

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



FRONTAGE HOLDINGS CORPORATION

方達控股公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1521)

CONNECTED TRANSACTION ACQUISITION OF FRONTAGE CLINICAL SERVICES, INC.

The Board is pleased to announce that, on July 27, 2022 (New York time), Purchaser, a wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement (the “**Agreement**”) with Sellers, Representative, Target (an associate of the Company), pursuant to which Sellers agreed to sell and Purchaser agreed to purchase 88.1% of the equity interest in Target (“**Acquired Shares**”) for a cash consideration of approximately USD13,215,000 (equivalent to approximately HKD103,737,000) in accordance with the terms and conditions of the Agreement.

Prior to the Closing, Purchaser owns 11.9% equity interest in Target. Immediately after Closing, Purchaser will own 100% of the equity interest of Target. Target will become an indirect wholly-owned subsidiary of the Company and the financial results of Target will be consolidated into the Group’s consolidated financial results.

LISTING RULES IMPLICATION

One of the Sellers, SunRex, which holds 67.86% equity interest in Target prior to the Closing, is owned as to 40.35% by Ms. Lei Wang, spouse of Dr. Song Li, the executive Director and chairman of the Board; 33.33% by Ms. Ping Wang, spouse of Dr. Zhihe Li, a non-executive Director; and 3.51% by Ms. Kun Qian, niece-in-law of Dr. Song Li. As each of Ms. Lei Wang and Ms. Ping Wang, who is the spouse of Dr. Song Li and Dr. Zhihe Li, respectively, controls more than 30% of the equity interest in SunRex, SunRex is an associate of Dr. Song Li and Dr. Zhihe Li, and hence a connected person of the Company under the Listing Rules. Accordingly, the Acquisition, to which SunRex is one of the counterparties, constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios in respect of the transactions contemplated under the Agreement is more than 0.1% but all of them are less than 5%, the Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements, but exempt from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

THE SHARE PURCHASE AGREEMENT

The Board is pleased to announce that on July 27, 2022 (New York time), Purchaser entered into the Agreement with Sellers, Representative, Target, pursuant to which Purchaser agreed to purchase and Sellers agreed to sell the Acquired Shares for a cash consideration of approximately USD13,215,000 (equivalent to approximately HKD103,737,000) in accordance with the terms and conditions of the Agreement.

As at the date of this announcement, Purchaser owns 11.9% equity interest in Target. Upon Closing, Purchaser will own 100% of the equity interest of Target. Target will become an indirect wholly-owned subsidiary of the Company and the financial results of Target will be consolidated into the Group's consolidated financial results.

The principal terms of the Agreement are set forth below:

Date of Agreement and Closing Date: July 27, 2022 (New York time)

Parties:

- 1) Frontage Labs, as purchaser;
- 2) Frontage Clinical Services, Inc. as target company;
- 3) the Sellers as seller; and
- 4) Sam Liang, as Sellers' representative ("**Representative**").

Subject Interest: Acquired Shares.

Consideration and Payment Terms: The total consideration (the "**Consideration**") for the Acquired Shares generally represents the value of the Sellers' pro rata share of equity in Target by reference to the Base Purchase Price (i.e. USD15 million) on a cash-free debt-free basis, subject to adjustment for the difference between the targeted amount of net working capital and the actual amount of net working capital at the time of the Closing (if any) and transaction expense. Specifically, the Consideration is determined by the following formula:

(the Base Purchase Price
+ closing balance of cash and cash equivalents of Target on the business day immediately preceding the Closing Date
+/- applicable net working capital adjustment
- indebtedness of Target immediately prior to the Closing)
× 88.1%
- transaction expense

At the Closing, Purchaser shall pay an estimated amount of the Consideration (the “**Estimated Purchase Price**”), which is USD11,178,524.41, based on the parties’ good faith estimation of the various components for the calculation of the Consideration. Out of the Estimated Purchase Price, (i) USD1,000,000 of such estimated amount of Consideration shall be paid to an escrow agent to be held in escrow as security for Sellers’ indemnification obligations pursuant to the Agreement (the “**Escrow Fund**”); (ii) fees and expense incurred by Target in connection with the Acquisition shall be paid to the relevant parties to whom such fees and expense are owed; and (iii) the balance of the Estimated Purchase Price shall be paid to the Sellers on a pro rata basis. Within 90 business days after the Closing, Purchaser will deliver a closing statement to the Representative setting forth, among other things, the amount of the Consideration. Unless the Representative delivers a notice of dispute to Purchaser within 30 business days after the delivery of the said closing statement, the amount of Consideration as set forth in the closing statement will be final.

Within five (5) business days after the final Consideration is determined, (i) to the extent the Estimated Purchase Price exceeds the Consideration, the excess shall be refunded by the Sellers to the Purchaser (first by way of payment from the Escrow Fund); or (ii) to the extent the Consideration exceeds the Estimated Purchase Price, the excess shall be paid by the Purchaser to the Sellers (net of withholding taxes).

Effect of Acquisition:

After the Closing, Target will become indirect wholly-owned subsidiary of the Company and the financial results, assets and liabilities of Target will be consolidated into the consolidated financial results 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 Target, (ii) Target's capabilities, (iii) the historical Adjusted EBITDA of Target, (iv) future prospects of Target, and (v) certain relevant past acquisitions of companies of a similar business nature to Target.

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 Target primarily consist of property 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 value of 100% of the equity of Target is USD15,000,000, being the Base Purchase Price in the formula for the determination of the Consideration. The Base Purchase Price is approximately 10.5 times the Adjusted EBITDA of Target for the 12 months' period ended December 31, 2021. For purposes of this announcement, "Adjusted EBITDA" means the unaudited EBITDA of Target as adjusted solely for the purpose of assisting the Company in determining the Consideration as follows:

	For the year ended December 31,		
	2019 (USD'000)	2020 (USD'000)	2021 (USD'000)
Reported EBITDA ^(note 1)	(940)	1,531	1,313
Adjustment:			
Add: non-recurring R&D expenses			111
Adjusted EBITDA	(940)	1,531	1,424
Reported Net Profit	(1,456)	196	106
Adjustments:			
Add: (1) interest expenses	456	611	525
(2) non-recurring R&D expenses			111
Adjusted Net Profit	(1,001)	807	742

Notes:

1. The financial statements for the three years ended December 31, 2019, 2020 and 2021 have been reviewed by an independent accounting firm in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants.
2. Interest expenses were associated with debts of the seller which to be fully repaid by the closing of the Acquisition.

The Company has engaged Innovax Capital as the independent financial adviser to provide opinions including the fairness and reasonableness of the Consideration for the Proposed Acquisition. Innovax Capital has (i) conducted research for companies engaging in similar business as a CRO listed on other stock exchanges (the “**Comparable Companies**”); and (ii) reviewed several selected transactions of acquisition of CRO/CDMO companies (the “**Comparable Transactions**”) and analyzed their EV/EBITDA and EV/Revenue multiples, which is a commonly adopted basis in conducting market comparable analysis. Innovax Capital considers a fair value range could be made reference with the Comparable Companies and the Comparable Transactions’ average EV/EBITDA between 14.2 times and 26.7 times and average EV/Revenue between 3.3 times to 7.9 times; and (iii) considered the Company’s previous acquisition transaction, which 11.0 times of EV/EBITDA was applied.

Through arm’s length negotiations, with reference to the advice from Innovax Capital, the parties agreed that the amount of the EV of Target to be USD15,000,000, which is regarded as the Base Purchase Price and is approximately 10.5 times the Adjusted EBITDA of Target, or 1.7 times the Revenue of Target for the 12 months’ period ended December 31, 2021. Therefore, the Consideration is EV x 88.1%. Also, by applying USD15,000,000 as the EV and the adjusted net profit as the denominator, the price-to-earnings (“**P/E**”) ratio would be approximately 20.2 times. Compared to the Company’s P/E ratio of approximately 38.0 times based on its market capitalization of approximately USD719,088,000 as of July 27, 2022, the implied P/E ratios of comparable transactions of approximately 20.2 times is lower.

Having considered the above mentioned factors in arriving at the Consideration, the Board, including the independent non-executive Directors, is of the view that the Consideration is fair and reasonable. The Consideration will be funded by the Group’s internal resources.

INFORMATION ON TARGET

Target was incorporated in Delaware, USA. It is principally engaged in provision of CRO services relating to clinical research studies. Immediately prior to the Closing, the Target was directly held as to approximately 67.9% by SunRex, as to approximately 20.2% by the 8 Individual Sellers in total (with each holding less than 6% in the Target), and as to 11.9% by Frontage Labs.

A summary of the reviewed financial information of the Target for the three years ended December 31, 2019, 2020 and 2021 is set out below:

	For the year ended		
	December 31,		
	2019	2020	2021
	<i>(USD'000)</i>	<i>(USD'000)</i>	<i>(USD'000)</i>
Revenue	7,714	9,722	9,006
EBITDA	(940)	1,531	1,313
Net profit before tax	(1,898)	344	215
Net profit after tax	(1,456)	196	106

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 clinical research services for Phase I clinical trials, tabaco studies, and human Absorption, Metabolism, and Excretion studies and will increase the Group's capacity to provide such services through additional scientists, personnel 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.

In light of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Agreement were 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 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.

INFORMATION ON SELLERS

SunRex is a limited liability company formed under the laws of Pennsylvania, the U.S. It is owned as to 40.35% by Ms. Lei Wang, spouse of Dr. Song Li, the executive Director and chairman of the Board; 33.33% by Ms. Ping Wang, spouse of Dr. Zhihe Li, a non-executive Director; and 3.51% by Ms. Kun Qian, niece-in-law of Dr. Song Li. The remaining 22.81% equity interest in SunRex were held by Mr. Sam Liang and Ms. Jenny Tian (spouse of Mr. Sam Liang). SunRex is primarily engaged in investment holding. The original acquisition cost of Ms. Lei Wang and Ms. Ping Wang for their indirect interest in Target (which represents approximately 50% of the equity interest in Target) was approximately USD840,000 in aggregate.

The Individual Sellers and Mr. Sam Liang and Ms. Jenny Tian are residents of the U.S. Among the Individual Sellers, Zhongping Lin is an executive vice president of Frontage Labs.

INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 14A.76(2)(a) of the Listing Rules, as the highest applicable percentage ratios in respect of the transactions contemplated under the Agreement are more than 0.1% but all of them are less than 5%, the Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements and exempt from the circular, independent financial advice and shareholders' approval requirements. Nevertheless, for purposes of corporate governance, the Board appointed an independent board committee, comprising all of the independent non-executive Directors, to consider and evaluate and potentially approve the terms of the Acquisition ("**Independent Board Committee**"). The Independent Board Committee appointed Innovax Capital as the independent financial adviser to advise the Independent Board Committee in relation to the Acquisition. The Independent Board Committee received an opinion from Innovax Capital that the terms of the Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

DIRECTORS' VOTING

Dr. Song Li is the executive Director and chairman of the Board and Dr. Zhihe Li is a non-executive Director of the Company. Due to the equity interest in SunRex held by Ms. Lei Wang and Ms. Ping Wang, Dr. Song Li and Dr. Zhihe Li, respectively, are materially interested in the Agreement and the transactions contemplated thereunder and have abstained from voting on the relevant Board resolutions of the Company.

Save as the aforementioned, none of the Directors has a material interest in the transaction contemplated under the Acquisition or is required to abstain from voting on the relevant resolutions.

LISTING RULES IMPLICATIONS

One of the Sellers, SunRex, which holds 67.86% equity interest in Target prior to the Closing, is owned as to 40.35% by Ms. Lei Wang, spouse of Dr. Song Li, the executive Director and chairman of the Board; 33.33% by Ms. Ping Wang, spouse of Dr. Zhihe Li, a non-executive Director; and 3.51% by Ms. Kun Qian, niece-in-law of Dr. Song Li. As each of Ms. Lei Wang and Ms. Ping Wang, who is the spouse of Dr. Song Li and Dr. Zhihe Li, respectively, controls more than 30% of the equity interest in SunRex, SunRex is an associate of Dr. Song Li and Dr. Zhihe Li, and hence a connected person of the Company under the Listing Rules. Accordingly, the Acquisition, to which SunRex is one of the counterparties, constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios (other than profits ratio) in respect of the transactions contemplated under the Agreement is more than 0.1% but all of them are less than 5%, the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

TERM	DEFINITION
“associate”	has the meaning ascribed to it in the Listing Rules
“Acquisition”	the purchase of the Acquired Shares by Purchaser from Sellers pursuant to the terms and conditions of the Agreement
“Base Purchase Price”	USD15,000,000
“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”	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 USD13,215,000 (equivalent to approximately HKD103,737,000) to be paid by Purchaser to Sellers for the purchase of all Acquired Shares pursuant to the Agreement
“Closing”	completion of the Acquisition
“CRO”	contract research organization
“CDMO”	contract development and manufacturing 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
“EV”	enterprise value
“Frontage Labs”	Frontage Laboratories, Inc., a company incorporated under the laws of Pennsylvania, the U.S. and a wholly-owned subsidiary of the Company
“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
“Individual Sellers”	shareholders of the Target (other than SunRex and Purchaser) prior to the Closing, namely, Zhenlin Chen, Jian Wu and Yu Meng, Min Tian, Zhongping Lin and Xiaohong Feng, Qiuyue Chen and Yao Huang

“Innovax Capital”	Innovax Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee in respect of the terms of the Agreement and the transactions contemplated thereunder
“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 Target, taken as a whole; or (b) the ability of Target or any of Sellers to consummate the Acquisition
“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
“Sellers”	shareholders of Target prior to the Closing other than the purchaser, namely, SunRex LLC and the Individual Sellers
“SunRex”	Sunrex LLC, a limited liability company formed under the laws of Pennsylvania, the U.S.
“Target”	Frontage Clinical Services, Inc., a company incorporated under the laws of the State of Delaware, U.S. on April 27, 1994
“U.S.”	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, July 28, 2022

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 purposes only*