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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% EQUITY INTEREST IN NUCRO TECHNICS INC. & NUCRO-TECHNICS HOLDINGS, INC.

The Board is pleased to announce that, on August 15, 2023 (New York time), Purchaser, an indirect wholly owned subsidiary of Company, and Guarantor, a wholly owned subsidiary of Company and Purchaser's parent company, entered into a Share Purchase Agreement (the "**Agreement**") with Sellers, Sellers' Representative, Nucro, and Nucro Holdings in respect of the Acquisition, pursuant to which Sellers agreed to sell and Purchaser agreed to purchase 100% of the equity interest in Targets in aggregate ("**Acquired Shares**") for cash consideration of CAD70,000,000 (equivalent to approximately HKD410,431,000), subject to the adjustments sets forth therein, 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 disclosable 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.

THE SHARE PURCHASE AGREEMENT

The Board is pleased to announce that on August 15, 2023 (New York time), Purchaser and Guarantor entered into the Agreement with Sellers, Sellers' Representative, Nucro, and Nucro Holdings, pursuant to which Purchaser agreed to purchase and Sellers agreed to sell the Acquired Shares for cash consideration of CAD70,000,000 (equivalent to approximately HKD410,431,000), subject to the adjustments set forth therein, in accordance with the terms and conditions of the Agreement.

The principal terms of the Agreement are set forth below:

Date of Agreement	August 15, 2023 (New York time)
Parties:	<ol style="list-style-type: none">(1) Frontage Canada, Inc. (“Purchaser”)(2) Frontage Laboratories, Inc. (“Guarantor”)(3) Nucro Technics Inc. (“Nucro”, or the “Target Company”)(4) Nucro-Technics Holdings Inc. (“Nucro Holdings”)(5) the Sellers; and(6) Seller's Representative (“Sellers' Representative”).
Subject Interest:	Acquired Shares.
Consideration and Payment Terms:	<p>The total consideration for the Acquired Shares (the “Consideration”) generally represents the value of the Sellers' pro rata share of equity in Targets by reference to the Base Purchase Price (i.e. CAD 70,000,000), subject to adjustment based on the following formula:</p> <p>the Base Purchase Price</p> <p>+/- Applicable net working capital adjustment</p> <p>– Indebtedness of Targets as at the Closing Time</p> <p>+ Closing balance of cash and cash equivalents of Targets as at the Closing Time</p> <p>– Transaction expenses</p>

At the Closing, Purchaser shall pay an estimated amount of the Consideration (the “**Estimated Purchase Price**”), which is CAD64,462,000, based on the parties’ good faith estimation of the various components for the calculation of the Consideration. Out of the Estimated Purchase Price, (i) CAD815,000 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) CAD1,000,000 shall be withheld from certain of the Sellers and only paid (if at all) on the two year anniversary of the Closing Date, subject to certain employment-related conditions as set forth in the Agreement (the “**Holdback**”); and (iii) the balance of the Estimated Purchase Price shall be paid to the Sellers on a pro rata basis. The Holdback shall be deducted from the pro rata share otherwise payable to certain of the Sellers who are also members of the management of Nucro and shall not reduce the pro rata share payable to any of the other Sellers. Within 90 days following the Closing, Purchaser will deliver a closing statement to the Sellers’ Representative setting forth, among other things, the amount of the Consideration. Unless the Sellers’ Representative delivers a written notice of dispute to Purchaser within 30 business days after the Sellers’ Representative receives the 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.

Guarantee:

The obligations of the Purchaser under the Agreement are guaranteed by the Guarantor in favour of the Sellers.

Closing:

The Closing took place on the Closing Date, being the date of the Agreement.

Effect of Acquisition

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 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 Targets, (ii) Targets' capabilities, (iii) future prospects of Targets, (iv) certain relevant past sale and purchase transactions of companies of a similar business nature to Targets; and (v) the historical financial performance of 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. In addition, the management of the Group believes the Acquisition is in line with the Company's growth strategy in that the Group's existing business and operations capability are complementary to Targets, and synergy value could materialize after the Acquisition.

Based on the above mentioned factors, through arm's length negotiations, the parties agreed that the value of 100% of the equity of Targets (including 90% of the issued shares of Nucro to be directly acquired and 10% of the issued shares of Nucro to be indirectly acquired through acquisition of 100% of the issued shares of Nucro Holdings) is CAD70,000,000, being the Base Purchase Price in the formula for the determination of the Consideration. The Base Purchase Price is approximately 9.1 times the Adjusted EBITDA of Target for the 12 months' period ended December 31, 2022. For purposes of this announcement, "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,	
	2021	2022
	<i>(CAD'000)</i>	<i>(CAD'000)</i>
IFRS EBITDA, unaudited	3,249	1,354
Adjustments:		
(1) Carve out of non-CRO business (<i>note1</i>)	3,546	5,182
(2) Founder compensation (<i>note2</i>)	1,026	1,152
(3) SR&ED funding (<i>note3</i>)	23	(23)
(4) Other adjustments to remove non-recurring transactions, including non-recurring service fees, charitable contributions, etc.	37	30
Adjusted EBITDA	7,881	7,695

Note 1: In addition to the CRO business, Nucro was also engaging in other non-CRO business mainly include equity investments, etc. Immediately prior to the Acquisition, Nucro has conducted a re-organization to carve out the non-CRO business.

Note 2: During the years ended December 31, 2021 and 2022, Target Company paid approximately CAD1.0 million and CAD1.2 million, respectively, to the founder, who is one of the shareholders of the Target Company, as profit-sharing. Such profit-sharing arrangement will be terminated after the Purchaser will become the sole shareholder of the Target Company.

Note 3: Target Company can earn a federal refundable tax on qualified SR&ED expenditures, the amount in relation to the 2021 SR&ED funding was pushed back to 2021.

After deduction of the depreciation & amortization, interest expenses and income tax from the Year 2022 adjusted EBITDA, the adjusted net profit of Target Company would be approximately CAD5,310,000. Applying CAD70,000,000, as the maximum consideration, the price-to-earnings (“P/E”) ratio would be approximately 13.2 times. Compared to the Company’s P/E ratio of approximately 23.7 times based on its market capitalization of approximately USD609,792,000 as of July 31, 2023, the implied P/E ratios of comparable transactions of approximately 13.2 times is relatively low.

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.

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 bioanalytical services, 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 terms of 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 THE SELLERS

The Sellers include Vimy Ridge Group Investments Inc. and six individuals (the “**Individual Sellers**”). Immediately prior to the completion of the Acquisition, 90% of the fully diluted equity of the Target Company is owned by Vimy Ridge Group Investments Inc.

Vimy Ridge Group Investments Inc. is a limited liability company incorporated in Canada, the ultimate beneficial owner of which is John Ross Kingsley Ward, an individual resident in Canada. It principally engages in investment management services.

Immediately prior to the completion of the Acquisition, 10% of the fully diluted equity of the Target Company is owned by Nucro Holdings. Nucro Holdings has no other assets and carries on no other business other than the ownership of such shares. The ultimate beneficial owners of Nucro Holdings are the Individual Sellers are, who are all individual residents in Canada.

To the best of the Directors' knowledge, information, and belief after having made all reasonable inquiries, the Sellers and their ultimate beneficial owners are Independent Third Parties and have no other relationships with the Group and its connected persons.

INFORMATION ON TARGETS AND THE ACQUIRED SHARES

A. Nucro Technics Inc.

Nucro is a corporation formed under the laws of Canada on February 1, 2004. It provides chemistry testing, toxicology testing, consulting, research, and laboratory services for medical device companies and biopharmaceutical companies specializing in drug discovery and development.

Set forth below is a summary of the reviewed financial information of Nucro for the years ended December 31, 2021 and 2022:

	For the year ended December 31,	
	2021	2022
	<i>(CAD'000)</i>	<i>(CAD'000)</i>
IFRS, un-audited		
Revenue	23,453	24,389
Net profit before taxation (<i>Note</i>)	2,402	465
Net profit after taxation (<i>Note</i>)	2,027	397

Note: The lower net profit before tax and net profit after tax of 2022 compared with 2021 was mainly attributable to unrealized loss on investments held in active market of the non-CRO business, which has been carved out immediately prior to the acquisition.

Pursuant to the unaudited financial statements of Target Company, the net assets of Nucro as at December 31, 2020, 2021 and 2022 were CAD11,850,000, CAD13,849,000 and CAD14,246,000, respectively.

B. Nucro-Technics Holdings, Inc.

Nucro Holdings is a corporation formed under the laws of Canada on July 9, 2007. Save for holding shares in Nucro, Nucro Holdings has no business operations since its formation.

Set forth below is a summary of the unaudited financial information of Nucro Holdings for the years ended December 31, 2021 and 2022:

“Closing”	completion of the Acquisition
“Closing Date”	date of the Agreement
“Closing Time”	12:01 am ET on the Closing Date
“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
“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 CAD64,462,000 (equivalent to approximately HKD378,882,000) to be paid by Purchaser to Sellers for the purchase of all Acquired Shares 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
“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
“Sellers”	shareholders of Nucro and Nucro Holdings as of the date of the Agreement

“Targets”	Nucro Technics Inc., a corporation formed under the laws of Canada on February 1, 2004, and Nucro-Technics Holdings, Inc., a corporation formed under the laws of Canada on July 9, 2007
“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, August 15, 2023

As at the date of this announcement, the Board comprises of 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*