

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

It has been one of the Company's strategies to extend the range of its services to offer its customers more integrated solutions through organic growth and potential acquisitions. The Acquisition will expand the Group's capabilities in pharmacological safety assessment, toxicology services, and other ancillary drug discovery and development services and will increase the Group's capacity to provide such services through additional scientists, equipment and facilities. As such, the Board is of the view that the Acquisition has the potential to increase the Group's revenue base and strengthen the Group's position as a global leader in the CRO industry.

The Board has considered that the Agreement was negotiated on an arm's length basis and on normal commercial terms, which are fair and reasonable, and in the best interests of the Company and its shareholders as a whole.

## INFORMATION ON TARGETS

### A. Experimur LLC

OpCo is a limited liability company formed under the laws of Illinois, U.S. on January 27, 2000. It provides toxicology testing, research, and laboratory services for biopharmaceutical companies specializing in drug discovery and development.

Set forth below is a summary of the unaudited financial information of OpCo for the two (2) financial years ended December 31, 2019 and December 31, 2020, as well as the last-12-month ended July 31, 2021 pro forma financial information, respectively:

	For the year ended December 31,		<b>Last-12- Month ended July 31, 2021, Pro Forma</b>
	2019 <i>(USD'000)</i>	2020 <i>(USD'000)</i>	<b><i>(USD'000)</i></b>
Revenue	13,429	11,113	<b>14,543</b>
Net profit (note)	3,864	3,001	<b>6,216</b>

*Note:* OpCo elected to be a S Corporation and therefore the corporate income, losses, deductions, and credits have been pass through to their shareholders for federal tax purposes.

Pursuant to the unaudited financial statements of OpCo, the net assets of OpCo as of December 31, 2019, December 31, 2020 and July 31, 2021 were USD6,405,000, USD8,061,000 and USD12,163,000 respectively.

### B. Experimur Properties LLC

PropertyCo is a limited liability company formed under the laws of Illinois, U.S. on November 10, 2005. Save for holding commercial real estate where OpCo conducts its operations, PropertyCo has no business operation since its formation.

	For the year ended December 31,		<b>Last-12- Month ended July 31, 2021, Pro Forma</b>
	2019 <i>(USD'000)</i>	2020 <i>(USD'000)</i>	<b><i>(USD'000)</i></b>
Rental Income from OpCo	775	677	<b>791</b>
Net profit (note)	188	885	<b>1,046</b>

*Note:* PropertyCo was treated as a partnership for U.S. federal income tax purposes, which also resulted in a pass through of tax reporting obligations to the equityholders of PropertyCo.

Pursuant to the unaudited financial statements of PropertyCo, the net assets of PropertyCo as of December 31, 2019, December 31, 2020 and July 31, 2021 were USD(236,000), USD541,000 and USD729,000 respectively.

## C. **Experimur Intermediate LLC**

Experimur Intermediate is a limited liability company formed under the laws of Illinois, U.S. on December 17, 2021 for the purposes of effecting the Reorganization. Save for holding the OpCo Membership Interests following the effectiveness of the Reorganization, Experimur Intermediate has no operations since its formation.

### **INFORMATION ON SELLERS**

Sellers are individual residents in the U.S. To the best of the Directors' knowledge, information, and belief after having made all reasonable inquiries, Sellers are Independent Third Parties and have no other relationships with the Group and its connected persons. As at the date of the Agreement, (i) Bernadette Ryan and Nabil Hatoum held 27.55% and 27.55%, respectively, of the membership interest in OpCo; and Bernadette Ryan and Nabil Hatoum held 27.88% and 27.88%, respectively, of the membership interest in PropertyCo. Bernadette Ryan and Nabil Hatoum are the two largest shareholders of each of OpCo and PropertyCo; and (ii) all other shareholders of OpCo and PropertyCo held less than 10% membership interest in each of OpCo and PropertyCo, respectively. Bernadette Ryan and Nabil Hatoum are vice president and president of the Targets, respectively.

### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the Acquisition under the Agreement exceed 5% but all of them are less than 25%, the Agreement and the Acquisition constitute a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules and are therefore subject to the reporting and announcement requirements but not subject to the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

### **DEFINITIONS**

In this announcement, unless the context requires otherwise, the following terms shall have the following meanings:

<b>TERM</b>	<b>DEFINITION</b>
“Acquisition”	the purchase of the Membership Interests by Purchaser from Sellers pursuant to the terms and conditions of the Agreement
“bioanalytical”	the analytical and quantitative chemistry of certain compounds in biological systems; covering biotics (macromolecules, proteins, DNA, large molecule drugs and metabolites) and xenobiotics
“bioequivalence”	the study of assessing the expected in vivo equivalence of two preparations of a drug. If two products are said to be bioequivalent, it means that there is an absence of a significant difference in the rate and extent to which the active ingredient or active moiety in products becomes available at the site of drug action when administered at the same molar dose under similar conditions in an appropriately designed study



“Board”	the board of directors of the Company from time to time
“Business Day”	any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the City of Philadelphia, Pennsylvania, U.S.
“CMC”	Chemistry, Manufacturing and Controls, an important and detailed section detailing the characteristics of a therapeutic and its manufacturing and quality testing process in a dossier used to support clinical studies and marketing applications
“Code”	the Internal Revenue Code of 1986 of the U.S., as amended
“Company”	Frontage Holdings Corporation (方達控股公司*), a company incorporated under the laws of the Cayman Islands with limited liability on April 16, 2018, whose shares are listed on The Stock Exchange of Hong Kong Limited
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Consideration”	the amount of up to USD76,000,000 (equivalent to approximately HKD592,800,000) to be paid by Purchaser to Sellers for the purchase of all Membership Interests pursuant to the Agreement
“CRO”	contract research organization
“Director(s)”	the director(s) of the Company from time to time
“DMPK”	Drug Metabolism and Pharmacokinetics, which 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
“EBITDA”	with respect to a given period of time, the earnings before interest, taxes, depreciation, and amortization
“Experimur Holdings”	Experimur Holdings, Inc., an Illinois corporation, which is aggregately owned by the Sellers
“Experimur Intermediate”	Experimur Intermediate LLC, an Illinois limited liability company, which is aggregately owned by the Sellers

“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”	the Company and its subsidiaries
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	party(ies) who, together with its ultimate beneficial owner(s), is/are person(s) independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Material Adverse Effect”	any event, circumstance, change or effect that (subject to certain exceptions), individually or in the aggregate with all other events, circumstances, changes or effects, is or would reasonably likely be materially adverse to (a) the business, condition (financial or otherwise), assets, liabilities, employees, customers or results of operations of either of Targets, taken as a whole; or (b) the ability of either of Targets or any of Sellers to consummate the Acquisition
“OpCo”	Experimur LLC, an Illinois limited liability company, which is aggregately owned by the Sellers
“PPP”	Paycheck Protection Program
“PropertyCo”	Experimur Properties LLC, an Illinois limited liability company, which is aggregately owned by the Sellers
“Purchaser”	Frontage Laboratories, Inc., a company incorporated under the laws of the Commonwealth of Pennsylvania, U.S. on April 21, 2004 and a wholly-owned subsidiary of the Company

“Reorganization”	(1) The contribution by the Sellers of all of their OpCo Membership Interests to Experimur Holdings, resulting in OpCo being a wholly owned subsidiary of Experimur Holdings; (2) the election by Experimur Holdings to treat OpCo as a qualified subchapter S subsidiary within the meaning of Code § 1361(b) in a transaction intended to qualify as a reorganization within the meaning of Code § 368(a)(1)(F); and (3) the transfer of all of the OpCo Membership Interests from Experimur Holdings to Experimur Intermediate, resulting in Experimur Intermediate being a wholly owned subsidiary of Experimur Holdings and OpCo being a wholly owned subsidiary of Experimur Intermediate, as detailed in the Agreement
“Sellers”	shareholders of OpCo and PropertyCo as of the date of the Agreement
“U.S.”	the United States of America
“USD”	U.S. Dollars, the lawful currency of the U.S.
“%”	per cent

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

Hong Kong, December 30, 2021

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

\* *For identification purposes only*