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## FRONTAGE HOLDINGS CORPORATION

方達控股公司\*

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

**(Stock Code: 1521)**

### SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ACQUISITION OF 100% EQUITY INTEREST IN ACME BIOSCIENCE, INC.

Reference is made to the announcement of Frontage Holding Corporation (the “**Company**”) published on July 2, 2020 regarding its acquisition of 100% of the equity interest in Acme Bioscience, Inc. (the “**Announcement**”). The Company wishes to provide its shareholders and the public with the following additional information on the Stock Purchase Agreement. Unless otherwise stated, terms defined in the Announcement shall have the same meanings when used herein.

#### **Performance Targets**

Pursuant to the Stock Purchase Agreement, USD15,000,000 of the Consideration is payable upon completion. As disclosed in the Announcement, USD11,000,000 (equivalent to approximately HK\$85,250,000) of the Consideration (the “**Potential Earnout Payments**”) will be subject to satisfaction of certain performance targets (the “**Performance Targets**”) for the three years ending December 31, 2022.

The Performance Targets and Consideration adjustment mechanism (the “**Earnout Formula**”) are as detailed below:

- (i) Financial year ending December 31, 2020 (“**FY2020**”): If the net income of Acme for FY2020 is equal to or greater than USD1,300,000, then the Sellers shall be entitled to receive USD2,100,000 (the “**Year-One Earnout Consideration**”);
- (ii) Financial year ending December 31, 2021 (“**FY2021**”): If the cumulative net income of Acme for FY2020 and FY2021 is equal to or greater than USD3,100,000, then the Sellers shall be entitled to receive USD3,000,000 (the “**Year-Two Earnout Consideration**”); and
- (iii) Financial year ending December 31, 2022 (“**FY2022**”):
  - (a) If the cumulative net income of Acme for FY2020, FY2021 and FY2022 is equal to or greater than USD5,400,000, then the Sellers shall be entitled to receive an aggregate amount equal to USD10,000,000 less the sum of the Year-One Earnout Consideration and the Year-Two Earnout Consideration (if any);

- (b) If the cumulative net income of Acme for FY2020, FY2021 and FY2022 is less than USD5,400,000 but greater than USD4,800,000, then the Sellers shall be entitled to receive an aggregate amount equal to 15 times the difference of (i) cumulative net income for FY2020, FY2021 and FY2022 less (ii) USD4,800,000, less the sum of the Year-One Earnout Consideration and the Year-Two Earnout Consideration (if any); and
- (c) If the cumulative net income of Acme for FY2020, FY2021 and FY2022 is less than USD4,800,000, then the Sellers shall not be entitled to any amount for FY2022.

(the “**Year-Three Earnout Consideration**”).

In addition to the foregoing, if the cumulative net income for Acme for FY2020, FY2021 and FY2022 is greater than USD7,000,000, then the Sellers shall be entitled to receive an additional aggregate amount equal to USD1,000,000.

If Frontage Labs and the Sellers are unable to agree on whether or not a performance target has been satisfied by Acme, a nationally recognized accounting firm with expertise in accounting matters reasonably acceptable to Frontage Labs and the Sellers will be appointed to resolve any such dispute.

### **Basis of Consideration**

As disclosed in the Announcement, the Consideration was arrived at after arm’s length negotiations between the Buyer and the Sellers, having considered the net assets value, the profit and business prospects of the Target. The Directors would like to further elaborate on the basis of the Consideration as set out below.

In determining the Consideration for the Acquisition, the Company mainly considered the profitability and future prospects of the Target and while its net assets value was an indicator of its basic financial healthiness, a CRO company in an early stage, such as the Target, typically has relatively light assets, primarily comprising of laboratory equipment and its net assets value is not indicative of its market value and the know-how possessed by the Target.

Based on the abovementioned factors, through arm’s length negotiations, the parties agreed that the maximum amount of the Consideration should be USD26,000,000. In addition, the parties agreed that the minimum amount of the Consideration should be 15 times of a reference amount (the “**2019 Performance**”) representing the net profit of Acme for the year ended December 31, 2019 adjusted primarily by applying a higher income tax rate which would have been applicable to Acme had it been a subsidiary of the Company and by deducting certain other items as determined by the Company during its due diligence process to be potentially subject to downward adjustment. Through arm’s length negotiations, the parties agreed that for the purpose of determining the Consideration, the 2019 Performance should be USD1,000,000. Hence, the initial instalment of the Consideration payable upon completion is USD15,000,000.

The parties further agreed that the Sellers shall be entitled to the Potential Earnout Payments if Acme achieves all of the following Performance Targets: a 30% growth in 2020 as compared to the 2019 Performance (i.e. USD1,300,000), a 38% growth in 2021 as compared to the targeted net income for 2020 (i.e. USD1,800,000), and a 28% growth in 2022 as compared to the targeted net income in 2021 (i.e. USD2,300,000). The Earnout Formula was designed to reflect the principle above, and to allocate the Potential Earnout Payments to each of the three years ending December 31, 2022 based on Acme's actual cumulative performance. If Acme does not achieve any of the Performance Targets, then no Potential Earnout Payments would be payable to the Sellers and the total Consideration for the Acquisition would only be the initial instalment of USD15,000,000 payable upon completion.

As disclosed in the Announcement, the net profit after tax of the Target for the year ended December 31, 2019 was approximately USD1,500,000. The Consideration ranging between USD15,000,000 and USD26,000,000 represents a price-to-earnings ("P/E")<sup>1</sup> ratio of 10 times to 17.3 times based on the Target's net profit after tax for the year ended December 31, 2019. Compared to the Company's P/E ratio of approximately 68 times based on its market capitalization of approximately USD1,251,000,000 as of June 30, 2020, and the range of the implied P/E ratios of comparable transactions between approximately 29 times and approximately 17 times, the implied P/E ratio of the Acquisition of the range between 10 times to 17.3 times is relatively low.

In addition, the Target's net profit after tax for the year ended December 31, 2019 represented a growth of approximately 143% from the net profit after tax of USD617,000 for the year ended December 31, 2018. While the Company believes such growth is indicative of the Target's future growth prospects, in the event that the Target fails to achieve one or more of the Performance Targets, the total Consideration would be adjusted accordingly (to a minimum of USD15,000,000) and the implied P/E ratio of the Acquisition would be lowered to a minimum of approximately 10 times.

Furthermore, the Company also considers that the Acquisition will expand the Company's capabilities in organic synthesis, medicinal chemistry and process research and development. Acme has extensive experience in antiviral and anti-bacterial research, along with expertise in nucleotides, nucleosides, triphosphates pro-drugs, heterocycles and boron containing compounds, and has partnered with many customers in developing new chemical entities. These synergies will enable the Company to capture growth in the drug discovery and early stage development and other ancillary services, which can also strengthen the Company's position to provide more comprehensive and integrated services to our customers in North America, Asia, and Europe.

On the bases of the foregoing, the Directors are of the view that the Consideration is fair and reasonable and in the interests of the Company and its shareholders.

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<sup>1</sup> References to "price-to-earnings ratio" in this announcement refer to trailing price-to-earnings ratio based on the respective historical results of the relevant companies.

## **Completion**

As disclosed in the Announcement, completion of the Acquisition was conditional upon each party having obtained the necessary consent and approval in respect of the Acquisition, among other things. Specifically, the Acquisition was subject to the board approval of the Company and the board and stockholder approval from the Target, which were all necessary consents and approvals required for the completion of the Acquisition and were obtained prior to the execution of the Stock Purchase Agreement. Accordingly, the Acquisition was completed on the same date as the date of the Stock Purchase Agreement.

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

Hong Kong, August 6, 2020

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

\* *For identification purpose only*