THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **VIVA BIOTECH HOLDINGS**, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

VIVA

VIVA BIOTECH HOLDINGS
维亚生物科技控股集团

(Incorporated in the Cayman Islands as an exempted company with limited liability)

(Stock code: 1873)

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO 80% OF THE EQUITY INTEREST OF LANGHUA PHARMACEUTICAL; AND (2) NOTICE OF SECOND EXTRAORDINARY GENERAL MEETING IN 2020

Financial Adviser to the Company

邁時資本 MAXA CAPITAL

Capitalized terms used on this cover page shall have the same meanings as those defined in "Definitions" in this circular.

The letter from the Board is set out on pages 5 to 23 of this circular.

A notice convening the EGM of VIVA BIOTECH HOLDINGS to be held at 2/F Meeting Room, 334 Aidisheng Road, Zhangjiang Hi-Tech Park, Pudong New District, Shanghai, PRC on Monday, November 9, 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.vivabiotech.com. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjourned meeting thereof if they so wish. The Company strongly recommends you to monitor the development of the situation with the COVID-19 and to assess, based on the social distancing policies, the necessity for attending the EGM in person.

October 16, 2020

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the acquisition of 80% of the equity interest of Langhua Pharmaceutical by Viva Biotech Shanghai from the Vendors
"API"	active pharmaceutical ingredient
"Board"	the board of Directors
"Business Days"	a day on which banks are normally open to conduct corporate banking businesses (other than a Saturday or Sunday or public holiday in the PRC)
"CAGR"	the compound annual growth rate
"CASBE"	the China Accounting Standards for Business Enterprises
"CDMO"	contract development and manufacturing organization(s), a CMO that, in addition to comprehensive drug manufacturing services, also provide process development and other drug development services in connection with its manufacturing services
"CMC"	chemistry, manufacturing and control
"CMO"	contract manufacturing organization, which provides comprehensive drug manufacturing services to companies in the pharmaceutical industry
"Company"	Viva Biotech Holdings, a company incorporated in the Cayman Islands as an exempted company with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1873)
"Completion"	completion of the Acquisition in accordance with the terms of the Share Purchase Agreement
"Completion Date"	the date of Completion, which shall take place on ten Business Days after the last condition precedent under the Share Purchase Agreement has been fulfilled, or any other date as the Vendors and Viva Biotech Shanghai may agree in writing
"Consideration"	the consideration payable by Viva Biotech Shanghai to the Vendors for 80% of the equity interest in Langhua Pharmaceutical pursuant to the Share Purchase Agreement, being RMB2,560 million (equivalent to approximately HK$2,842 million and subject to the Profit Guarantee Adjustment)

"CRO"	contract research organization, which provides research and development services to companies in the pharmaceutical industry
"Deposit"	RMB20 million deposit for the Acquisition paid by Viva Biotech Shanghai to the Vendors pursuant to the Letter
"Directors"	the director(s) of the Company
"EGM"	the second extraordinary general meeting of the Company in 2020 to be held at 2/F Meeting Room, 334 Aidisheng Road, Zhangjiang Hi-Tech Park, Pudong New District, Shanghai, PRC on Monday, November 9, 2020 at 10:00 a.m., notice of which is set out on pages EGM-1 to EGM-2 of this circular for the Shareholders to consider and, if thought fit, approve the Acquisition
"Enlarged Group"	the enlarged Group immediately after Completion
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"IFRS"	the International Financial Reporting Standards
"Langhua Pharmaceutical" or "LP"	Zhejiang Langhua Pharmaceutical Co., Ltd. (浙江朗華製藥有限公司), a limited liability company established in the PRC
"Langhua Pharmaceutical Group"	Langhua Pharmaceutical and its subsidiaries, being Nuobai Pharm and Nuobai Hong Kong
"Latest Practicable Date"	October 16, 2020, being the latest practicable date of ascertaining certain information contained in this circular prior to its publication
"Letter'	the letter delivered by Viva Biotech Shanghai and accepted by the Vendors on May 20, 2020, pursuant to which Viva Biotech Shanghai agreed to pay the Deposit and proceed with the negotiation of the Acquisition
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules
"Ninhua Group"	Ninhua Group Co., Ltd. (中寧化集團有限公司), a limited liability company established in the PRC

"Nuobai Hong Kong"	Ningbo Nuobai Pharmaceutical (Hongkong) Limited (寧波諾柏醫藥(香港)有限公司), a private company limited by shares established in Hong Kong
"Nuobai Investments"	Ningbo Nuobai Investment Management Center (Limited Partnership) (寧波諾柏投資管理中心(有限合夥)), a limited partnership established in the PRC
"Nuobai Pharm"	Ningbo Nuobai Pharmaceutical Co., Ltd. (寧波諾柏醫藥有限公司), a limited liability company established in the PRC
"PRC"	the People's Republic of China, which for the sole purpose of this circular excludes Hong Kong, Macau Special Administrative Region and Taiwan
"Profit Guarantee"	a profit guarantee from the Vendors that Langhua Pharmaceutical's adjusted audited net profit for 2020 will be no less than RMB160 million
"Profit Guarantee Adjustment"	the adjustment mechanism in relation to the Consideration as detailed in "Profit Guarantee and Performance Bonus" of this circular
"Prospectus"	the prospectus of the Company dated April 25, 2019
"R&D"	research and development
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Purchase Agreement"	the agreement dated August 8, 2020 entered into between the Vendors and Viva Biotech Shanghai in relation to the Acquisition
"Share(s)"	the shares of the Company
"Shareholder(s)"	the holders of Shares
"Sichuan Viva"	Sichuan Viva Benyuan Biotech Limited (四川維亞本苑生物科技有限公司), a limited liability company established in the PRC on October 30, 2018, and an indirect wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Track Record Period"	the three years ended December 31, 2019 and the six months ended 30 June 2020

"US$"	US dollar(s), the lawful currency of the United States of America
"Vendors"	Ninhua Group, Nuobai Investments, Zhining Investments, Mr. Shan Mengchun (單孟春), Mr. Yang Nuo (楊諾), and Ms. Ban Yan (班豔)
"Vendors' Qualified Right of Sale"	the Vendors' right to sell their remaining equity interest in Langhua Pharmaceutical to Viva Biotech Shanghai subject to the terms as set out in "Sale of Vendors' Remaining Equity Interest" of this circular
"Viva Biotech Shanghai"	Viva Biotech (Shanghai) Ltd. (維亞生物科技(上海)有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
"Zhining Investments"	Ningbo Zhining Investment Management Center (Limited Partnership) (寧波致寧投資管理中心(有限合夥)), a limited partnership established in the PRC
"%"	per cent.

VIVA BIOTECH HOLDINGS
维亚生物科技控股集团

(Incorporated in the Cayman Islands as an exempted company with limited liability)

(Stock code: 1873)

Executive Directors:
Mr. MAO Chen Cheney *(Chairman of the Board)*
Mr. WU Ying
Mr. HUA Fengmao
Mr. REN Delin

Non-executive Directors:
Ms. MAO Jun
Ms. SUN Yanyan

Independent non-executive Directors:
Mr. FU Lei
Ms. LI Xiangrong
Mr. WANG Haiguang

Registered office:
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Corporate Headquarters:
334 Aidisheng Road
Zhangjiang High-Tech Park
Pudong New District
Shanghai, PRC

Principal place of business in Hong Kong:
Room 1901, 19/F
Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

October 16, 2020

To the Shareholders:

Dear Sir/Madam,

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO 80% OF THE EQUITY INTEREST OF LANGHUA PHARMACEUTICAL; AND (2) NOTICE OF SECOND EXTRAORDINARY GENERAL MEETING IN 2020

I. INTRODUCTION

The Company refers to its announcement dated August 9, 2020 in relation to, inter alia, the Acquisition.

On August 8, 2020, Viva Biotech Shanghai entered into the Share Purchase Agreement with the Vendors pursuant to which Viva Biotech Shanghai agreed to acquire and the Vendors agreed to collectively sell 80% of the equity interest in Langhua Pharmaceutical, at the Consideration of RMB2,560 million (equivalent to approximately HK$2,842 million) which will be settled by cash.

The purpose of this circular is to provide the Shareholders with, inter alia, (i) further details of the Acquisition; (ii) the management discussion and analysis on the Group; (iii) the accountants' report of Langhua Pharmaceutical; (iv) the management discussion and analysis on Langhua Pharmaceutical; (v) unaudited pro forma financial information of the Enlarged Group; (vi) a notice of the EGM; and (vii) other information as required by the Listing Rules.

II. THE ACQUISITION

Principal Terms of the Share Purchase Agreement

Date:	August 8, 2020
Purchaser:	Viva Biotech Shanghai
Guarantor:	the Company
Vendors:	Ninhua Group, Nuobai Investments, Zhining Investments, Mr. Shan Mengchun, Mr. Yang Nuo and Ms. Ban Yan, being the Vendors and all the shareholders of Langhua Pharmaceutical on the date of the Share Purchase Agreement

Subject matter

Pursuant to the Share Purchase Agreement, Viva Biotech Shanghai has agreed to acquire 80% of the equity interest in Langhua Pharmaceutical, and each Vendor has agreed to sell 80% of the equity interest held by that Vendor in Langhua Pharmaceutical to Viva Biotech Shanghai. The Share Purchase Agreement sets out the terms and conditions of the Acquisition, which are determined after arm's length negotiations between the Vendors and Viva Biotech Shanghai.

Consideration

The Consideration is RMB2,560 million (equivalent to approximately HK$2,842 million), which is to be settled by the Company in the following manner:

(a) the Deposit of RMB20 million was paid to the Vendors upon their acceptance of the Letter on May 20, 2020 and will be applied to offset the Consideration;

(b) a further RMB2,028 million will be paid in cash on the Completion Date (the "**First Installment**");

(c) subject to the Profit Guarantee Adjustment, a further RMB512 million will be paid in cash on the Completion Date (the "**Second Installment**"); and

(d) in the event that Langhua Pharmaceutical's adjusted audited net profit is less than RMB150 million, any payment made under the Second Installment in excess of the amount calculated under the Profit Guarantee Adjustment shall be returned to Viva Biotech Shanghai within 10 Business Days after completion of Langhua Pharmaceutical's audit for the 2020 financial year.

In accordance with the Share Purchase Agreement, the Vendors have agreed that the Second Installment shall not be distributed until the final Consideration, taking into account the Profit Guarantee Adjustment, is fixed. The Company did not conclude with the Vendors on escrow arrangement or any additional safeguards for the Second Installment, and the Board considers that the credit risk is manageable even without escrow arrangement for the Second Installment given (i) the Completion is expected to happen in the last quarter of 2020 when the Company has obtained the latest management account of Langhua Pharmaceutical up to June 30, 2020 and up-to-date operational figures to assess the likelihood of achieving the Profit Guarantee Adjustment; (ii) the Vendors will remain as the shareholders of Langhua Pharmaceutical with 20% shareholdings after the Acquisition; and (iii) there is an incentive program for the management of Langhua Pharmaceutical to achieve a return exceeding the Profit Guarantee.

The Consideration was determined after arm's length negotiations between the parties thereto after due diligence and financial analysis taking into account, among other things, (i) the recent financial position and historical financial performance of Langhua Pharmaceutical, including the audited net profit of Langhua Pharmaceutical (prepared in accordance with CASBE and audited by a PRC certified public accountants firm) for 2019 of approximately RMB91.4 million, representing an implied price-to-earnings ratio of approximately 35 times; (ii) the Profit Guarantee provided by the Vendors that the net profit of Langhua Pharmaceutical (prepared in accordance with IFRS) will not be less than RMB160 million for 2020, representing an implied price-to-earnings ratio of approximately 20 times; (iii) the valuation of comparable companies in the drug development services industry; (iv) the business prospects and potential future growth of Langhua Pharmaceutical; and (v) the strategic fit and potential synergies available to the Company.

The Company refers to its inside information announcement dated May 20, 2020 in relation to the strategic cooperation with and potential acquisition of Langhua Pharmaceutical, which disclosed that, among other things, the potential acquisition was based on a valuation of RMB2,680 million for Langhua Pharmaceutical. The valuation of Langhua Pharmaceutical has increased as a result of arm's length negotiations between the parties, along with the increase in the valuation of market comparable companies in general and the increased Profit Guarantee based on the latest development of Langhua Pharmaceutical, and the Consideration represents an increased valuation of Langhua Pharmaceutical of approximately RMB3,200 million. Market approach has been adopted by the Company as a reference in determining the valuation of Langhua Pharmaceutical. The key assumptions adopted by the Company in this valuation include:

(a) There would be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of Langhua Pharmaceutical;

(b) The conditions in which the business was being operated and which were material to revenue and costs of businesses would have no material change;

(c) Competent management, key personnel and technical staff would be maintained to support the ongoing operation and development of Langhua Pharmaceutical;

(d) All licenses and permits that were essential for the operation of Langhua Pharmaceutical could be obtained and would be renewable upon expiry;

(e) The public and statistical information which have been obtained from sources are deemed to be reputable, accurate and reliable;

(f) There would be no material changes in relevant market return, market risk and exchange rates that would impact the Langhua Pharmaceutical's business operation; and

(g) There were no undisclosed or unexpected conditions associated with the businesses valued that might adversely affect the value of Langhua Pharmaceutical.

Set out below are the details of the 4 comparable companies identified by the Company which are listed on the Stock Exchange and primarily engaged in providing drug development services including CDMO business and form a sufficient, exhaustive, fair and reasonable list as at August 7, 2020, being the last trading day in the Shares before the date of the Share Purchase Agreement.

Company name	**Stock code**	**Business description**	**Market capitalization** *(HK$ million)*	**Audited net profit for 2019** *(HK$ million)*	**Price-to-earnings ratio** *(times)*
WuXi Biologics (Cayman) Inc.	2269.HK	Wuxi Biologics (Cayman) Inc. is a global leading biologics services provider focusing on discovery, research and development, manufacturing and sales biologicals products.	230,741	1,125	205
WuXi AppTec Co., Ltd.	2359.HK; 603259.SH	Wuxi AppTec Co., Ltd. is a leading global integrated end-to-end new drug R&D services provider, focusing on providing the discovery, development and manufacturing spectrum for small molecule drugs.	294,513	2,059	143
Pharmaron Beijing Co., Ltd.	3759.HK; 300759.SZ	Pharmaron Beijing Co., Ltd. is a global fully-integrated pharmaceutical R&D services provider, focusing on drug discovery, early-stage clinical development, late-stage clinical development and commercial manufacturing.	83,308	607	137

Company name	Stock code	Business description	Market capitalization *(HK$ million)*	Audited net profit for 2019 *(HK$ million)*	Price-to-earnings ratio *(times)*
Frontage Holdings Corporation	1521.HK	Frontage Holdings Corporation is a fast-growing CRO providing drug metabolism and pharmacokinetics, safety and toxicology, chemistry, manufacturing and controls, drug discovery and development, bioequivalence and bioanalytical services.	7,970	143	56
Average					135

Note 1: The price-to-earnings ratios are calculated based on the market capitalization of the comparable companies as at August 7, 2020, being the last trading day in the Shares before the date of the Share Purchase Agreement, and their respective audited net profit for 2019. For H share companies with A shares listed on a PRC stock exchange, the market capitalization is calculated based on the closing price of the respective shares.

Note 2: the exchange ratios used in the above calculation are US$1=HK$7.75 and RMB1=HK$1.11.

The valuation of approximately RMB3,200 million represents a price-to-earnings ratio of approximately 35 times based on the audited net profit of Langhua Pharmaceutical for 2019 prepared in accordance with CASBE and a price-to-earnings ratio of approximately 44 times based on the audited net profit of Langhua Pharmaceutical for 2019 prepared in accordance with IFRS, which are lower than (i) the average price-to-earnings ratio of approximately 135 times of 4 comparable companies and the low end of the range of price-to-earnings ratios of 4 comparable companies; and (ii) the price-to-earnings ratio of approximately 67 times of the Company, which is calculated based on the closing price of HKD10.48 per Share as quoted on the Stock Exchange on August 7, 2020 (being the trading day immediately prior to the date of the Share Purchase Agreement), the market capitalization of the Company of approximately HKD17.8 billion as at August 7, 2020 and the audited net profit of the Company for the year ended December 31, 2019 of approximately RMB265.9 million. Based on the above, the Board considers the Consideration is fair and reasonable.

In addition, Viva Biotech Shanghai shall provide an irrevocable bank guarantee of RMB640 million to the Vendors on the Completion Date, which shall secure the performance of the Vendors' Qualified Right of Sale.

The Company intends to fund the Acquisition in the following manner:

(i) approximately RMB101.6 million, representing 3.97%, of the Consideration, from proceeds of the Company's initial public offering in May 2019;

(ii) approximately RMB661.5 million, representing 25.84% of the Consideration, from proceeds of the placing under general mandate in July 2020; and

(iii) approximately RMB1,796.9 million, representing 70.19% of the Consideration, to be satisfied using other resources (including RMB260.9 million internal resources and RMB1,536 million bank facilities) available to the Group. As at the Latest Practicable Date, the Company is contemplating a five-year term loan with principal amount of RMB1,536 million, which is subject to the final approval from the relevant financial institution to finance the Acquisition. In case such final approval could not be obtained, which the Board considers unlikely to happen, the Company would raise fund through placing of new Shares under general mandate.

Profit Guarantee and Performance Bonus

The Vendors have provided a Profit Guarantee that Langhua Pharmaceutical's adjusted audited net profit prepared in accordance with IFRS for 2020 will be no less than RMB160 million. The Vendors have further agreed in the event that Langhua Pharmaceutical's adjusted audited net profit is less than RMB150 million, the Second Installment of the Consideration will be adjusted with reference to the following formula:

Profit Guarantee Adjustment = RMB512 million × (LP Adjusted Net Profit/RMB160 million)

The LP Adjust Net Profit will be calculated as Langhua Pharmaceutical's audited net profit for 2020 excluding the impact of the following items:

(i) labor and R&D cost increase as a result of the increase of R&D and quality control personnel;

(ii) interest cost savings from repayment of bank borrowings as a result of capital injection to Langhua Pharmaceutical (if any);

(iii) capital expenditure (such as construction cost) to increase production capacity (if such capital expenditure does not contribute to Langhua Pharmaceutical's production in 2020), financing cost resulting from increased bank borrowings and depreciation of fixed assets occurring after the end of 2019; and

(iv) fees for intermediaries and other professional service providers arising out of the Acquisition.

The Profit Guarantee of RMB160 million was determined after arm's length negotiations between the parties and taking into account, among other things, (i) the historical financial performance of Langhua Pharmaceutical; and (ii) the latest development of Langhua Pharmaceutical. Given the Profit Guarantee represents (i) an increase of approximately 75% of the audited net profit of Langhua Pharmaceutical for 2019 prepared in accordance with CASBE; (ii) an increase of approximately 1.19 times of the audited net profit of Langhua Pharmaceutical for 2019 prepared in accordance with IFRS; and (iii) approximately 1.66 times of the audited net profit of Langhua Pharmaceutical for the six months ended June 30, 2020 prepared in accordance with IFRS, the Directors consider that the Profit Guarantee is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In the event that LP Adjusted Net Profit exceeds RMB170 million, Viva Biotech Shanghai has undertaken that 50% of net profit in excess of RMB170 million will be paid to Langhua Pharmaceutical's management team as a performance bonus.

Conditions precedent

Completion of the Share Purchase Agreement is conditional on (i) the Stock Exchange having confirmed that it has no comments on the announcement and the circular to be issued by the Company in relation to the Acquisition; and (ii) the Shareholders having approved of the Acquisition at the EGM.

The conditions precedent above may not be waived by either party. As at the Latest Practicable Date, condition (i) has been fulfilled, whilst condition (ii) has yet to be fulfilled.

Sale of Vendors' Remaining Equity Interest

Viva Biotech Shanghai has agreed that, in the event that the business of Langhua Pharmaceutical is not listed on the A share stock market of the PRC within 5 years of the date of the Share Purchase Agreement, the Vendors may elect to sell their entire remaining equity interest in Langhua Pharmaceutical to Viva Biotech Shanghai (or its nominee) at a consideration of RMB640 million. The consideration shall be paid to the Vendors within 20 working days after the Vendors deliver a written notice of sale to Viva Biotech Shanghai.

The Vendors may also exercise the Vendors' Qualified Right of Sale in the event that (i) the parties determine another entity rather than Langhua Pharmaceutical as the listing entity for the proposed A share listing but cannot agree on the reorganization (such as the conversion price and the shareholding structure of the listing entity), or (ii) the parties cannot agree on a listing venue rather than a PRC stock exchange, regardless of whether 5 years has elapsed since the date of the Share Purchase Agreement. As at the Latest Practicable Date, there is not any concrete timeline regarding the listing of Langhua Pharmaceutical.

Post-completion Obligations

To ensure continuation of Langhua Pharmaceutical's business after Completion, the Vendors and Viva Biotech Shanghai have agreed on certain arrangements on Langhua Pharmaceutical's ongoing management, operations and governance, including:

(a) **Board composition:** After the Completion Date, Langhua Pharmaceutical's board shall comprise five directors. Ninhua Group, being one of the Vendors, is entitled to designate one director (who shall serve as the deputy chairman of the board) and Viva Biotech Shanghai is entitled to designate four directors (including the chairman of the board). Ninhua Group shall cease to have board seat after completion of the sale of the Vendors' remaining equity interest upon the exercise of the Vendors' Qualified Right of Sale;

(b) **Accounting standards:** Langhua Pharmaceutical shall prepare its financial statement in accordance with applicable accounting standards and other applicable PRC laws and regulations, as well as maintaining the same accounting standards as that of the Group. Unless approved by the board of Langhua Pharmaceutical or as required by applicable PRC laws and regulations, the accounting policies and estimates of Langhua Pharmaceutical may not be revised;

(c) **Management continuity:** Each party to the Share Purchase Agreement shall use all reasonable effort to maintain the stability of Langhua Pharmaceutical's management team and core employees (except for the internal move to a similar or higher position for business purposes or dismissal under the PRC Labor Contract Law) in the coming three years. Langhua Pharmaceutical will adopt a share incentive scheme for its management team and core employees; and

(d) **Positioning of Langhua Pharmaceutical:** Langhua Pharmaceutical shall be positioned as the Enlarged Group's sole CDMO platform for small molecule drugs and intermediate. Upon Completion, all of the Group's existing and future operation related to the development, optimization and commercialization of small molecule drugs and intermediate shall be conducted under Langhua Pharmaceutical, Ninhua Group has undertaken that during the term when it remains as a shareholder of Langhua Pharmaceutical, it shall not undertake any businesses that will either directly or indirectly compete with the Enlarged Group.

Termination and Completion

The Share Purchase Agreement may be terminated

(a) by written consent of both the Vendors and Viva Biotech Shanghai;

(b) by the non-defaulting party through written notice within 10 Business Days after becoming aware of the breach of the defaulting party which has caused material losses to the non-defaulting party or Langhua Pharmaceutical; or

(c) by the Vendors through written notice within 10 Business Days after becoming aware that the Acquisition is not approved by the Stock Exchange or the Shareholders. In this event the Deposit of RMB20 million shall be forfeited.

Completion shall take place on the Completion Date. Upon Completion, Langhua Pharmaceutical will become a non-wholly owned subsidiary of the Company. Each party shall procure Langhua Pharmaceutical to:

(a) within 8 days of the Completion Date, execute all the documents for the public filings with respect to the Acquisition including but not limited to (i) the resolution of the existing shareholders approving the Acquisition, the Share Purchase Agreement and the change in directors, supervisors and general manager of Langhua Pharmaceutical, and (ii) the new articles of association of Langhua Pharmaceutical; and

(b) within 22 days of completing the items set out in paragraph (a) above, complete the public filings in respect of the Acquisition with the relevant government authorities.

If the execution of documents or the completion of public filings is delayed due to the reasons of a defaulting party, the non-defaulting party is entitled to a late payment fee equivalent to 0.02% of the Consideration from the defaulting party per day. If the execution of documents or the public filings has not been completed within 30 days of delay, the non-defaulting party may elect to terminate the Share Purchase Agreement and is entitled to a liquidated damage of RMB20 million.

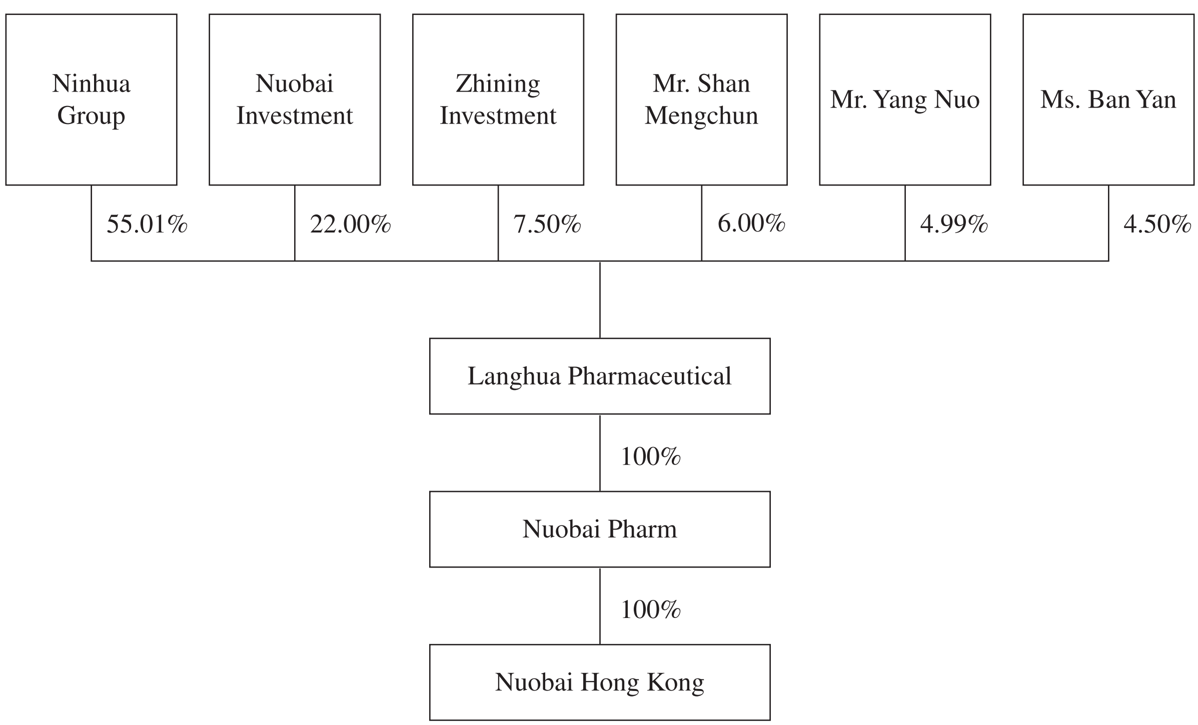
Guarantee by the Company

The Company has provided a guarantee to Viva Biotech Shanghai's obligations to pay the Consideration, acquire the Vendors' remaining equity interest in Langhua Pharmaceutical upon exercise of the Vendors' Qualified Right of Sale as well as any damages and late payment fee relating to the aforementioned obligations.

Information on Langhua Pharmaceutical Group

Langhua Pharmaceutical Group is an integrated and comprehensive drug R&D and manufacturing company in Taizhou, Zhejiang Province. It was ranked as one of the Most Promising Pharmaceutical Companies (最具成長力企業) under the 2017 Award for Top 100 Internationalized Pharmaceutical Companies (醫藥國際化百強企業). Langhua Pharmaceutical Group is well regarded in the pharmaceutical industry. It has obtained GMP certification from National Medical Products Administration (NMPA), official certification from the U.S. Food and Drug Administration (FDA), the European Directorate for the Quality of Medicines (EDQM) and World Health Organization (WHO) as well as the Pharmaceutical Supply Chain Initiative (PSCI). It is striving to become the preferred Contract Development & Manufacturing Organization (CDMO) partner of its clients, including numerous multi-national pharmaceutical companies worldwide.

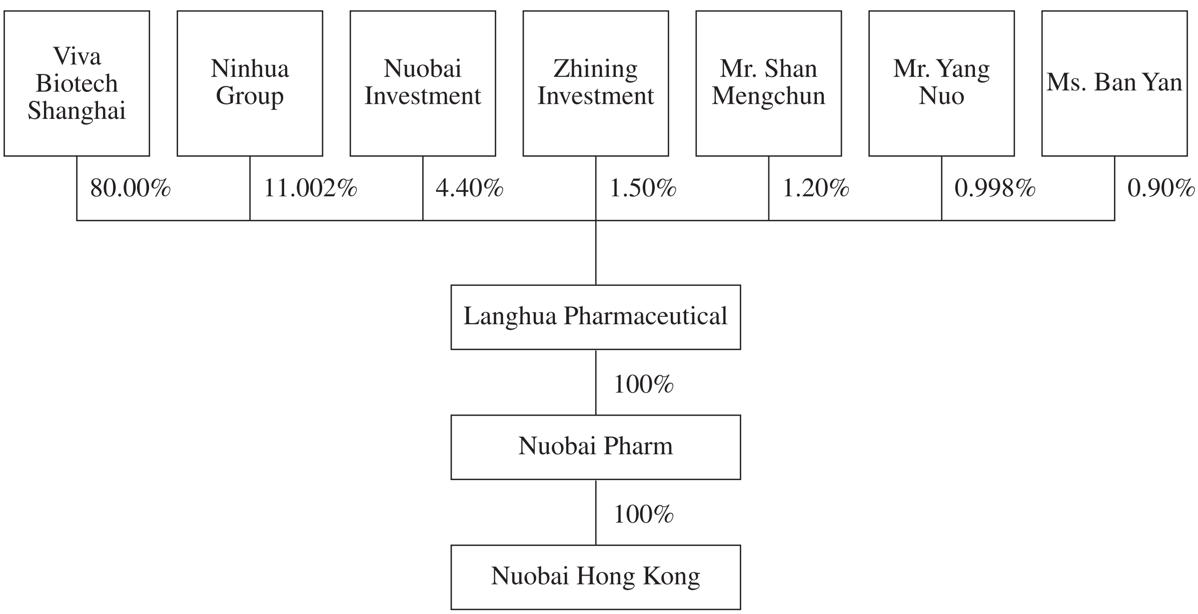
Below is the organization chart of Langhua Pharmaceutical Group as at the Latest Practicable Date.



Langhua Pharmaceutical is a company established in the PRC with limited liability. It is primarily engaged in production of small molecule APIs and intermediates and CDMO business. As at the Latest Practicable Date, Langhua Pharmaceutical is owned by the Vendors.

Nuobai Pharm is a company established in the PRC with limited liability primarily engaged in services related to commercialization of pharmaceutical products and is a direct wholly-owned subsidiary of Langhua Pharmaceutical. Together with Langhua Pharmaceutical, Nuobai Pharm provides pharmaceutical partners with one-stop solution from development to commercialization of pharmaceutical products. Nuobai Hong Kong is a company established in Hong Kong with limited liability and serves as an offshore contracting entity with Nuobai Pharm's overseas clients. Nuobai Hong Kong is a direct wholly-owned subsidiary of Nuobai Pharm.

After the Completion, Langhua Pharmaceutical will become a non-wholly owned subsidiary of the Company and will serve as the Enlarged Group's sole CDMO platform for small molecule drugs and intermediate. Below is the organization chart of Langhua Pharmaceutical Group upon the Completion.



Langhua Pharmaceutical Group is primarily engaged in the following businesses and is able to provide one-stop solution from development to commercialization of pharmaceutical products developed by its partners:

- **CDMO services:** contract development and manufacturing for small molecule APIs and intermediates.

- **Commercialization services:** domestic and international trading of APIs, intermediates and formulations.

For financial information of Langhua Pharmaceutical Group, please refer to Appendix III and Appendix IV to this circular.

Reasons for and Benefits of the Acquisition

The Group is an integrated drug discovery platform in the PRC and is principally engaged in providing structure-based drug discovery services to the biotechnology and pharmaceutical customers worldwide for their pre-clinical stage innovative drug development. As disclosed in its Prospectus, the Company plans to strategically develop the CMO business to provide R&D, manufacturing and other ancillary services to global biotechnology and pharmaceutical companies, and believes this will help its customers to further improve the efficiency of their R&D of new drugs, effectively control their manufacturing costs, expand its service offerings and enhance its market competitiveness.

CDMO is a more refined business under CMO and an evolution in the CMO market over past decades. Customers increasingly look to CMOs that can use their own production facilities and technological expertise to provide more innovative and value-added services. As such, there is a trend toward integration of R&D capability and production capacity, leading to the emergence and development of CDMOs. CDMOs aim to provide integrated services including process R&D, optimization, formula development, trial production services, and customized manufacturing services on the basis of drug development services they offer. By offering "one stop" development and manufacturing services, CDMOs can capture customers early in their drug-development timelines and can retain those customers throughout pre-clinical development and onto the commercial production.

As part of Company's strategy to become an integrated service provider, the Company have continued to identify appropriate CDMO candidates and enter into the CDMO business through vertical acquisition. On February 23, 2020, the Company announced the issuance of guaranteed convertible bonds due 2025 with net proceeds of approximately US$180 million. On July 3, 2020, the Company announced the placing of new shares under general mandate with net proceeds of approximately HK$1 billion. The Company intends to use 70% of the net proceeds from such issuance of convertible bonds and placing of new shares towards business development and expansion, mainly for the investment and acquisition of downstream business (including small molecule CDMO, large molecule CDMO and other complementary business).

Langhua Pharmaceutical is a comprehensive manufacturing enterprise focusing on APIs and intermediates production and CDMO projects. Shanghai CVCapital Business Consulting Limited (上海投中商務諮詢有限公司, "**CVCapital**"), an independent third party of the Company, brought the Company and Langhua Pharmaceutical together in September 2019 to discuss the potential collaboration for the first time. The Company did not take the initiative to reach out to CVCapital for the Acquisition. There were discussions between the Company and Langhua Pharmaceutical regarding potential strategic investment and cooperation in the areas of R&D, design and manufacturing of global pharmaceutical market (the "**Potential Strategic Investment and Cooperation**") and the Company issued an inside information announcement on December 27, 2019 in this regard. During the course of the discussion with Langhua Pharmaceutical, the Company negotiated with the Vendors to acquire Langhua Pharmaceutical's equity interest. On May 20, 2020, the Vendors accepted the Letter delivered by Viva Biotech Shanghai, pursuant to which Viva Biotech Shanghai agreed to pay the Deposit of RMB20 million to the Vendors for the potential acquisition of 60% of the equity interest of Langhua Pharmaceutical, and to proceed with the negotiation of the potential acquisition on the key terms set out in the Letter. On August 8, 2020, Viva Biotech Shanghai entered into the Share Purchase Agreement with the Vendors to acquire 80% of the equity interest of Langhua Pharmaceutical.

The Acquisition is in line with the Company's strategy of vertical integration in the industry chain and expansion into CDMO business, and is a part of the Group's further expansion of its principal business and will further strengthen the Group's overall competitiveness to offer a variety of services and enable the customers of the Group to obtain a more comprehensive support from an integrated drug development services platform. Upon Completion, Langhua Pharmaceutical will serve as the sole CDMO platform for small molecule drugs and intermediates within the Group. The Board considers the Acquisition will bring the following benefits to the Group.

Capture the potential growth of CDMO market

According to Frost & Sullivan, the markets for CRO and CMO services have significant market potentials, and the global CMO market is expected to grow from US$23.8 billion in 2017 to US$43.2 billion in 2022 with an expected CAGR of 12.7%, which is 3.2% greater than the CAGR recorded from 2013 to 2017. In particular, the size of both CRO and CMO markets in China are expected to double in 2022 as compared to 2017, and the CMO market in China is estimated to grow from US$2.0 billion in 2017 to US$4.9 billion in 2022, representing a CAGR of 20.4%. Among the US$4.9 billion market, chemical drug is expected to account for US$4.2 billion, which is equivalent to 85% of the CMO market.

The Acquisition will enable the Group to immediately own an established CDMO platform with solid track record and reputation, while saving time and avoiding unexpected cost and uncertainty arising from building a new CDMO platform from scratch. The Board considers this is a unique fit with its present core expertise and presents a good opportunity to expand into and capture the potential growth of this fast growing and profitable CDMO markets.

Enhanced geographical coverage

Both the Company and Langhua Pharmaceutical are based in China and focus on the international markets. The Company has served nine of the ten largest global pharmaceutical companies (in terms of 2019 revenue) with its current CRO Services. Upon the Completion, the Group will be able to further enhance its geographical coverage and gain access to the client base of Langhua Pharmaceutical Group in Europe. The offering of both CRO and CDMO services by the Group will allow the Company to reduce reliance on the US and China markets. For the two years ended December 31, 2018 and 2019, the Company recorded 99.48% and 98.46% of its revenue from the US and China markets respectively while only 0.32% and 0.56% of the Company revenue was contributed from European market. The Company expects the Acquisition will allow itself to achieve a potential scalable market penetration into the European market due to its reputable track record, and attract a larger client base by offering a wider range of services to existing and prospective clients.

Potential synergy with the Group's existing business

Langhua Pharmaceutical's customers include numerous multi-national pharmaceutical companies worldwide. Langhua Pharmaceutical has strived to become one of the most valuable and innovating API suppliers and the global preferred CDMO partner. As Langhua Pharmaceutical has obtained GMP certification from National Medical Products Administration (NMPA), official certifications from the U.S. Food and Drug Administration (FDA), the European Directorate for the Quality of Medicines (EDQM) and World Health Organization (WHO) as well as the Pharmaceutical Supply Chain Initiative (PSCI), the Acquisition will enable the Company to achieve high international standards immediately.

The Board considers that the Acquisition will enable the Group to further strengthen and diversify its drug research, development and manufacturing capabilities with additional quality talents and facilities. The Board expects that Langhua Pharmaceutical's businesses will create synergy with the Group's existing businesses and will have great strategic significance to the reputation and service offerings of the Group's overall business and operation. Extending the CDMO services to the Group's customers with a more comprehensive end-to-end services will enhance the income stream from the Group's cash-for-service customers. The Acquisition would further supplement the service demanded from the Group's existing incubation projects under the equity-for-services model, under which the Group provides service in exchange for the startup biotech company's equity interest, especially the potential service demand along with their multiple pipeline development. The Enlarged Group as an integrated one-stop drug services platform would attract more opportunities and thus enhance the portfolio of potential incubation projects under the equity-for-services model. The Acquisition is expected to enable the Company to gain a strategic position in CDMO markets which allows prospective clients, including both the startup biotech companies and multi-national pharmaceutical companies, to select the Company as their priority partner for comprehensive outsourcing services. The capabilities of Langhua Pharmaceutical will allow the Group to provide broadened and better services to its existing and prospective clients and enhance the Group's market competitiveness and can be a transformative step for the Group to become an integrated drug development services platform.

Expanded institutional investors' interest in the Company

The Board believes that the Acquisition represents a unique opportunity for the Shareholders and potential investors of the Company to participate in a leading CDMO company based in China, and the Acquisition would support a market re-rating of the Company which would expand institutional investors' interest in the Company and broaden its shareholder base.

Having considered the above, the Directors believe that (i) the Acquisition is in line with the development strategies of the Group and will facilitate the sustainable growth of the Group in the long run, and (ii) the Acquisition is on normal commercial terms after arm's length negotiations, and the terms of the Share Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Financial Impact on the Group

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, for illustration purpose only, had the Acquisition been completed (i) on January 1, 2020 in respect of the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group; and (ii) on June 30, 2020 in respect of the unaudited pro forma consolidated statement of financial position of the Enlarged Group:

(a) the net loss of the Enlarged Group for the period ended June 30, 2020 would have decreased by approximately RMB45.7 million from approximately RMB530.3 million to approximately RMB484.6 million;

(b) the total assets of the Enlarged Group as at June 30, 2020 would have increased by approximately RMB2,140.3 million from approximately RMB3,298.0 million to approximately RMB5,438.4 million, and the net assets of the Enlarged Group as at June 30, 2020 would have increased by approximately RMB41.4 million from approximately RMB1,898.7 million to approximately RMB1,940.1 million; and

(c) the total liabilities of the Enlarged Group as at June 30, 2020 would have increased by approximately RMB2,098.9 million from approximately RMB1,399.3 million to approximately RMB3,498.2 million.

The Directors do not expect material variation to the aggregate of the remuneration payable to and benefits in kind receivable by the Directors in consequence of the Acquisition.

For further information, please refer to Appendix V to this circular for unaudited pro forma financial information of the Enlarged Group.

Financial and Trading Prospects of the Enlarged Group

Upon Completion, Langhua Pharmaceutical will become a non-wholly owned subsidiary of the Company and the accounts of the Langhua Pharmaceutical Group will be consolidated into the Company's consolidated accounts. The Company believes that the Acquisition would enhance the Enlarged Group's profitability and create value for the Shareholders. The Company intends to maintain Langhua Pharmaceutical Group as a one-stop platform for pharmaceutical development and commercialization and will position it as the Enlarge Group's sole CDMO platform for small molecule drugs and intermediate. The management team and core employees of Langhua Pharmaceutical Group will be retained. The Group intends to enhance Langhua Pharmaceutical Group's operations by making necessary investments in its business, including but not limited to expanding its CMC capabilities and integrating its operations with the Group's existing business. The Group aims to cross-sell customers to services of Langhua Pharmaceutical Group to increase the likelihood of retaining customers through the entire pharmaceutical R&D cycle to increase customer satisfaction and revenue generated from each customer.

II. INFORMATION OF THE GROUP AND THE VENDORS

The Group

The Company is incorporated in the Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The Group is an integrated drug discovery platform in the PRC.

Viva Biotech Shanghai

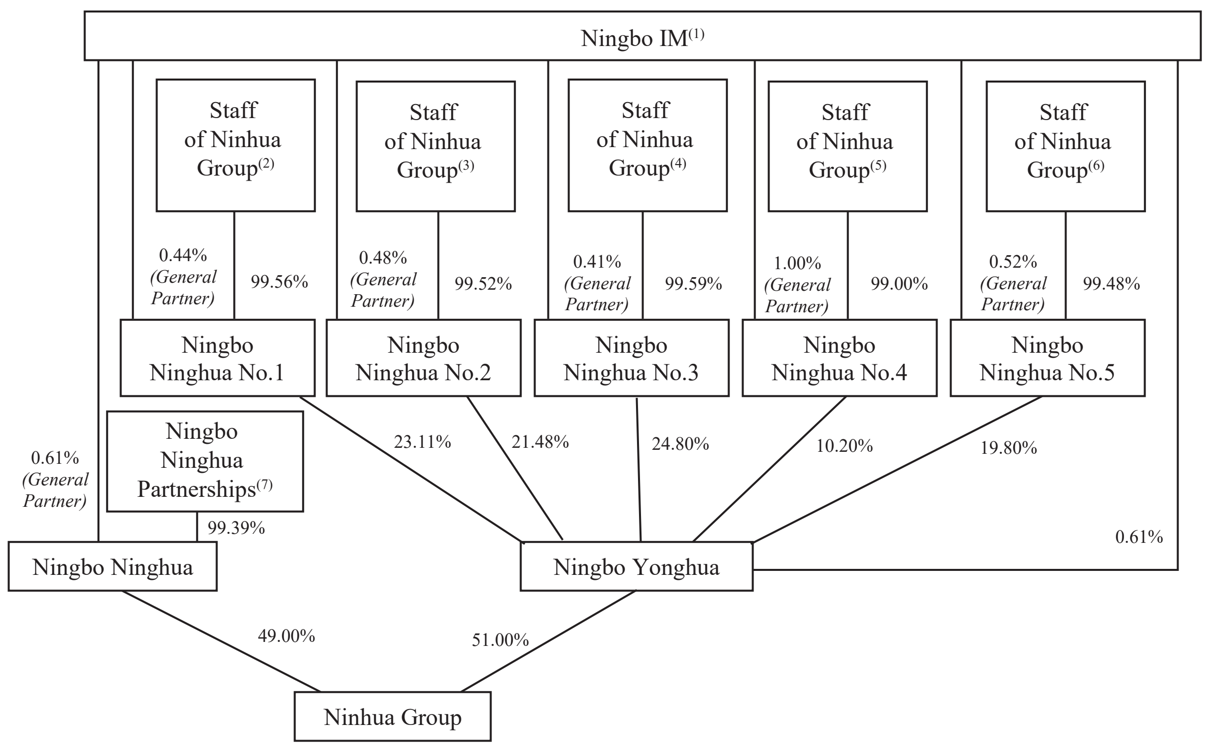
Viva Biotech Shanghai is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. It is the Company's principal operating subsidiary in the PRC and is primarily engaged in providing research services.

The Vendors

The Vendors are the six existing shareholders of Langhua Pharmaceutical. As at the Latest Practicable Date, Ninhua Group, Nuobai Investments, Zhining Investments, Mr. Shan Mengchun, Mr. Yang Nuo, and Ms. Ban Yan holds approximately 55.01%, 22.00%, 7.50%, 6.00%, 4.99% and 4.50% of Langhua Pharmaceutical's equity interest, respectively. Each of the Vendors currently intends to sell 80% of the equity interest owned by it/him/her to Viva Biotech Shanghai.

To the best of the Directors' knowledge, as at the Latest Practicable Date,

(a) Ninhua Group was a conglomerate operating across the pharmaceutical, agrochemicals, refrigeration and other related businesses. It is held as to 51% by Ningbo Yonghua Investment Management Co., Ltd. (寧波甬化投資管理有限公司, "**Ningbo Yonghua**") and 49% by Ningbo Ninghua Investment Management Center (Limited Partnership) (寧波寧化投資管理中心(有限合夥), "**Ningbo Ninghua**"). Ningbo Ninghua Investment Management Co., Ltd. (寧波寧化投資管理有限公司, "**Ningbo IM**") was the general partner of Ningbo Ninghua and shareholders of Ningbo Yonghua save for Ningbo IM itself. Set out below is a simplified shareholding chart of the Ninhua Group:



Notes:

(1) Ningbo IM was held by 11 individuals in equal proportion, being Mr. Liu Jianping, Ms. Zhao Li, Mr. Zhang Zhenye, Mr. Wu Kan, Mr. He Dongsheng, Mr. Chen Weijun, Mr. Chen Youxiang, Mr. Chen Zhongyu, Mr. Zhu Fuyuan, Ms. Ban Yan and Mr. Shan Mengchun, each being present or retired employees/senior executives of Ninhua Group and/or its subsidiaries.

(2) "Ningbo Ninghua No.1" refers to Ningbo Ninghua Yihao Investment Management Center (Limited Partnership) (寧波寧化壹號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No.1 were Mr. Shan Mengchun (as to 38.41% interest); Ms. Ban Yan (as to 24.28% interest); Mr. Xu Wanrong (as to 5.52% interest); Ms. Chen Yajun (as to 5.30% interest) and 23 other individuals each as to less than 5% interest in Ningbo Ninghua No.1.

(3) "Ningbo Ninghua No. 2" refers to Ningbo Ninghua Erhao Investment Management Center (Limited Partnership) (寧波寧化貳號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No. 2 were Mr. He Dongsheng (as to 26.13% interest); Mr. Zhang Zhenye (as to 17.58% interest); Mr. Li Zhiyu (as to 9.98% interest); Mr. Ji Deling (as to 9.26% interest); Ms. Hu Wenli (as to 5.46% interest) and 20 other individuals each as to less than 5% interest in Ningbo Ninghua No. 2.

(4) "Ningbo Ninghua No. 3" refers to Ningbo Ninghua Sanhao Investment Management Center (Limited Partnership) (寧波寧化叁號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No. 3 were Mr. Chen Youxiang (as to 40.79% interest); Mr. Wu Kan (as to 23.00% interest); Mr. Fang Zhen (as to 5.62% interest) and by 39 other individuals each as to less than 5% interest in Ningbo Ninghua No. 3.

(5) "Ningbo Ninghua No. 4" being Ningbo Ninghua Sihao Investment Management Center (Limited Partnership) (寧波寧化肆號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No. 4 were Mr. Chen Weijun (as to 33.13% interest); Mr. Sheng Wentao (as to 7.96% interest); Mr. He Dongsheng (as to 7.70% interest); Mr. Liu Jianping (as to 6.88% interest), Mr. Zhu Fuyuan (as to 5.50% interest); Mr. Zhang Zhenye (as to 5.23% interest) and by 30 other individuals each as to less than 5% interest in Ningbo Ninghua No. 4.

(6) "Ningbo Ninghua No. 5" being Ningbo Ninghua Wuhao Investment Management Center (Limited Partnership) (寧波寧化伍號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No. 5 were Mr. Liu Jianping (as to 25.26% interest); Mr. Zhu Fuyuan (as to 20.10% interest); Mr. Chen Zhongyu (as to 6.96% interest); Ms. Zhong Yamin (as to 6.44% interest); Mr. Li Minming (as to 5.67% interest) and by 28 other individual limited partners each holding less than 5% interest in Ningbo Ninghua No. 5.

(7) "Ningbo Ninghua Partnerships" refers to Ningbo Ninghua No.1, Ningbo Ninghua No. 2, Ningbo Ninghua No. 3, Ningbo Ninghua No. 4 and Ningbo Ninghua No. 5, holding 23.11%, 21.48%, 24.80%, 10.20% and 19.80% interest as limited partners in Ningbo Ninghua, respectively.

(8) In this shareholding structure chart, reference to staff of Ninhua Group includes present or retired staff of Ninhua Group and/or its subsidiaries.

(b) Nuobai Investments was primarily engaged in investment management. The general partner of each of (i) Nuobai Investments and (ii) the limited partners of Nuobai Investments was Ningbo Haishu Nuobai Investment Management Co., Ltd. (寧波海曙諾柏投資管理有限公司), in which Mr. Shan Mengchun and Ms. Ban Yan owned 47.5% and 35.5% share capital, respectively.

(c) Zhining Investments was primarily engaged in investment management. Its general partner was Ningbo Haishu Zhining Investment Management Co., Ltd. (寧波海曙致寧投資管理有限公司), in which Mr. Shan Mengchun owned 50.42% share capital.

(d) Mr. Shan Mengchun and Ms. Ban Yan were the chairman and vice president of Ninhua Group respectively. Mr. Yang Nuo is an individual investor who is the associate general manager of Jiangxi Huashi Pharmaceutical Co., Ltd (江西華士藥業有限公司), an independent third party. Mr. Liu Jianping is the former chairman and president of Ninhua Group and now he is retired.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the Latest Practicable Date, each of the Vendors and their respectively ultimate beneficial owners mentioned above is a third party independent of the Company and connected persons of the Company.

III. LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Acquisition, including the exercise of Vendors' Qualified Right of Sale, exceeds 100%, the Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules, and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the right to exercise the Vendors' Qualified Right of Sale is not at the Company's discretion, such right is treated as if it had been exercised upon the execution of the Share Purchase Agreement under Rule 14.74 of the Listing Rules. The Company will publish an announcement as soon as reasonably practicable should the Vendors' Qualified Right of Sale is being exercised.

IV. EGM

The EGM will be held at 2/F Meeting Room, 334 Aidisheng Road, Zhangjiang Hi-Tech Park, Pudong New District, Shanghai, PRC on Monday, November 9, 2020 at 10:00 a.m. for the Shareholders to consider and, if thought fit, approve the Acquisition.

Set out on pages EGM-1 to EGM-2 of this circular is the notice of the EGM containing, inter alia, an ordinary resolutions in relation to the Acquisition.

Taking into account of the recent development of the epidemic caused by novel coronavirus pneumonia (COVID-19), the Company will implement the following prevention and control measures at the EGM against the epidemic to protect the Shareholders from the risk of infection:

(i) compulsory body temperature check will be conducted for every Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be permitted to access to the meeting venue;

(ii) every Shareholder or proxy is required to wear face masks throughout the meeting;

(iii) no souvenirs will be provided; and

(iv) no refreshments will be served.

V. FORM OF PROXY

A form of proxy is enclosed for use at the EGM. Such form of proxy is also published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.vivabiotech.com. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for the holding of the EGM or at any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meeting thereof if they so wish. The Company strongly recommends you to monitor the development of the situation with the COVID-19 and to assess, based on the social distancing policies, the necessity for attending the EGM in person.

VI. VOTING BY POLL

There is no Shareholder who has any material interest in the resolution in relation to the Acquisition to be proposed at the EGM, and therefore no Shareholder is required to abstain from voting on such resolution.

Pursuant to Rule 13.39 (4) of the Listing Rules, any vote of Shareholders at a general meeting (save for certain procedural or administrative matters) must be taken by poll. The Chairman of the EGM shall therefore demand voting on the resolution set out in the notice of EGM be taken by way of poll pursuant to article 13.5 of the Articles of Association.

On a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorized representative shall have one vote for every fully paid Share of which he/she/it is the holder. A Shareholder entitled to more than one vote on a poll needs not use all his/her/its votes or cast all the votes he/she/it uses in the same way.

VII. RECOMMENDATION

The Directors consider that the Acquisition of Langhua Pharmaceutical is fair and reasonable and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the resolution to be proposed at the EGM.

VIII. MISCELLANEOUS

The English text of the circular shall prevail over the Chinese text for the purpose of interpretation.

Yours faithfully
By Order of the Board
VIVA BIOTECH HOLDINGS
MAO Chen Cheney
Chairman and Chief Executive Officer

FINANCIAL INFORMATION OF THE GROUP

The financial information and the management discussion and analysis on the Group for the years ended December 31, 2017 and December 31, 2018 is set out in the Prospectus. The financial information and the management discussion and analysis on the Group for the years ended December 31, 2019 is set out in the 2019 annual report of the Company. The financial information and the management discussion and analysis on the Group for the six months ended June 30, 2020 is set out in the 2020 interim results announcement of the Company.

The hyperlinks to the Prospectus, the 2019 annual report of the Company and the 2020 interim results announcement are incorporated by reference into this circular. The aforementioned prospectus and annual reports of the Company are also available on the website of the Company (www.vivabiotech.com) and the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk).

1. Hyperlink to the Prospectus:

   https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn20190425035.pdf

2. Hyperlink to the annual report of the Company for the year ended December 31, 2019:

   https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042800774.pdf

3. Hyperlink to the interim results announcement of the Company for the six months ended June 30, 2020:

   https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0831/2020083102061.pdf

WORKING CAPITAL

As at the Latest Practicable Date, the Company is contemplating a five-year term loan with principal amount of RMB1,536 million, subject to the final approval from the relevant financial institution to finance the Acquisition. Assuming the completion of such term loan, the Directors are of the opinion that taking into account the cash flows generated from operating activities, the financial resources available to the Enlarged Group including internally generated funds and existing uncommitted borrowing facilities from financial institutions, the working capital available to the Enlarged group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of this circular. In case such final approval could not be obtained, which the Board considers unlikely to happen, the Company would raise fund through placing of new Shares under general mandate and the Directors are of the opinion that the working capital available to the Enlarged group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of this circular.

STATEMENT OF INDEBTEDNESS

Statement of indebtedness

The following table sets out the breakdown of the indebtedness of the Enlarged Group as at the close of business on August 31, 2020:

	As at August 31, 2020
	RMB'000
Non-current	
Unsecured and guaranteed convertible bonds (a)	510,604
Secured and unguaranteed bank loans (b)	974
Unsecured and unguaranteed lease liabilities	6,848
	518,426
Current	
Secured and unguaranteed bank loans (b)	544
Unsecured and unguaranteed bank loans	60,939
Unsecured and unguaranteed lease liabilities	10,863
	72,346
Total	590,772

Notes:

(a) On February 11, 2020, Viva Incubator Investment Management Limited ("**Viva Incubator HK**"), an indirectly wholly-owned subsidiary of the Company, issued a five-year 2.5% convertible bonds with an aggregate principal amount of US$180 million. The convertible bonds are guaranteed by the Company. As at the close of business on August 31, 2020, the convertible bonds, comprising debt component and embedded derivative components, amounted to approximately RMB510.6 million.

(b) As at August 31, 2020, the bank loans bear variable interest rate at 110% of the relevant benchmark interest rate published by the People's Bank of China, that is, at 5.39% per annum and is pledged by a certain property of the Enlarged Group as collateral.

Save as aforesaid, and apart from intra-group liabilities, as at the close of business on August 31, 2020, the Enlarged Group did not have any other outstanding mortgages, charges, debentures, loan capital, bank loans or overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance creditors, guarantees, or other material contingent liabilities.

MATERIAL ADVERSE CHANGE

Saved as disclosed in the Company's interim results announcement for the six months ended June 30, 2020 dated August 31, 2020, there had been no material adverse change in the financial and trading position or outlook of the Company since December 31, 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date.

Set out below are the management discussion and analysis of the Group as extracted from the Prospectus for each of the two years ended December 31, 2017 and 2018, the annual reports (the "**Annual Report**") of the Company for the years ended December 31, 2019 and the interim results announcement for the six months ended June 30, 2020 (the "**Management Discussion and Analysis**"). Terms used below shall have the same meanings as those defined in the Management Discussion and Analysis.

FOR THE YEAR ENDED DECEMBER 31, 2017

Revenue

Our revenue increased by 53.6% from RMB96.5 million for the year ended December 31, 2016 to RMB148.2 million for the year ended December 31, 2017, primarily due to the growing demand for drug discovery outsourcing services from both established pharmaceutical and biotechnology companies and newly established biotechnology companies with limited in-house research and development capabilities. Leveraging our proprietary technology platforms and deep industry experience, we were able to win new projects from existing customers and attract new customers, in particular those headquartered in China. We provided drug discovery services to 117 customers in 2017, as compared to 107 customers in 2016.

For the year ended December 31, 2017, our revenue contributed by our FTE, FFS and SFE customers represented approximately 48.8%, 40.0% and 11.2% of our total revenue, respectively, as compared to 67.3%, 30.6% and 2.1%, respectively, of our total revenue for the year ended December 31, 2016.

Cost of Services

Our cost of services increased by 46.8% from RMB42.3 million for the year ended December 31, 2016 to RMB62.1 million for the year ended December 31, 2017, primarily due to the growing demand for drug discovery outsourcing services from our customers.

Our cost of raw materials increased by 14.8% from RMB14.9 million for the year ended December 31, 2016 to RMB17.1 million for the year ended December 31, 2017, primarily due to an increase in the demand for our services.

Our direct labor costs increased by 69.5% from RMB14.1 million for the year ended December 31, 2016 to RMB23.9 million for the year ended December 31, 2017, primarily because (i) the employee headcount of our business units increased as a result of an increase in the demand for our services, and (ii) the average salary and compensation package of our employees increased in 2017.

Our overhead increased by 59.5% from RMB11.6 million for the year ended December 31, 2016 to RMB18.5 million for the year ended December 31, 2017, primarily due to an increase in our rent payment and an increase in depreciation and amortization in connection with our lab equipment.

Gross Profit and Gross Profit Margin

Our gross profit increased by 59.3% from RMB54.1 million for the year ended December 31, 2016 to RMB86.2 million for the year ended December 31, 2017. Our gross profit margin increased from 56.1% for the year ended December 31, 2016 to 58.1% for the year ended December 31, 2017, primarily because we recognized RMB34.1 million in revenue in 2017 from a major customer which included a RMB14.0 million milestone bonus and led to higher margin.

Other Income

Our other income decreased by 9.9% from RMB7.1 million for the year ended December 31, 2016 to RMB6.4 million for the year ended December 31, 2017, primarily due to (i) a RMB0.9 million decrease in other interest income in connection with and a related party loan, the principal had been repaid in full in 2017, and (ii) a RMB0.2 million decrease in government grants received by us in 2017.

Other Gains and Losses

Our other gains and losses increased from RMB1.8 million for the year ended December 31, 2016 to RMB19.0 million for the year ended December 31, 2017, primarily attributable to a RMB20.4 million deemed disposal of interests in an associate for the year ended December 31, 2017 due to the deemed disposal of our equity interest in Shanghai Epican Gene Technology Co., Ltd., partially offset by a net foreign exchange losses of RMB1.2 million in 2017.

Research and Development Expenses

Our research and development expenses increased from RMB16.8 million in 2016 to RMB17.3 million in 2017, which reflected our continuous investment in the development of our proprietary drug discovery technologies.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 42.9% from RMB1.4 million for the year ended December 31, 2016 to RMB2.0 million for the year ended December 31, 2017, primarily because we expanded our sales and marketing team, and actively participated in more conferences, trade exhibitions and other marketing activities in the United States in 2017.

Administrative Expenses

Our administrative expenses increased by 18.8% from RMB12.8 million for the year ended December 31, 2016 to RMB15.2 million for the year ended December 31, 2017, primarily due to an increase in our administrative staff costs. Our administrative staff costs increased by 24.6% from RMB5.7 million for the year ended December 31, 2016 to RMB7.1 million for the year ended December 31, 2017, primarily attributable to an increase in the headcount of our administrative personnel in light of the growth of our business.

Fair Value Gain on Financial Assets at FVTPL

Our fair value gain on financial assets at FVTPL increased from nil for the year ended December 31, 2016 to RMB14.7 million for the year ended December 31, 2017, primarily due to (i) a RMB5.4 million increase in fair value of the equity interest in Flash Therapeutics, LLC held by us and (ii) a RMB4.1 million increase in fair value of the equity interest in Arthrosi Therapeutics, Inc. held by us.

Share of loss of associates

Our share of loss of associates increased by 71.4% from RMB1.4 million for the year ended December 31, 2016 to RMB2.4 million for the year ended December 31, 2017. The increase in our share of loss of associates was primarily attributable to the increased losses as we acquired equity interest in, and shared the losses of, one additional associate in 2017.

Share of loss of joint ventures

Our share of loss of joint ventures decreased by 19.0% from RMB2.1 million for the year ended December 31, 2016 to RMB1.7 million for the year ended December 31, 2017. The decrease in our share of loss of joint ventures was primarily because our share of losses of one of our joint venture had exceeded our interest in such joint venture, and therefore we discontinue recognizing our share of its further losses in 2017.

Finance Cost

Our finance cost increased from RMB0.2 million for the year ended December 31, 2016 to RMB0.9 million for the year ended December 31, 2017, primarily due to the increased interest expense in connection with our related party loan for our equity investment in two of our incubation portfolio companies.

Income Tax Expense

Our income tax expense increased by 171.8% from RMB3.9 million for the year ended December 31, 2016 to RMB10.6 million for the year ended December 31, 2017, primarily due to an increase in PRC enterprise income tax. Our PRC enterprise income tax increased significantly from RMB4.4 million for the year ended December 31, 2016 to RMB10.7 million for the year ended December 31, 2017, primarily due to the growth of our business and the gains on deemed disposal of our equity interest in Shanghai Epican Gene Technology Co., Ltd. In addition, our effective income tax rate decreased from 13.9% for the year ended December 31, 2016 to 12.2% for the year ended December 31, 2017, primarily due to an increase in income not taxable for tax purpose in 2017.

Profit and Total Comprehensive Income for the Year and Net Profit Margin

As a result of the foregoing, our profit and total comprehensive income for the year increased significantly by 211.4% from RMB24.5 million for the year ended December 31, 2016 to RMB76.3 million for the year ended December 31, 2017. Our net profit margin increased from 25.4% for the year ended December 31, 2016 to 51.4% for the year ended December 31, 2017, primarily due to the fair value gains from our incubation portfolio companies and deemed disposal of interests in our associates and joint ventures.

FOR THE YEAR ENDED DECEMBER 31, 2018

Revenue

Our revenue increased by 41.7% from RMB148.2 million for the year ended December 31, 2017 to RMB210.0 million for the year ended December 31, 2018, primarily due to the growing demand for drug discovery outsourcing services from both pharmaceutical and biotechnology companies and newly established biotechnology companies with limited in-house research and development capabilities. For the year ended December 31, 2018, our revenue contributed by our FTE, FFS and SFE customers represented approximately 71.9%, 18.4% and 9.7% of our total revenue, respectively, as compared to 48.8%, 40.0% and 11.2%, respectively, of our total revenue for the year ended December 31, 2017. We expect our total revenue will continue to grow in the coming year and the revenue contributed by EFS customers as a percentage to our total revenue will increase as we gradually shift our focus to the EFS model.

Cost of Services

Our cost of services increased by 68.5% from RMB62.1 million for the year ended December 31, 2017 to RMB104.6 million for the for the year ended December 31, 2018, primarily due to overall expansion of our business.

Our cost of materials increased by 45.2% from RMB17.1 million for the year ended December 31, 2017 to RMB24.8 million for the year ended December 31, 2018, primarily due to the overall expansion of our business.

Our direct labor costs increased by 120.7% from RMB23.9 million for the year ended December 31, 2017 to RMB52.8 million for the year ended December 31, 2018, primarily due to the increased demand for our drug discovery services from our customers and increasing headcount and salary of our employees.

Our overhead increased by 7.6% from RMB18.5 million for the year ended December 31, 2017 to RMB19.9 million for the year ended December 31, 2018, primarily due to the increase in depreciation of our property, plant and equipment.

Gross Profit and Gross Profit Margin

Our gross profit increased by 22.4% from RMB86.2 million for the year ended December 31, 2017 to RMB105.5 million for the year ended December 31, 2018. Our gross profit margin decreased from 58.1% for the year ended December 31, 2017 to 50.2% for the year ended December 31, 2018, primarily because we significantly expanded our R&D team from 219 to 417 technicians, which increased our direct labor costs. In addition, we recognized RMB32.2 million in revenue in 2017 from the largest customer which included a RMB14.0 million milestone bonus, resulting in a higher margin.

Other Income

Our other income decreased by 26.6% from RMB6.4 million for the year ended December 31, 2017 to RMB4.7 million for the year ended December 31, 2018, primarily due to a decrease in our government grant income of RMB1.9 million received during the year ended December 31, 2018.

Other Gains and Losses

We recorded net other gains of RMB30.9 million for the year ended December 31, 2018, representing a 62.6% increase from RMB19.0 million for the year ended December 31, 2017, primarily due to a RMB14.6 million net foreign exchange gain recorded in 2018 as compared to a RMB1.2 million net foreign exchange loss recorded in 2017.

Research and Development Expenses

Our research and development expenses increased by 46.2% from RMB17.3 million for the year ended December 31, 2017 to RMB25.3 million for the year ended December 31, 2018, primarily due to a RMB7.0 million increase in the salary expenses for our R&D staffs.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 95% from RMB2.0 million for the year ended December 31, 2017 to RMB3.9 million for the year ended December 31, 2018, primarily because we expanded our sales and marketing team in the second half of 2017, and actively participated in conferences, trade exhibitions and other marketing activities in the United States.

Administrative Expenses

Our administrative expenses increased by 68.4% from RMB15.2 million for the year ended December 31, 2017 to RMB25.6 million for the year ended December 31, 2018, primarily due to a RMB4.0 million increase in our share-based compensation expenses as well as a RMB1.5 million in salary expenses as our headcounts and salary level increased in 2018.

Fair Value Gain on Financial Assets at FVTPL

Our fair value gain on financial assets at FVTPL increased from RMB14.7 million for the year ended December 31, 2017 to RMB68.3 million for the year ended December 31, 2018, primarily due to (i) additional equity interests in nine incubation portfolio companies acquired by us in 2018 and (ii) increases in fair values of equity interests held by us in Anji pharmaceuticals Inc., Epican Technology Limited and Bonti Inc.

Share of loss of associates

Our share of loss of associates decreased by 29.2% from RMB2.4 million for the year ended December 31, 2017 to RMB1.7 million for the year ended December 31, 2018. The decrease in our share of loss of associates was primarily because we disposed half of the equity interest held by us in QureBio Limited in 2018, and therefore we shared less losses of such associate in 2018.

Share of loss of joint ventures

Our share of loss of joint ventures slightly decreased from RMB1.7 million for the year ended December 31, 2017 to RMB1.5 million for the year ended December 31, 2018. The accounting treatment of Weimou Biotech (Shanghai) Ltd., one of our joint ventures, changed from equity method to fair value through profit or loss in 2018 as we ceased to have significant influence over Weimou. As a result, we did not share the losses of Weimou for the year ended December 31, 2018. In addition, we disposed the equity interest held by us in Sichuan Good Doctor Biotech Ltd. in 2018, and therefore we shared less losses of such joint venture in 2018.

Finance Cost

Our finance cost slightly decreased from RMB0.9 million for the year ended December 31, 2017 to RMB0.6 million for the year ended December 31, 2018, primarily due to the decreased interest expense in connection with our repayment of our related party loan.

Fair Value Loss on Financial Liabilities at FVTPL

We recorded fair value loss on financial liabilities at FVTPL of RMB20.7 million in 2018, which represented changes in fair value of the series B convertible redeemable preferred shares issued by us in connection with our pre-IPO financing.

Income Tax Expense

Our income tax expense increased by 44.3% from RMB10.6 million for the year ended December 31, 2017 to RMB15.3 million for the year ended December 31, 2018, primarily due to our increased profit before tax. In addition, our effective income tax rate increased from 12.2% for the year ended December 31, 2017 to 14.5% for the year ended December 31, 2018, primarily due to an increase in expenses not deductible for tax purpose.

Profit and Total Comprehensive Income for the Year and Net Profit Margin

As a result of the foregoing, our profit and total comprehensive income for the year increased from RMB76.3 million for the year ended December 31, 2017 to RMB90.6 million for the year ended December 31, 2018. Our net profit margin decreased from 51.4% for the year ended December 31, 2017 to 43.1% for the year ended December 31, 2018, primarily due to a significant increase in our cost of sales in 2018 along with our rapid expansion, as well as the impact resulted from the share based compensation expenses in 2018.

FOR THE YEAR ENDED DECEMBER 31, 2019

Revenue

The Group's revenue in the Reporting Period was approximately RMB323.1 million, representing an increase of 53.9% as compared to approximately RMB210.0 million in the year ended December 31, 2018, primarily reflecting the Group's business growth.

During the Reporting Period, revenue generated from the Group's CFS and EFS models reflected revenue generated from services to our non-investee and investee customers, respectively. The following table sets forth a breakdown of the Group's revenue by respective charge models during the Reporting Period and the corresponding period last year.

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Revenue from services to non-investees (CFS model):		
– Full-time-equivalent ("**FTE**")	**181,009**	117,358
– Fee-for-service ("**FFS**")	**64,548**	37,317
	245,557	154,675
Revenue from services to investees (EFS model):		
– FTE	**31,902**	33,593
– FFS	**1,936**	1,365
– Service-for-equity ("**SFE**")	**43,662**	20,400
	77,500	55,358
	323,057	210,033

While the Group's operation are located in China, it has a global customer base with a majority of our customers located in the USA. An analysis of the Group's revenue from customers, analyzed by their respective country/region of operation is detailed below:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Revenue		
– USA	**243,592**	160,723
– PRC	**74,477**	48,223
– Europe	**1,802**	676
– Rest of the world	**3,186**	411
	323,057	210,033

The increase of revenue in the Reporting Period as compared to the corresponding period last year was primarily due to an increase in the revenue of the Group's customers headquartered in the USA and China. This was mainly due to increases in the number of customers as well as customer orders.

Cost of Services

Cost of services primarily consists of direct labor costs, cost of materials and overhead. Direct labor costs primarily consist of salaries, bonus, welfare, social security costs and share-based compensation for our R&D talents, excluding the costs allocated to research and development expenses, as well as those capitalized in contract costs. Cost of services in the Reporting Period was approximately RMB167.2 million, representing an increase of 59.8% as compared to approximately RMB104.6 million in the year ended December 31, 2018. The increase was in line with the Group's business growth.

Gross Profit and Gross Profit Margin

During the Reporting Period, the Group's gross profit was approximately RMB155.9 million, representing an increase of 47.8% as compared to approximately RMB105.5 million in the year ended December 31, 2018. The increase was in line with the Group's business growth. Gross margin was 48.3% for the Reporting Period, as compared to 50.2% for the year ended December 31, 2018. The minor decrease was primarily due to an increase in labor costs as a result of increase in the number of R&D personnel.

Other Income

Other income consists of interest income, government grant and subsidies. The Group's other income was approximately RMB20.9 million for the Reporting Period, representing an increase of 344.7% as compared to approximately RMB4.7 million in the year ended December 31, 2018. The increase was primarily due to an increase in interest income as a result of an increase in cash and cash equivalents.

Other Gains and Losses

Other gains and losses consist primarily of net foreign exchange gain or loss, gain or loss on disposal of property, plant and equipment, gain on deemed disposal of interests in associates, gain on deemed disposal of interests in a joint venture, gain on disposal of interests in an associate, gain on disposal of interest in a joint venture and others. During the Reporting Period, the Group recorded a gain of approximately RMB44.4 million in other gains and losses, representing an increase of 43.2% as compared to approximately RMB31.0 million in the year ended December 31, 2018. The increase was primarily due to an increase in foreign exchange gain.

Research and Development Expenses

Research and development expenses mainly consist of labor costs, cost of materials, overhead costs and fees paid to third parties that conduct certain research and development activities on our behalf. During the Reporting Period, the Group's research and development expenses were approximately RMB45.0 million, representing an increase of 77.9% as compared to approximately RMB25.3 million in the year ended December 31, 2018. The increase was primarily due to an increase in the number of R&D personnel.

Selling and Marketing Expenses

Selling and marketing expenses primarily consists of staff cost, travelling expenses and others. During the Reporting Period, the Group's selling and marketing expenses were approximately RMB3.6 million, representing a slight decrease of 7.7% as compared to approximately RMB3.9 million in the year ended December 31, 2018. The decrease was primarily due to a decrease in third-party consulting fee.

Administrative Expenses

Administrative expenses primarily consists of administrative staff costs, audit and consultancy fees, office administration expense, rental, depreciation, travelling and transportation expenses and others. During the Reporting Period, the Group's administrative expenses were approximately RMB51.2 million, representing an increase of 100.0% as compared to approximately RMB25.6 million in the year ended December 31, 2018. The increase primarily reflected expansion of the Group's incubation team and an increase in third party consultation fee to enhance operating efficiency.

Listing Expenses

Listing expenses reflected professional service fees related to the Global Offering and the listing of the Company. The Group recorded listing expenses of approximately RMB17.9 million for the Reporting Period, as compared to approximately RMB24.3 million for the year ended December 31, 2018.

Fair Value Gain on Financial Assets at Fair Value through Profit or Loss ("FVTPL")

The Group's EFS model features sharing of the upside of our customers' IP values, which is primarily reflected by the gains from the fair value change of the equity interest in the Group's incubation portfolio companies. Such fair value gains are recorded as FVTPL in the Group's financial statements. The Group has engaged Valuelink, an independent professional appraisal firm, to assess and determine the fair value of our financial assets as at December 31, 2018 and 2019.

The Group recorded gains arising from financial assets designated at FVTPL of approximately RMB217.6 million for the Reporting Period, mainly including (i) gain from investment in bank wealth management products of RMB4.9 million; (2) gain from fair value change of investment companies of RMB212.7 million, primarily reflecting the increase in the fair value of the Group's equity interest in three incubation portfolio companies, Proviva Therapeutics, Inc, Weimou Biotech (Shanghai) Ltd. and Liangzhun (Shanghai) Industrial Co., Ltd., as compared to approximately RMB68.3 million for the year ended December 31, 2018, primarily reflecting the increase in fair value of the Group's equity interest in three incubation portfolio companies, Epican Technology Limited, Anji Pharmaceuticals, Inc. and Bonti, Inc.

Impairment Losses under Expected Credit Model, Net of Reversal

Impairment losses under expected credit model, net of reversal reflects impairment loss on trade receivables. The Group recorded impairment losses of approximately RMB1.8 million for the Reporting Period, as compared to approximately RMB0.1 million of impairment losses for the year ended December 31, 2018.

Share of Loss of Associates

For the Reporting Period, the Group recorded share of loss of associates of approximately RMB34 thousand, as compared to approximately RMB1.7 million for the year ended December 31, 2018. The decrease primarily represented the Group's decreased share of loss in one of its incubation portfolio companies, QureBio Limited.

Share of Loss of Joint Ventures

For the Reporting Period, the Group recorded share of loss of joint ventures of approximately RMB1.9 million, as compared to approximately RMB1.5 million for the year ended December 31, 2018. The increase primarily represented the Group's increased share of loss in one of its incubation portfolio companies, Jiaxing Youbo Biotech Co., Ltd.

Finance Cost

Finance cost primarily consists of interest expenses on loans from banks and related parties. For the Reporting Period, the Group's finance cost was approximately RMB2.3 million, representing an increase of 283.3%, as compared to approximately RMB0.6 million for the year ended December 31, 2018. The increase was mainly due to an approximately RMB2.0 million increase in rental interest liabilities as the Group applied IFRS 16 for the first time during the Reporting Period.

Fair Value Loss on Financial Liabilities at FVTPL

Fair value loss on financial liabilities at FVTPL represents changes in fair value of the series B convertible redeemable preferred shares (the "**Series B Preferred Shares**") in connection with the Company's pre-IPO financing. For the Reporting Period, the Group recorded fair value loss on financial liabilities at FVTPL of approximately RMB34.2 million, as compared to approximately RMB20.7 million for the year ended December 31, 2018.

Income Tax Expense

The Group's income tax expense for the Reporting Period was approximately RMB15.1 million, representing a decrease of 1.3% from approximately RMB15.3 million for the year ended December 31, 2018. In addition, our effective income tax rate decreased from 14.4% for the year ended December 31, 2018 to 5.4% for the year ended December 31, 2019, primarily due to an increase in gain not subject to income tax.

Net Profit and Net Profit Margin

As a result of the foregoing, the Group's net profit for the Reporting Period was approximately RMB265.9 million, representing an increase of 193.5% as compared to RMB90.6 million for the year ended December 31, 2018. Our net profit margin increased from 43.1% for the year ended December 31, 2018 to 82.3% for the year ended December 31, 2019, primarily due to mutual contribution of CFS business and EFS business to achieve increased business volume and disposal of certain equity interests.

Liquidity, Financial Resources and Gearing Ratio

As at December 31, 2019, the Group's total cash and cash equivalents amounted to approximately RMB904.1 million, representing an increase of 481.0% as compared to approximately RMB155.6 million as at December 31, 2018. Such increase was primarily attributable to the proceeds from the Global Offering. The Group maintains a strong cash position to meet potential needs for business expansion and development.

As at December 31, 2019, the Group had approximately RMB1.9 million of secured and unguaranteed bank loans, of which the principal and interest are repaid monthly and the loan will be matured in April 2023. As at December 31, 2019, the Group did not have any unutilized banking facilities. The Group intends to finance the expansion, investments and business operations with proceeds from the Global Offering and internal resources. As at December 31, 2019, the gearing ratio, calculated as total liabilities over total assets, was 6.4%, as compared with 52.5% as at December 31, 2018.

Significant Investment, Material Acquisitions and Disposals

As part of our overall business model of driving our EFS business, we regularly review early-stage startup projects, enter into incubation and investment agreements and recruit such companies as our incubator portfolio company. As at December 31, 2019, our financial assets primarily consist of our incubation portfolio companies. Proviva, one of our incubation portfolio company constituted a significant investment of the Group. On June 28, 2019, the Group entered into an agreement to acquire 35% shareholding interest of the fully diluted equity of Proviva for approximately US$12,560,753 (in a combination of US$10,000,000 cash and US$2,560,753 equity-for-service business). On December 31, 2019, the Group disposed of 4% shareholding interest of its 35% shareholding interest in the fully diluted equity of Proviva for a consideration of US$4,000,000. As of the date of the Annual Report, the transaction was completed. As of December 31, 2019, the transaction was still on-going and was recorded as a financial asset at fair value through profit or loss of the Group of approximately RMB240,678,000 representing approximately 12.68% of the Group's total asset as of December 31, 2019. The Group recorded a gain on fair value change of approximately RMB157,329,000 on its investment in Proviva for the Reporting Period.

Proviva is a company with a focus on the research and development of a pro-cytokine (Zitokine) fusion protein platform, for the treatment of cancer and infectious diseases. The Company's decision on investment in Proviva is mainly based on the founder's years of experience in new drug research and development, the innovation of the platform, its indications and broad market prospects. Meanwhile, the technical services required for Proviva's early-stage research and development are highly synergistic with the Company's leading technology platform. The Company will continue to pay attention to and regularly follow up on its research and development progress and financing needs, provide timely technical services within our capabilities, bridge industrial resources and investors, etc., and assist it in advancing its progress for pre-clinical and clinical trials. Based on the progress of its financing, the Company will continue to evaluate and make reasonable arrangements on partial exit of our equity interest.

Saved as disclosed in the Annual Report and the Prospectus, the Group did not make any material acquisitions or disposals of subsidiaries, associated companies or joint ventures and significant investment during the Reporting Period.

Pledge of Assets

As at December 31, 2019, a building with a carrying amount of approximately RMB5.3 million was pledged to secure borrowings of the Group.

Capital Expenditure and Commitments

For the Reporting Period, the Group's capital expenditure amounted to approximately RMB56.0 million, which was mainly used for construction of facilities and equipment purchases, as compared to approximately RMB42.5 million for the year ended December 31, 2018. The Group funded its capital expenditure with cash flow generated from its operations and partial proceeds from the Global Offering.

As of December 31, 2019, the Group has a capital commitment of RMB355.0 million as compared to the capital commitment of RMB346.3 million for the year ended December 31, 2018. The capital commitment was primarily attributable to an investment agreement entered between the Group and the People's Government of Wenjiang District of Chengdu to acquire land for new laboratories and production facilities. The Group intend to fund such capital expenditure with cash flow generated from its operation and partial proceeds from the Global Offering.

Contingent Liabilities

The Group had no material contingent liabilities as at December 31, 2019.

Future Plan for Material Investment and Capital Assets

Save as disclosed in the Prospectus, the Annual Report and other announcements (including but not limited to the Company's announcement dated December 27, 2019 on potential strategic investment and cooperation with Zhejiang Langhua Pharmaceutical Co., Ltd.) published by the Company up to the date of the Annual Report, the Group does not have other plans for material investments and capital assets for Reporting Period and up to the date of the Annual Report.

Currency Risk

Certain entities in our Group have foreign currency sales and purchases, which exposes us to foreign currency risk. In addition, certain entities in our Group also have other payables and receivables which are denominated in currencies other than their respective functional currencies. We recorded a net foreign exchange gain of approximately RMB32.7 million and approximately RMB14.6 million for the Reporting Period and the year ended December 31, 2018, respectively. We are exposed to the foreign currency of U.S. dollars as part of our revenue was generated from sales denominated in U.S. dollars as well as deposits denominated in U.S. dollars. We purchased various bank foreign exchange wealth management products to hedge against our exposure to currency risk during the Reporting Period and up to the date of the Annual Report. Our management will continue to evaluate the Group's foreign exchange risk and take actions as appropriate to minimize the Group's exposure whenever necessary.

FOR THE SIX MONTHS ENDED JUNE 30, 2020

Revenue

The Group's revenue in the Reporting Period was approximately RMB197.6 million, representing an increase of 38.9% as compared to approximately RMB142.3 million in the corresponding period last year, primarily reflecting the Group's business growth.

During the Reporting Period, revenue generated from the Group's CFS and EFS models reflected revenue generated from services to our non-investee and investee customers, respectively. The following table sets forth a breakdown of the Group's revenue by respective charge models during the Reporting Period and the corresponding period last year.

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from services to non-investees (CFS model):		
– Full-time-equivalent ("**FTE**")	**118,102**	79,781
– Fee-for-service ("**FFS**")	**35,908**	25,620
	154,010	105,401
Revenue from services to investees (EFS model):		
– FTE	**13,924**	12,330
– FFS	**867**	270
– Service-for-equity ("**SFE**")	**28,756**	24,340
	43,547	36,940
	197,557	142,341

While the Group's operations are located in China, it has a global customer base with a majority of our customers located in the USA. An analysis of the Group's revenue from customers, analyzed by their respective country/region of operation, is detailed below:

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
– USA	**164,636**	119,545
– PRC	**26,989**	22,135
– Europe	**2,281**	391
– Other Countries and Regions	**3,651**	270
	197,557	142,341

The increase of revenue in the Reporting Period as compared to the corresponding period last year was primarily due to an increase in the revenue of the Group's customers headquartered in the USA and China. This was mainly due to increases in the number of customers as well as customer orders.

Cost of Services

Cost of services primarily consists of direct labor costs, cost of materials and overhead. Direct labor costs primarily consist of salaries, bonus, welfare, social security costs and share-based compensation for our R&D talents, excluding the costs allocated to research and development expenses, as well as those capitalized in contract costs. Cost of services in the Reporting Period was approximately RMB97.4 million, representing an increase of 38.2% as compared to approximately RMB70.5 million in the corresponding period last year. The increase was in line with the Group's business growth.

Gross Profit and Gross Profit Margin

During the Reporting Period, the Group's gross profit was approximately RMB100.1 million, representing an increase of 39.2% as compared to approximately RMB71.9 million in the corresponding period last year. The increase was in line with the Group's business growth. Gross margin was 50.7% for the Reporting Period, as compared to 50.5% for the corresponding period last year.

Other Income and Gains

Other income and gains consist primarily of interest income, government grants and subsidies, net foreign exchange gain, gain on deemed disposal of interests in an associate, gain on repurchase of Convertible Bonds, and gain on derivative financial instrument. During the Reporting Period, the Group recorded a gain of approximately RMB27.2 million, representing a decrease of 20.5% as compared to approximately RMB34.2 million in the corresponding period last year. The decrease was primarily due to an approximately RMB9.9 million decrease in gain on deemed disposal of interests in an associate.

Selling and Marketing Expenses

Selling and marketing expenses primarily consist of staff cost, travelling expenses and others. During the Reporting Period, the Group's selling and marketing expenses were approximately RMB2.0 million, representing a slight increase of by 11.1% as compared to approximately RMB1.8 million in the corresponding period last year. The increase was primarily due to an increase in business development fee.

Administrative Expenses

Administrative expenses primarily consist of administrative staff costs, audit and consultancy fees, office administration expense, rental, depreciation, travelling and transportation expenses and others. During the Reporting Period, the Group's administrative expenses were approximately RMB37.0 million, representing an increase of 65.2% as compared to approximately RMB22.4 million in the corresponding period last year. The increase was primarily due to the expansion of the Group's incubation team, together with an approximately RMB5.1 million increase in Convertible Bonds transaction costs relating to the embedded derivative components.

Research and Development Expenses

R&D expenses mainly consist of labor costs, cost of materials, overhead costs and fees paid to third parties that conduct certain R&D activities on our behalf. During the Reporting Period, the Group's R&D expenses were approximately RMB22.3 million, representing an increase of 42.9% as compared to approximately RMB15.6 million in the corresponding period last year. The increase was primarily due to the introduction of new technology platform such as Cryo-EM, Computational Chemistry and HDX-MS.

Fair Value Gain on Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Fair value gain on FVTPL mainly consists of fair value gains from financial products issued by banks and the gains from the fair value change of the equity interests in the Group's incubation portfolio companies.

The Group's EFS model features sharing of the upside of our customers' IP values, which is primarily reflected by the gains from the fair value change of the equity interest in the Group's incubation portfolio companies. Such fair value gains are recorded as fair value gain on financial assets at FVTPL in the Group's financial statements. Except for Proviva Therapeutics, Inc, no individual equity interests in the Group's incubation portfolio companies accounted for more than 5% of the Group's total assets.

The Group recorded gains arising from fair value change of the equity interests in the Group's incubation portfolio companies designated at FVTPL of approximately RMB54.7 million for the Reporting Period, primarily reflecting the increase in the fair value of the Group's equity interest in three incubation portfolio companies, VersaChem, Inc., Mediar Therapeutics, Inc. and Anji Pharmaceuticals, Inc., as compared to approximately RMB48.2 million for the corresponding period last year, primarily reflecting the increase in fair value of the Group's equity interest in three incubation portfolio companies, Anji Pharmaceuticals, Inc., Weimou Biotech (Shanghai) Ltd. and Liangzhun (Shanghai) Industrial Co., Ltd.

The Group recorded a fair value gain from financial products issued by banks of approximately RMB12.0 million, as compared to nil in the corresponding period last year.

Impairment losses on financial assets, net

Impairment losses under expected credit model, net of reversal reflects impairment loss on trade receivables. The Group recorded impairment losses of approximately RMB0.4 million for the Reporting Period, representing a decrease of 69.2% as compared to approximately RMB1.3 million of impairment losses reversed for the corresponding period last year.

Finance Cost

Finance cost primarily consists of interest on Convertible Bonds, interest on lease liabilities and interest expenses on loans from banks. For the Reporting Period, the Group's finance cost was approximately RMB38.6 million, representing an increase of 4188.9%, as compared to approximately RMB0.9 million for the corresponding period last year. The increase was mainly due to an approximately RMB37.8 million increase in interest of the debt components of the Convertible Bonds.

Share of Loss of a Joint Venture

For the Reporting Period, the Group recorded share of loss of a joint venture of approximately RMB0.3 million, as compared to approximately RMB0.9 million for the corresponding period last year. The decrease primarily represented the Group's decreased share of loss in one of its incubation portfolio companies, Jiaxing Youbo Biotech Co., Ltd.

Fair Value Loss on Financial Liabilities at FVTPL

Fair value loss on financial liabilities at FVTPL represents changes in fair value of the embedded derivative components of the Convertible Bonds. For the Reporting Period, the Group recorded fair value loss on financial liabilities at FVTPL of approximately RMB615.5 million, as compared to approximately RMB34.2 million for the corresponding period last year, which represents changes in fair value of the series B convertible redeemable preferred shares (the "**Series B Preferred Shares**") in connection with the Company's pre-IPO financing.

Income Tax Expense

The Group's income tax expense was approximately RMB7.9 million, representing a decrease of 37.8% from approximately RMB12.7 million for the corresponding period last year, primarily due to a decrease in fair value gain which subject to tax.

Net Profit and Net Profit Margin

As a result of the foregoing, the Group's net loss for the Reporting Period was approximately RMB530.3 million, as compared to a net profit of RMB46.5 million for the corresponding period last year. The decrease was primarily due to increase in fair value loss of the embedded derivative components of the Convertible Bonds.

The adjusted non-IFRS net profit of the Group increased 25.5% to approximately RMB123.7 million for the Reporting Period from approximately RMB98.6 million for the corresponding period last year. The adjusted non-IFRS net profit margin of the Group for the Reporting Period was 62.6%, compared to 69.3% for the corresponding period last year. The lower adjusted Non-IFRS net profit margin of the Group for the Reporting Period was primarily due to the rapid growth in our revenue, and the increase in the administrative expenses.

Liquidity and Financial Resources

As at June 30, 2020, the Group's total cash and cash equivalents amounted to approximately RMB1,521.3 million, representing an increase of 68.3% as compared to approximately RMB904.1 million as at December 31, 2019. Such increase was primarily attributable to the proceeds from the Convertible Bonds. The Group maintains a strong cash position to meet potential needs for business expansion and development.

As at June 30, 2020, current assets of the Group amounted to approximately RMB2,174.1 million, including a cash and cash equivalents of approximately RMB1,521.3 million. Current liabilities of the Group amounted to approximately RMB134.2 million, including bank borrowings of approximately RMB15.9 million.

As at June 30, 2020, the gearing ratio, calculated as total liabilities over total assets, was 42.4%, as compared with 6.4% as at December 31, 2019. The higher ratio is due primarily to the liabilities of Convertible Bonds increased RMB1,224.7 million.

As at June 30, 2020, the Group had approximately RMB17.0 million of secured and unguaranteed bank loans. Of the total borrowing, approximately RMB15.9 million will be due within one year; approximately RMB1.1 million will be due in more than one year. As at June 30, 2020, the Group has HKD53.2 million (equivalent to RMB48.6 million) unutilized banking facilities. The Group intends to finance the expansion, investments and business operations with proceeds from the Global Offering, Convertible Bonds, bank loans and internal resources.

Significant Investment, Material Acquisitions and Disposals

In March 2020, Viva Biotech Shanghai, an indirect wholly-owned subsidiary of the Company, acquired 100% of equity interest of Shanghai Shenyu Wires Co., Ltd from its original shareholders, at a consideration of RMB120.0 million.

Save as disclosed in this announcement, the Group did not make any significant investments and did not have material acquisitions or disposals of subsidiaries, associates and joint ventures for the six months ended June 30, 2020.

Pledge of Assets

As at June 30, 2020, the building with a carrying amount of approximately RMB5.1 million was pledged to secure borrowings of the Group. As at June 30, 2020, a bank deposit for HKD70.0 million (or its equivalent in other foreign currencies) is placed with the bank to secure a bank facility of HKD70.0 million (or its equivalent in USD/CNY).

Capital Expenditure

For the Reporting Period, the Group's capital expenditure amounted to approximately RMB70.2 million, which was mainly used for construction of facilities and equipment purchases, as compared to approximately RMB15.1 million for the corresponding period last year. The Group funded its capital expenditure by using cash flow generated from its operations and financing.

Contingent Liabilities

The Group had no material contingent liabilities as at June 30, 2020.

Future Plan for Material Investment and Capital Assets

Save as disclosed in this interim report, Prospectus and other announcement (including but not limited to the Company's announcement dated August 9, 2020 on potential strategic investment and cooperation with Zhejiang Langhua Pharmaceutical Co., Ltd., and the Company's announcement dated July 1, 2020, the Company announced that Viva Biotech Shanghai had successfully entered into a bid for the land use right of the property by way of internet auction through taobao.com (淘寶網) published by the Shanghai Pudong District People's Court (上海市浦東新區人民法院) at a bidding price of RMB392.4 million and obtained the internet auction confirmation on the same day.) published by the Company up to the date of this interim report, the Group does not have other plans for material investments and capital assets for Reporting Period and up to the date of this interim report.

Currency Risk

Certain entities in our Group have foreign currency sales and purchases, which exposes us to foreign currency risk. In addition, certain entities in our Group also have other payables and receivables which are denominated in currencies other than their respective functional currencies. We recorded a net foreign exchange gain of approximately RMB8.7 million and approximately RMB15.6 million for the Reporting Period and the corresponding period last year, respectively. We are exposed to the foreign currency of U.S. dollars as part of our revenue was generated from sales denominated in U.S. dollars. We purchased various bank foreign exchange wealth management products to hedge against our exposure to currency risk during the Reporting Period. Management will continue to evaluate the Group's foreign exchange risk and take actions as appropriate to minimize the Group's exposure whenever necessary.

Employee and Incentive Schemes

As at June 30, 2020, the Group had a total of 798 employee and the total staff costs for the for the six months ended June 30, 2020 were RMB86.5 million. Remuneration of our employee is determined with reference to market conditions and individual employees' performance, qualification and experience. In line with the performance of the Group and individual employees, a competitive remuneration package is offered to retain employees, including salaries, discretionary bonuses and contributions to benefit plans (including pensions).

For further details of the share incentive schemes of the Company, please refer to the interim results announcement for the six months ended June 30, 2020 dated August 31, 2020.

The following is the text of a report received from the Target Company's reporting accountant, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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The Directors
Viva Biotech Holdings

Dear Sir,

We report on the historical financial information of Zhejiang Langhua Pharmaceutical Co., Ltd. (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages III-4 to III-82, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows, for each of the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2020 (the "**Relevant Periods**") and the consolidated statements of financial position of the Target Group as at December 31, 2017, 2018 and 2019 and June 30, 2020 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages III-4 to III-82 forms an integral part of this report, which has been prepared for inclusion in the circular of Viva Biotech Holdings ("**Viva**" or the "**Company**") dated October 16, 2020 (the "**Circular**") in connection with the acquisition of 80% equity interests in the Target Company (the "**Acquisition**") by the company.

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in Note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Group as at December 31, 2017, 2018 and 2019 and June 30, 2020 and of the financial performance and cash flows of the Target Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in Note 2.1 to the Historical Financial Information.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Target Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Target Company are responsible for the preparation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in Note 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page III-4 have been made.

Dividends

We refer to Note 11 to the Historical Financial Information which contains information about the dividends paid by the Target Company in respect of the Relevant Periods.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
October 16, 2020

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
REVENUE	5	885,581	1,121,760	1,237,544	640,948	809,197
Cost of sales	9	(711,676)	(870,322)	(971,039)	(509,049)	(584,666)
GROSS PROFIT		173,905	251,438	266,505	131,899	224,531
Other income and gains	6	6,439	15,469	15,500	8,412	13,683
Other expenses	7	(15,085)	(11,564)	(7,873)	(4,483)	(6,110)
Research and development expense		(20,963)	(28,219)	(34,211)	(12,257)	(13,547)
Selling and distribution expenses		(41,729)	(43,824)	(42,522)	(23,542)	(48,841)
Administrative expenses		(76,043)	(96,677)	(93,341)	(34,004)	(38,464)
Impairment losses on financial assets, net		4,879	(2,881)	(687)	(1,938)	(4,761)
Finance costs	8	(6,245)	(9,582)	(9,454)	(5,017)	(3,746)
PROFIT BEFORE TAX	9	25,158	74,160	93,917	59,070	122,745
Income tax expense	10	(11,743)	(21,888)	(20,784)	(13,697)	(26,094)
PROFIT FOR THE YEAR/PERIOD		13,415	52,272	73,133	45,373	96,651
OTHER COMPREHENSIVE INCOME						
Item that may be reclassified subsequently to profit or loss: Exchange differences arising on translation of foreign operations.		–	43	47	(5)	18
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		13,415	52,315	73,180	45,368	96,669

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at December 31,			As at June 30
		2017	2018	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	12	193,968	223,614	237,550	243,662
Prepaid land lease payments	13	38,745	37,651	–	–
Right-of-use assets	13	–	–	38,283	41,115
Intangible assets	14	1,480	1,369	1,403	1,474
Rental deposits and prepayments		9,942	4,796	2,566	4,911
Deferred tax assets	25	5,053	9,390	13,002	12,601
TOTAL NON-CURRENT ASSETS		249,188	276,820	292,804	303,763
CURRENT ASSETS					
Inventories	15	94,352	132,798	167,663	135,781
Derivative financial instruments	24	–	–	1,127	1,057
Amounts due from related parties	35	683	–	–	–
Trade and bill receivables	16	144,150	200,288	206,298	303,043
Prepayments, other receivables and other assets	17	25,582	59,196	35,140	35,548
Pledged deposits	18	27,193	41,006	14,054	34,156
Cash and cash equivalents	18	32,138	67,037	110,590	179,254
TOTAL CURRENT ASSETS		324,098	500,325	534,872	688,839
CURRENT LIABILITIES					
Amounts due to related parties	35	64,995	50,000	–	–
Trade and bill payables	19	219,664	268,894	261,906	326,070
Other payables and accruals	20	18,713	64,337	65,644	73,023
Derivative financial instruments	24	–	156	67	1,241
Contract liabilities	21	22,145	11,361	16,603	13,678
Lease liabilities	13	–	–	637	222
Income tax payables		–	5,125	3,529	12,196
Interest-bearing bank borrowings	22	80,549	123,219	152,163	132,653
TOTAL CURRENT LIABILITIES		406,066	523,092	500,549	559,083
NET CURRENT ASSETS/ (LIABILITIES)		(81,968)	(22,767)	34,323	129,756
TOTAL ASSETS LESS CURRENT LIABILITIES		167,220	254,053	327,127	433,519

		As at December 31,			As at June 30
		2017	2018	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES					
Deferred income	23	4,759	7,406	10,272	9,687
Deferred tax liabilities	25	760	971	1,683	1,476
TOTAL NON-CURRENT LIABILITIES		5,519	8,377	11,955	11,163
NET ASSETS		161,701	245,676	315,172	422,356
EQUITY					
Paid-in capital	26	120,000	120,000	120,000	120,000
Reserves	28	41,701	125,676	195,172	302,356
TOTAL EQUITY		161,701	245,676	315,172	422,356

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Other reserve *RMB'000*	Foreign currency transaction reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At January 1, 2017	120,000	4,986	4,910	38,208	–	25,129	193,233
Profit for the year	–	–	–	–	–	13,415	13,415
Equity-settled share-based payment expense	–	–	–	32,411	–	–	32,411
Net distribution to Ninghua Group *(Note a)*	–	–	–	(77,358)	–	–	(77,358)
Profit for the year from the Pharmaceutical Business Unit transfer to other reserve *(Note b)*	–	–	–	40,351	–	(40,351)	–
At December 31, 2017	120,000	4,986	4,910	33,612	–	(1,807)	161,701
Effect of adoption of IFRS 9	–	–	–	–	–	692	692
At January 1, 2018	120,000	4,986	4,910	33,612	–	(1,115)	162,393
Profit for the year	–	–	–	–	–	52,272	52,272
Transferred from retained earnings	–	–	284	–	–	(284)	–
Capital contribution by shareholders	–	3,010	–	–	–	–	3,010
Equity-settled share-based payment expense	–	–	–	27,958	–	–	27,958
Exchange differences on translation of foreign operations	–	–	–	–	43	–	43
At December 31, 2018	120,000	7,996	5,194	61,570	43	50,873	245,676

Notes:

(a): The net distribution to Ninghua Group represents the funding used in the operation activities carried out by the Pharmaceutical Business Unit, which was provided by the Target Group prior to the Business Transfer (as defined in Note 2.1). The tax effect of RMB1,201,000 of the assets of the Pharmaceutical Business Unit contributed by Ninghua Group was debited to other reserve as of December 31, 2017.

(b): The profit in respect of the operations of the Pharmaceutical Business Unit carried out by Ninghua Group prior to the Business Transfer legally belonged to Ninghua Group. Therefore, the net profit in respect of the Pharmaceutical Business Unit was transferred to other reserve as such profit is non-distributable.

	Paid-in capital *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Other reserve *RMB'000*	Foreign currency transaction reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At December 31, 2018	120,000	7,996	5,194	61,570	43	50,873	245,676
Effect of adoption of IFRS 16	–	–	–	–	–	–	–
At January 1, 2019	120,000	7,996	5,194	61,570	43	50,873	245,676
Profit for the year	–	–	–	–	–	73,133	73,133
Transferred from retained earnings	–	–	6,457	–	–	(6,457)	–
Dividends paid to shareholders	–	–	–	–	–	(24,000)	(24,000)
Equity-settled share-based payment expense	–	–	–	20,316	–	–	20,316
Exchange differences on translation of foreign operations	–	–	–	–	47	–	47
At December 31, 2019	120,000	7,996	11,651	81,886	90	93,549	315,172

	Paid-in capital *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Other reserve *RMB'000*	Foreign currency transaction reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At January 1, 2019	120,000	7,996	5,194	61,570	43	50,873	245,676
Profit for the period (Unaudited)	–	–	–	–	–	45,373	45,373
Dividends paid to shareholders (Unaudited)	–	–	–	–	–	(24,000)	(24,000)
Equity-settled share-based payment expense (Unaudited)	–	–	–	9,718	–	–	9,718
Exchange differences on translation of foreign operations (Unaudited)	–	–	–	–	(5)	–	(5)
At June 30, 2019 (Unaudited)	120,000	7,996	5,194	71,288	38	72,246	276,762
At January 1, 2020	120,000	7,996	11,651	81,886	90	93,549	315,172
Profit for the period	–	–	–	–	–	96,651	96,651
Equity-settled share-based payment expense	–	–	–	10,515	–	–	10,515
Exchange differences on translation of foreign operations	–	–	–	–	18	–	18
At June 30, 2020	120,000	7,996	11,651	92,401	108	190,200	422,356

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31			Six months ended June 30	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		25,158	74,160	93,917	59,070	122,745
Adjustments for:						
Finance costs	8	6,245	9,582	9,454	5,017	3,746
Bank interest income	6	(344)	(702)	(1,116)	(508)	(796)
Investment income for bank wealth products	6	–	(167)	(64)	(52)	(89)
Loss on derivative financial instruments	7	–	7,320	2,856	1,852	2,176
Depreciation of property, plant and equipment	9	23,241	23,891	29,880	14,278	14,132
Depreciation of right-of-use assets	9	–	–	1,279	527	714
Amortisation of prepaid land lease payments	9	833	964	–	–	–
Amortisation of intangible assets	9	185	207	291	148	141
Loss on disposal of property, plant and equipment	7	1,310	924	490	56	18
Impairment loss on non-financial assets	9	825	304	144	144	–
Impairment losses on financial assets, net		(4,879)	2,881	687	1,938	4,761
Government grants for property, plant and equipment	6	(277)	(576)	(936)	(413)	(585)
Equity-settled share-based payment expense	9	32,411	27,958	20,316	9,718	10,515
Effect of foreign exchange rate changes, net		–	43	246	(2)	11
Operating cash flows before movements in working capital		84,708	146,789	157,444	91,773	157,489

	Notes	Year ended December 31 2017 RMB'000	2018 RMB'000	2019 RMB'000	Six months ended June 30 2019 RMB'000 (Unaudited)	2020 RMB'000
(Increase)/decrease in inventories		(26,479)	(38,750)	(35,009)	(14,943)	31,882
Decrease/(increase) in trade and bill receivables		106,757	(64,748)	(20,910)	(57,753)	(101,506)
Decrease/(increase) in prepayments, other receivables and other assets		7,397	(19,026)	9,187	3,001	3,877
(Increase)/decrease in amounts due from related parties		(683)	683	–	–	–
(Decrease)/increase in trade and bill payables		(19,811)	49,230	(6,988)	(18,202)	64,164
(Decrease)/increase in other payables and accruals		(25,149)	28,695	8,943	(18,679)	4,463
Cash generated from operations		126,740	102,873	112,667	(14,803)	160,369
Income tax paid		(860)	(20,961)	(25,637)	(11,548)	(16,431)
Net cash flows from/(used in) operating activities		125,880	81,912	87,030	(26,351)	143,938
CASH FLOWS FROM INVESTING ACTIVITIES						
Bank interest received		344	702	1,116	508	796
Investment income for bank wealth products		–	–	231	219	5
(Increase)/decrease in wealth management products		–	(14,220)	14,220	14,220	(5,000)
Purchases of property, plant and equipment		(41,575)	(43,549)	(44,479)	(9,952)	(22,543)
Proceeds from disposal of property, plant and equipment		200	282	46	–	–
Receipt of government grants for property, plant and equipment		3,856	3,223	3,802	–	–
Purchases of intangible assets		(113)	(96)	(325)	(85)	(212)
Acquisition of an entity under common control		(14,249)	–	–	–	–
Payment for prepaid land lease payments		(2,204)	–	–	–	(3,650)

	Notes	Year ended December 31			Six months ended June 30	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Payment for forward contracts		–	(7,164)	(4,072)	(1,054)	(932)
Payment for rental deposit		–	–	(135)	(132)	(3)
Placement in pledged deposits		(63,169)	(112,778)	(101,641)	(83,139)	(71,078)
Withdrawal in pledged deposits		54,235	98,965	128,593	98,554	50,976
Net cash flows (used in)/ from investing activities		(62,675)	(74,635)	(2,644)	19,139	(51,641)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bank borrowings		80,549	123,221	151,961	85,235	132,661
Repayment of bank loans		(68,000)	(80,549)	(123,219)	(69,531)	(152,163)
New loans from related parties raised		146,466	110,204	62,262	5,000	–
Repayment of loans from related parties		(111,519)	(125,199)	(112,262)	–	–
Proceeds from discounted bills		–	6,421	14,213	14,213	–
Capital contribution by shareholders		–	3,010	–	–	–
Dividends paid to shareholders		–	–	(24,000)	(24,000)	–
Interest on bank loans and other borrowings paid		(6,250)	(9,486)	(9,468)	(4,923)	(3,811)
Principle portion of lease payments		–	–	(320)	–	(320)
Deemed distribution to Ninghua Group *(Note)*		(77,570)	–	–	–	–
Net cash flows (used in)/ from financing activities		(36,324)	27,622	(40,833)	5,994	(23,633)

		Year ended December 31			Six months ended June 30	
		2017	**2018**	**2019**	**2019**	**2020**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		26,881	34,899	43,553	(1,218)	68,664
Cash and cash equivalents at beginning of year/period		5,257	32,138	67,037	67,037	110,590
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	*18*	32,138	67,037	110,590	65,819	179,254
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances, unrestricted		32,138	67,037	110,590	65,819	179,254
Cash and cash equivalents as stated in the statement of cash flows		32,138	67,037	110,590	65,819	179,254

The accompanying notes form part of the Historical Financial Information.

Note: Prior to the Business Transfer (as defined in Note 2.1), the Pharmaceutical Business Unit was operated under Ninghua Group and no separate bank accounts were maintained by the Pharmaceutical Business Unit. The treasury and cash disbursement functions of the Pharmaceutical Business Unit were centrally administrated by Ninghua Group. The net cash flows generated by the Pharmaceutical Business Unit were kept in the bank accounts of Ninghua Group, which is reflected in "Deemed distribution to Ninghua Group" under cash flow. Accordingly, the funds provided for or withdrawn from Ninghua Group were presented as movements in the equity while there are no cash and cash equivalents balance for the Pharmaceutical Business Unit.

For the purpose of presenting a completed set of Historical Financial Information of the Target Group, the above comprises the information of cash inflow/outflow of the Target Group and the Pharmaceutical Business Unit received/paid by Ninghua Group prior to the Business Transfer.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 INFORMATION OF THE TARGET GROUP

Zhejiang Langhua Pharmaceutical Co., Ltd. (the "**Target Company**") is a limited liabilities company established in the People's Republic of China (the "**PRC**") on February 21, 2002. Its registered office is located at Taizhou, Zhejiang Province, the PRC.

In the opinion of the Target company's Directors, the immediate and ultimate holding company of the Target company is Ninghua Group.

During the Relevant Periods, the Target Company and its subsidiaries (together, the "**Target Group**") are principally engaged in manufacturing services and distribution of small molecule APIs, initermediates, CDMO products, and pharmaceutical preparations.

On August 8, 2020, the shareholders of the Target company and Viva Biotech (Shanghai) Ltd. entered into the share purchase agreement in relation to the acquisition of 80% equity interests in the Target company.

2.1 BASIS OF PREPARATION AND PRESENTATION

For the purpose of preparing the Historical Financial Information for the Relevant Periods, the Target Group has consistently applied International Accounting Standards ("**IASs**"), IFRSs, amendments and the related interpretation ("**IFRICs**") (herein collectively referred to as the "**IFRSs**") (including IFRS 15 "**Revenue from Contracts with Customers**"), which are effective for the accounting period beginning on January 1, 2018 throughout the Relevant Periods except that the Target Group adopted IFRS 9 "Financial Instruments" on January 1, 2018 and IFRS 16 "Leases" on January 1, 2019.

The accounting policies for financial instruments which conform with IFRS 9 that are applicable from January 1, 2018 onwards and IAS39 "Financial Instruments" and accounting policies for leases which conform with IFRS 16 that are applicable from January 1, 2019 onwards and IAS 17 "Leases" that are applicable for Relevant Periods, are set out in Note 2.4 below. Further details of the significant accounting policies adopted are set out in Note 2.4.

The Historical Financial Information has been prepared under the historical cost convention. The Historical Financial Information is presented in RMB, which is also the functional currency of the Target Company. All values are rounded to the nearest thousand except when otherwise indicated.

The companies and business comprising the Target Group underwent a group reorganization as described below (the "**Target Group Reorganization**").

The Target Company was established in the PRC on February 21, 2002.

Ningbo Nuobai Pharmaceutical Co., Ltd. ("**Ningbo Nuobai**") was established in the PRC by the Target Company on December 11, 2017.

On December 28, 2017, the Target Company and Ninghua Group entered into a Business Transfer agreement, pursuant to which Ninghua Group transferred all assets, liabilities, employees and business of the Pharmaceutical Business Unit to Ningbo Nuobai at a cash consideration of approximately RMB14,013,000 ("**Business Transfer**"). The transfer of the operations of the Pharmaceutical Business Unit was completed on December 28, 2017. Subsequently, Ninghua Group ceased to engage in the distribution of small molecule APIs, intermediates and CDMO products.

As Ningbo Nuobai and the Pharmaceutical Business Unit were under common control of Ninghua Group before and after the Target Group Reorganization. Therefore, the acquisition of the Pharmaceutical Business Unit was accounted for as a business combination under common control by applying the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for the year ended December 31, 2017 include the results, changes in equity and cash flows of the entities comprising the Target Group and of the Pharmaceutical Business Unit, on the basis mentioned below, as if the Pharmaceutical Business Unit had been operated by the Target Group throughout the Relevant Periods.

To the extent that the assets, liabilities, income and expenses are specifically identified to the Pharmaceutical Business Unit, such items are included in the Historical Financial Information throughout the Relevant Periods. To the extent that the assets, liabilities, income and expenses are impracticable to be identified specifically, these items are allocated to the Pharmaceutical Business Unit on the basis set out below. Items that do not meet the criteria above are not included in the Historical Financial Information of the Target Group.

Expenses which are impracticable to be identified specifically to the Pharmaceutical Business Unit are determined on the following basis: (1) included in the administrative expenses are administrative and support department staff salaries and staff welfare which were allocated based on the percentage of headcount of the Pharmaceutical Business Unit to the total headcount of Ninghua Group; and (2) income tax expense was calculated based on the tax rate of Ninghua Group as if the Pharmaceutical Business Unit has been a separate tax reporting entity.

The total assets and liabilities retained by Ninghua Group as at December 22, 2017, totaling approximately RMB77,358,000 are reflected in the Historical Financial Information of the Target Group as a net distribution to Ninghua Group.

Basis of consolidation

The consolidated financial statements include the financial statements of the Target Company and its subsidiaries (collectively referred to as the "**Target Group**") for the years ended December 31, 2017, 2018 and 2019, and for the six months ended June 30, 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Group's voting rights and potential voting rights.

The results of subsidiaries are consolidated from the date on which the Target Group obtains control and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Target Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Target Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Target Group has adopted the following new and revised IFRSs for the first time for the financial statements of relevant periods.

Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*[1]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC-22	*Foreign Currency Transactions and Advance Consideration*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[3]
IFRS 16	*Leases*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[3]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[3]
IFRIC-23	*Uncertainty over Income Tax Treatments*[3]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[3]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IAS 1 and IAS 8	*Definition of Material*[4]

1 Effective for annual periods beginning on January 1, 2017
2 Effective for annual periods beginning on January 1, 2018
3 Effective for annual periods beginning on January 1, 2019
4 Effective for annual periods beginning on January 1, 2020

Except as described below, the application of the new and amendments to IFRSs during the Relevant Periods had no material impact on the Target Group's financial positions and performance for the Relevant Periods and/or on the disclosures set out in this Historical Financial Information.

The following note explains the impact of (i) the adoption of IFRS 16 *Leases*, which has been applied from January 1, 2019; and (ii) the adoption of IFRS 9 *Financial Instruments*, which has been applied from January 1, 2018, where they are not applied or are different to those applied in prior periods. The Target Group has concluded not to restate the comparative figures based on the specific transitional provision in IFRS 9 and IFRS 16. The nature and the impact of the new and revised IFRSs are described below:

(i) IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Target Group adopted IFRS 16 using the modified retrospective approach of adoption, with the date of initial application of January 1, 2019. The Target Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Target Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Target Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

The Target Group adopted IFRS 16 using the modified retrospective approach of adoption, with the date of initial application of January 1, 2019. The Target Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Target Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Target Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Target Group has lease contracts for various items of property. As a lessee, the Target Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Target Group. Under IFRS 16, the Target Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**"). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from January 1, 2019, the Target Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at January 1, 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at January 1, 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before January 1, 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Target Group elected to present the right-of-use assets separately in the statement of financial position.

The Target Group has used the following elective practical expedients when applying IFRS 16 at January 1, 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

Financial impact at January 1, 2019

The impact arising from the adoption of IFRS 16 at January 1, 2019 was as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	38,614
Decrease in prepaid land lease payments	(37,651)
Decrease in prepayments, other receivables and other assets-current	(963)
Increase in total assets	–

There was no material impact on the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows.

The lease liabilities as at January 1, 2019 reconciled to the operating lease commitments as at December 31, 2018 are as follows:

	RMB'000
Operating lease commitments as at December 31, 2018	194
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before December 31, 2019	(194)
Lease liabilities as at January 1, 2019	–

(ii) IFRS 9

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Target Group has recognized the transition adjustment against the applicable opening balances in equity at January 1, 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

Financial impact at January 1, 2018

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 at January 1, 2018 is as follows:

		IAS 39 measurement		Reclassification		IFRS 39 measurement	
		Category	Amount		ECL	Amount	Category
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*		
Financial assets							
Trade and bill receivables	16	L&R1	144,150	–	692	144,842	AC[2]
			144,150	–	692	144,842	

[1] L&R: Loans and receivables

[2] AC: Financial assets at amortised cost

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in Note 16 to the Historical Financial Information.

	Impairment allowances under IAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under IFRS 9 at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bill receivables	6,615	(692)	5,923
	6,615	(692)	5,923

Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves is as follows:

	Reserves and retained profits
	RMB'000
Retained profits as at 31 December 2017 under IAS 39	41,701
Recognition of expected credit losses for trade receivables under IFRS 9	692
Retained profits as at 1 January 2018 under IFRS 9	42,393

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS

The Target Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 37	*Onerous contracts – Cost of Fulfilling a Contract*[3]
Annual Improvements to IFRSs 2018-2020 Cycle	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41[3]
Amendments to IAS 16	*Property, plant and equipment: proceeds before intended use*[3]
Amendment to IFRS 16	*COVID-19-Related Rent Concessions (early adopted)* [4]

1 Effective for annual periods beginning on or after January 1, 2021
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2022
4 Effective for annual periods beginning on or after June, 1 2020.

The Target Group considered that the application of the new and revised IFRSs will not have material impacts on the Target Group's financial results.

Amendment to IFRS 16 COVID-19-Related Rent Concessions

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before June 30, 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after June 1, 2020 with earlier application permitted.

During the period ended June 30, 2020, certain monthly lease payments for the leases of the Target Group's properties have been reduced or waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Target Group has not early adopted the amendment on January 1, 2020 and elected to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the period ended June 30, 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB106,564 has been accounted for by derecognising part of the lease liabilities for the period ended June 30, 2020.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations of entities under common control

Business combinations of entities under common control are accounted for using the pooling of interests method with no restatement of financial information in the consolidated financial statements for periods prior to the completion of the combination under common control. Under the pooling of interests method, the assets and liabilities of the combining entities are reflected at their existing carrying values at the date of combination. No amount is recognised in respect of goodwill. The excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, instead, is recorded as part of equity.

Fair value measurement

The Target Group measures its derivative financial instruments at fair value at the end of each of the Relevant Periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same Group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group; (If the Target Group is itself such a plan) and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a Target Group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Building	4.75%
Furniture, fixtures and equipment	6% to 32%
Transportation equipment	12% to 24%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Deferred development costs

Deferred development costs are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Software

Software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Target Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases (applicable from January 1, 2019)

The Target Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Target Group as a lessee

The Target Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Properties	1 to 2 years

If ownership of the leased asset transfers to the Target Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Group and payments of penalties for termination of a lease, if the lease term reflects the Target Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Target Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Group is the lessor, assets leased by the Target Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Target Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Target Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Target Group and the amount of the dividend can be measured reliably, except when the Target Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Target Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Target Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in changes in fair value of available-for-sale investments until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss and other comprehensive income in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from changes in fair value of available-for-sale investments to the statement of profit or loss and other comprehensive income in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss and other comprehensive income as other income.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Target Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Target Group is unable to trade these financial assets due to inactive markets, the Target Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss and other comprehensive income.

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Target Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Target Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Target Group applies the practical expedient of not adjusting the effect of a significant financing component, the Target Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the Target Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Target Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Target Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Target Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Group's financial liabilities include trade and bill payables, other payables, amounts due to related parties, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Target Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss as the Target Group chose not to designate a hedging relationship and use hedge accounting.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Under IFRS 15, the Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;

- the Target Group's performance creates and enhances an asset that the customer controls as the Target Group performs; or

- the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good.

For contracts that contain more than one performance obligations, the Target Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The Target Group provided manufacturing services and distribution of small molecule APIs, intermediates and CDMO products to different customers under the fee-for-services ("**FFS**") model. The revenue is recognised at a point in time when the Target Group transfers the control for goods at a point in time and has right to payment from the customers for the services performed upon delivery of the products.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Target Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Target Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Target Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Target Company operates a restricted shares scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Target Group's operations. Employees (including directors) of the Target Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each of the Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the Target Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Target Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For restricted shares that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Target Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

Pension scheme

The employees of the Target Group's subsidiaries which operate in PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiary operating in Mainland China is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the Historical Financial Information.

Interim dividends are simultaneously proposed and declared, because the Target Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

This Historical Financial Information is presented in RMB, which is the Target Company's functional currency. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Target Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Target Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiary are currencies other than the RMB. As at the end of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the Relevant Periods and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency transaction reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The preparation of the Target Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECLs individually. In addition, the Target Group uses provision matrix to calculate ECLs for the trade receivables which are individually insignificant. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Target Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable, and which are available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The information about the ECLs on the Target Group's trade receivables is disclosed in Note 16 to the Historical Financial Information.

Fair value of financial instruments

If the market for a financial instrument is not active, the Target Group estimates fair value by using a valuation technique. Valuation techniques include using recent prices in arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the practicable extent, a valuation technique makes the maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

Useful lives and estimated impairment on property, plant and equipment

The Target Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Target Group will increase the depreciation charge where useful lives are shorter than the previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or to be sold.

The Target Group regularly reviews whether there are any indications of impairment and recognises an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The Target Group tests for impairment for property, plant and equipment whenever there is an indication that the asset may be impaired. The recoverable amounts have been determined based on the higher of the fair value less costs of disposal and value in use. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Impairment of non-financial assets (other than goodwill)

The Target Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other intangible assets with indefinite life are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

Segment information

For management purposes, the Target Group had only one reportable operating segment, which was offering manufacturing services and distribution of small molecule APIs and intermediates and CDMO products during the Relevant Periods. Since this is the only reportable operating segment of the Target Group, no further operating segment analysis thereof is presented.

Geographical Information

The geographical information about revenue is disclosed in Note 5 (a).

The Target Group's non-current assets are substantially located in the PRC, and accordingly, no related geographical information of non-current assets is presented.

Information about major customers

Revenue derived from sales to customers as accounted for more than 10% of the Target Group's revenue for the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2019 and 2020 are as follows:

	Year ended December 31			Six months ended June 30	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Customer A	161,871	250,990	150,801	102,729	112,993

5. REVENUE

An analysis of revenue is as follows:

	Year ended December 31			Six months ended June 30	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue from contracts with customers	885,581	1,121,760	1,237,544	640,948	809,197

Revenue from contracts with customers

(a) Disaggregated revenue information

	Year ended December 31			Six months ended June 30	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Geographical markets					
Mainland China	131,075	112,935	212,751	102,333	74,471
Other Asian countries and regions out of Mainland China	266,973	283,240	436,652	206,050	225,990
America	73,487	86,116	77,106	36,997	105,641
Europe	362,305	557,862	426,807	251,302	367,580
Africa	50,316	81,156	83,716	43,753	34,636
Others	1,425	451	512	513	879
Total revenue from contracts with customers	885,581	1,121,760	1,237,544	640,948	809,197
Timing of revenue recognition					
Services transferred at a point in time	885,581	1,121,760	1,237,544	640,948	809,197

The following table shows the amounts of revenue recognised in the Relevant Periods that were included in the contract liabilities at the beginning of the Relevant Periods:

	Year ended December 31			Six months ended June 30	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the Relevant Periods	22,727	22,145	11,361	11,361	16,603

(b) ***Performance obligations***

Information about the Target Group's performance obligations is summarised below:

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 90 days from delivery.

6. OTHER INCOME AND GAINS

	Year ended December 31			Six months ended June 30	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Other Income:					
Gains/(losses) of sales of scrap	4,097	(97)	246	(101)	–
Interest income:					
– Banks	344	702	1,116	508	796
Investment income for bank wealth products	–	167	64	52	89
Other Gains:					
Government grants and subsidies related to					
– Assets (i)	277	576	936	413	585
– Income (ii)	1,670	1,566	8,559	6,175	6,256
Net foreign exchange gain	–	11,877	3,956	1,019	5,346
Others	51	678	623	346	611
Total	6,439	15,469	15,500	8,412	13,683

Notes:

i. The Target Group has received certain government grants related to assets to investments in equipment and plant. The grants related to assets were recorded in deferred income and recognized in profit or loss over the useful lives of the relevant assets after the relevant conditions are met.

ii. Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognized in profit or loss in the period upon actual receipt.

7. OTHER EXPENSES

	Year ended December 31			Six months ended June 30	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net foreign exchange loss	6,008	–	–	–	–
Loss on derivative financial instruments	–	7,320	2,856	1,852	2,176
Loss on disposal of property, plant and equipment	1,310	924	490	56	18
Downtime loss	4,384	2,974	3,848	2,168	3,348
Impairment loss on non-financial assets	825	304	144	144	–
Others	2,558	42	535	263	568
Total	15,085	11,564	7,873	4,483	6,110

8. FINANCE COSTS

	Year ended December 31			Six months ended June 30	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest on					
– Bank borrowings	3,682	4,321	7,034	3,399	3,737
– Lease liabilities	–	–	20	4	9
– Loans from related parties *(Note 35)*	2,563	5,199	2,262	1,476	–
Discounts on bill receivables	–	62	138	138	–
Total	6,245	9,582	9,454	5,017	3,746

9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging/(crediting):

	Year ended December 31			Six months ended June 30	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of inventories sold*	711,676	870,322	971,039	509,049	584,666
Depreciation of property, plant and equipment	23,241	23,891	29,880	14,278	14,132
Depreciation of right-of-use assets	–	–	1,279	527	714
Amortization of prepaid lease payments	833	964	–	–	–
Amortization of intangible assets	185	207	291	148	141
Impairment loss on trade receivables	(4,879)	–	–	–	–
Expected credit losses on trade receivables	–	2,881	687	1,938	4,761
Staff cost (including directors' emoluments):					
– Salaries and other benefits	51,767	78,835	83,076	30,180	61,847
– Retirement benefit scheme contributions	2,445	2,833	2,605	1,055	306
– Share-based payment expenses	32,411	27,958	20,316	9,718	10,515
Auditors' remuneration	158	770	417	255	377
Foreign exchange differences, net	6,008	(11,877)	(3,956)	(1,019)	(5,346)
Minimum operating lease payment in respect of rented premises	370	194	–	–	–
Loss on disposal of property, plant and equipment	1,310	924	490	56	18
Lease payment in respect of short-term leases	–	–	194	–	–
Impairment loss on non-financial assets	825	304	144	144	–

* The "Cost of sales" amount includes the following expenses which are also included in the respective total amounts of the items disclosed above:

Depreciation of items of property, plant and equipment
Depreciation of right-of-use assets
Amortization of prepaid lease payments
Amortization of intangible assets
Share-based payment expenses

10. INCOME TAX EXPENSE

	Year ended December 31			Six months ended June 30	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current tax:					
Charge for the year	12,444	25,980	23,646	13,374	25,857
Underprovision in prior years	–	34	38	38	43
	12,444	26,014	23,684	13,412	25,900
Deferred tax	(701)	(4,126)	(2,900)	285	194
Total tax charge for the years/ periods	11,743	21,888	20,784	13,697	26,094

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.

The Hong Kong subsidiary is subject to income tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong.

Zhejiang Langhua Pharmaceutical Co., Ltd. obtained its "High and New Technology Enterprise" accreditation in September 2015 and had renewed its "High and New Technology Enterprise" accreditation in November 2018. Therefore, the Target Company entitled to a preferential EIT rate of 15% for the years of 2017, 2018 and 2019, and the six months ended June 30, 2019 and 2020. The qualification as a High and New Technology Enterprise is subject to review by the relevant tax authority in the PRC for every three years.

The tax charge for the Relevant Periods can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended December 31			Six months ended June 30	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before tax	25,158	74,160	93,917	59,070	122,745
Tax at the applicable tax rate of 25%	6,290	18,540	23,480	14,767	30,687
Tax effect of profits entitled to tax concession or lower tax rate enacted by local authority	(43)	(1,271)	(4,294)	(2,141)	(5,657)
Tax effect of expenses not deductible for tax purpose	7,105	7,449	5,470	2,608	2,788
Tax credit for qualified research and development expenses	(1,609)	(2,863)	(3,910)	(1,575)	(1,767)
Underprovision in prior years	–	33	38	38	43
Income tax expense	11,743	21,888	20,784	13,697	26,094

11. DIVIDENDS

	Year ended December 31			Six months ended June 30	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Dividend declared and paid	–	–	24,000	24,000	–

On April 19, 2019, the Target Company's Shareholders approved the 2018 profit distribution plan in an annual general meeting, pursuant to which dividend of RMB24,000,000 was paid on May 29, 2019.

12. PROPERTY, PLANT AND EQUIPMENT

	Building	Furniture, fixtures and equipment	Transportation equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
December 31, 2017					
At January 1, 2017:					
Cost	66,957	218,821	3,123	16,136	305,037
Accumulated depreciation	(22,775)	(107,498)	(2,099)	–	(132,372)
Net carrying amount	44,182	111,323	1,024	16,136	172,665
At January 1, 2017, net of accumulated depreciation	44,182	111,323	1,024	16,136	172,665
Additions	256	4,420	373	43,344	48,393
Transfer	13,203	25,362	79	(38,644)	–
Transfer to prepaid land lease payments	–	–	–	(2,338)	(2,338)
Disposal	(48)	(1,457)	(6)	–	(1,511)
Depreciation provided during the year	(3,288)	(19,420)	(533)	–	(23,241)
At December 31, 2017, net of accumulated depreciation	54,305	120,228	937	18,498	193,968
At December 31, 2017:					
Cost	80,328	240,103	3,446	18,498	342,375
Accumulated depreciation	(26,023)	(119,875)	(2,509)	–	(148,407)
Net carrying amount	54,305	120,228	937	18,498	193,968

	Building	Furniture, fixtures and equipment	Transportation equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
December 31, 2018					
At January 1, 2018:					
Cost	80,328	240,103	3,446	18,498	342,375
Accumulated depreciation	(26,023)	(119,875)	(2,509)	–	(148,407)
Net carrying amount	54,305	120,228	937	18,498	193,968
At January 1, 2018, net of accumulated depreciation	54,305	120,228	937	18,498	193,968
Additions	3,211	16,356	1,395	33,782	54,744
Transfer	11,681	37,033	–	(48,714)	–
Disposal	–	(1,199)	(8)	–	(1,207)
Depreciation provided during the year	(4,154)	(19,197)	(540)	–	(23,891)
At December 31, 2018, net of accumulated depreciation	65,043	153,221	1,784	3,566	223,614
At December 31, 2018:					
Cost	95,219	288,044	4,678	3,566	391,507
Accumulated depreciation	(30,176)	(134,823)	(2,894)	–	(167,893)
Net carrying amount	65,043	153,221	1,784	3,566	223,614

	Building *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Transportation equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
December 31, 2019					
At January 1, 2019:					
Cost	95,219	288,044	4,678	3,566	391,507
Accumulated depreciation	(30,176)	(134,823)	(2,894)	–	(167,893)
Net carrying amount	65,043	153,221	1,784	3,566	223,614
At January 1, 2019, net of accumulated depreciation	65,043	153,221	1,784	3,566	223,614
Additions	782	2,773	3,123	37,671	44,349
Transfer	–	10,233	12	(10,245)	–
Disposal	–	(384)	(149)	–	(533)
Depreciation provided during the year	(4,639)	(24,416)	(825)	–	(29,880)
At December 31, 2019, net of accumulated depreciation	61,186	141,427	3,945	30,992	237,550
At December 31, 2019:					
Cost	96,001	297,562	7,464	30,992	432,019
Accumulated depreciation	(34,815)	(156,135)	(3,519)	–	(194,469)
Net carrying amount	61,186	141,427	3,945	30,992	237,550

	Building	Furniture, fixtures and equipment	Transportation equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
June 30, 2020					
At January 1, 2020:					
Cost	96,001	297,562	7,464	30,992	432,019
Accumulated depreciation	(34,815)	(156,135)	(3,519)	–	(194,469)
Net carrying amount	61,186	141,427	3,945	30,992	237,550
At January 1, 2020, net of accumulated depreciation	61,186	141,427	3,945	30,992	237,550
Additions	181	588	442	19,051	20,262
Transfer	6,087	29,861	33	(35,981)	–
Disposal	–	(18)	–	–	(18)
Depreciation provided during the period	(2,340)	(11,368)	(424)	–	(14,132)
At June 30, 2020, net of accumulated depreciation	65,114	160,490	3,996	14,062	243,662
At June 30, 2020:					
Cost	102,269	327,966	7,939	14,062	452,236
Accumulated depreciation	(37,155)	(167,476)	(3,943)	–	(208,574)
Net carrying amount	65,114	160,490	3,996	14,062	243,662

13. LEASES

The Target Group as a lessee

The Target Group has lease contracts for various items of prepaid land lease payments and properties. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 1 and 2 years. Generally, the Target Group is restricted from assigning and subleasing the leased assets outside the Target Group.

The Target Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Target Group applies the short-term lease exemption for recognition of the short-term leases and leases of the low-value assets.

(a) Prepaid land lease payments (before January 1, 2019)

	RMB'000
Carrying amount at January 1, 2017	38,073
Transfer from construction in progress ("**CIP**")	2,338
Recognised in profit or loss during the year	(833)
Carrying amount at December 31, 2017	39,578
Current portion included in prepayments, deposits and other receivables	(833)
Non-current portion	38,745

	RMB'000
Carrying amount at January 1, 2018	39,578
Recognised in profit or loss during the year	(964)
Carrying amount at December 31, 2018	38,614
Current portion included in prepayments, deposits and other receivables	(963)
Non-current portion	37,651

(b) Right-of-use assets

The carrying amounts of the Target Group's right-of-use assets and the movements during the Relevant Periods are as follows:

	Prepaid land lease payments *RMB'000*	**Properties** *RMB'000*	**Total** *RMB'000*
As at January 1, 2019	38,614	–	38,614
Additions	–	948	948
Depreciation charge	(963)	(316)	(1,279)
As at December 31, 2019	37,651	632	38,283

	Prepaid land lease payments *RMB'000*	**Properties** *RMB'000*	**Total** *RMB'000*
As at January 1, 2020	37,651	632	38,283
Additions/(Concession)*	3,650	(104)	3,546
Depreciation charge	(488)	(226)	(714)
As at June 30, 2020	40,813	302	41,115

* During the period ended June 30, 2020, certain monthly lease payments for the leases of the Target Group's properties have been reduced or waived by the lessors as a result of the COVID-19 pandemic and there were no other changes to the terms of the leases. The Target Group treated it as lease modification as detailed in Note 2.3.

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year/period are as follows:

	For the year ended December 31, 2019 Lease liabilities *RMB'000*
Carrying amount at January 1	–
New leases	937
Accretion of interest recognized during the year	20
Payments	(320)
Carrying amount at December 31	637
Analysed into:	
Current portion	637
Non-current portion	–

	For the six months ended June 30, 2020 Lease liabilities *RMB'000*
Carrying amount at January 1	637
New leases/(Lease concession)	(104)
Accretion of interest recognised during the period	9
Payments	(320)
Carrying amount at June 30	222
Analysed into:	
Current portion	222
Non-current portion	–

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	For the year ended December 31, 2019 *RMB'000*	For the six months ended June 30, 2020 *RMB'000*
Interest on lease liabilities	20	9
Depreciation charge of right-of-use assets	1,279	714
Expense relating to short-term leases and other leases with remaining lease terms ended on or before December 31, 2019	194	–
Total amount recognised in profit or loss	1,493	723

14. INTANGIBLE ASSETS

	Patents and licences *RMB'000*	Deferred development costs *RMB'000*	Software *RMB'000*	Total *RMB'000*
December 31, 2017				
At January 1, 2017:				
Cost	132	489	1,284	1,905
Accumulated amortization	(24)	(38)	(291)	(353)
Net carrying amount	108	451	993	1,552
At January 1, 2017, net of accumulated amortization	108	451	993	1,552
Additions	9	–	104	113
Amortization provided during the year	(18)	(37)	(130)	(185)
At December 31, 2017, net of accumulated amortization	99	414	967	1,480
At December 31, 2017				
Cost	141	489	1,389	2,019
Accumulated amortization	(42)	(75)	(422)	(539)
Net carrying amount	99	414	967	1,480

	Patents and licences *RMB'000*	Deferred development costs *RMB'000*	Software *RMB'000*	Total *RMB'000*
December 31, 2018				
At January 1, 2018:				
Cost	141	489	1,389	2,019
Accumulated amortization	(42)	(75)	(422)	(539)
Net carrying amount	99	414	967	1,480
At January 1, 2018 net of accumulated amortization	99	414	967	1,480
Additions	–	–	96	96
Amortization provided during the year	(14)	(49)	(144)	(207)
At December 31, 2018 net of accumulated amortization	85	365	919	1,369
At December 31, 2018				
Cost	141	489	1,485	2,115
Accumulated amortization	(56)	(124)	(566)	(746)
Net carrying amount	85	365	919	1,369

	Patents and licences RMB'000	Deferred development costs RMB'000	Software RMB'000	Total RMB'000
December 31, 2019				
At January 1, 2019:				
Cost	141	489	1,485	2,115
Accumulated amortization	(56)	(124)	(566)	(746)
Net carrying amount	85	365	919	1,369
At January 1, 2019 net of accumulated amortization	85	365	919	1,369
Additions	–	–	325	325
Amortization provided during the year	(14)	(49)	(228)	(291)
At December 31, 2019 net of accumulated amortization	71	316	1,016	1,403
At December 31, 2019				
Cost	141	489	1,810	2,440
Accumulated amortization	(70)	(173)	(794)	(1,037)
Net carrying amount	71	316	1,016	1,403

	Patents and licences RMB'000	Deferred development costs RMB'000	Software RMB'000	Total RMB'000
June 30, 2020				
At January 1, 2020:				
Cost	141	489	1,810	2,440
Accumulated amortization	(70)	(173)	(794)	(1,037)
Net carrying amount	71	316	1,016	1,403
At January 1, 2020 net of accumulated amortization	71	316	1,016	1,403
Additions	–	–	212	212
Amortization provided during the period	(7)	(24)	(110)	(141)
At June 30, 2020 net of accumulated amortization	64	292	1,118	1,474
At June 30, 2020				
Cost	141	489	2,022	2,652
Accumulated amortization	(77)	(197)	(904)	(1,178)
Net carrying amount	64	292	1,118	1,474

15. INVENTORIES

	December 31, 2017 *RMB'000*	December 31, 2018 *RMB'000*	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Raw materials	26,786	46,841	32,679	49,022
Work in progress	36,086	42,141	45,072	54,341
Finished goods	31,480	43,816	89,912	32,418
	94,352	132,798	167,663	135,781

16. TRADE AND BILL RECEIVABLES

	December 31, 2017 *RMB'000*	December 31, 2018 *RMB'000*	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Trade receivables	134,214	180,829	209,937	312,317
Bill receivables	16,551	28,263	5,844	4,970
Allowance for impairment loss/ECLs	(6,615)	(8,804)	(9,483)	(14,244)
	144,150	200,288	206,298	303,043

The Target Group allows a credit period ranging from 30 to 90 days to its customers and involved credit insurance company to minimise credit risk for each customer has a maximum credit limit. The Target Group seeks to maintain strict control over its outstanding receivables. The Target Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Bill receivables as at December 31, 2018, December 31, 2019, and June 30, 2020 were used to secure bank borrowings of the Target Group amounting to USD459,000, RMB12,163,000 and RMB7,740,000, respectively.

The ending balance as at December 31, 2017 and December 31, 2018 included RMB93,915,000 and RMB19,000 were due from its controlling shareholder,respectively. During the process of Target Group Reorganization in 2017, the controlling shareholder collected the related trade and bill receivables on behalf of the Target Group.

The following is an aging analysis of trade and bill receivables (net of impairment loss/allowance for ECLs) presented based on the invoice dates, at the end of each of the Relevant Periods:

	December 31, 2017 *RMB'000*	December 31, 2018 *RMB'000*	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Within 6 months	144,150	199,799	205,811	298,941
6 months to 1 year	–	489	–	4,102
1 to 2 years	–	–	487	–
	144,150	200,288	206,298	303,043

Allowance for ECLs under IFRS 9

From January 1, 2018, the Group has applied the simplified approach to provide impairment for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with customer type and rating. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

The effect of adoption of IFRS 9 in the loss allowance and movements in provision for the loss allowance under IFRS 9 for impairment of trade receivables are as follows:

	RMB'000
At December 31, 2017	6,615
Effect of adoption of IFRS 9	(692)
At January 1, 2018	5,923
ECL	2,881
At December 31, 2018	8,804
ECL	687
Amount written off as uncollectible	(8)
At December 31, 2019	9,483
ECL	4,761
At June 30, 2020	14,244

Set out below is the information about the credit risk exposure on the Target Group's trade and bill receivables using a provision matrix:

As at June 30, 2020

	Aging			
	Less than 6 months	**7 to 12 months**	**13 to 18 months**	**Total**
Expected credit loss rate	4.23%	20.32%	–	4.49%
Gross carrying amount *(RMB'000)*	312,139	5,148	–	317,287
Expected credit losses *(RMB'000)*	13,198	1,046	–	14,244

As at December 31, 2019

	Aging			
	Less than 6 months	7 to 12 months	13 to 18 months	Total
Expected credit loss rate	4.35%	–	21.04%	4.39%
Gross carrying amount *(RMB'000)*	215,163	–	618	215,781
Expected credit losses *(RMB'000)*	9,353	–	130	9,483

As at December 31, 2018

	Aging			
	Less than 6 months	7 to 12 months	13 to 18 months	Total
Expected credit loss rate	4.16%	20.71%	–	4.21%
Gross carrying amount *(RMB'000)*	208,455	618	–	209,073
Expected credit losses *(RMB'000)*	8,676	128	–	8,804

The movements in the loss allowance for impairment of trade receivables in 2017 under IAS 39 is as follows:

	RMB'000
At January 1, 2017	11,550
Impairment losses recognized under IAS 39	(4,879)
Amount written off as uncollectible	(56)
At December 31, 2017	6,615

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments**	6,966	11,263	15,372	10,400
Prepaid expenses	3,755	2,838	1,858	1,908
Financial products at amortized cost*	–	14,387	–	5,084
Value-added tax ("**VAT**") recoverable	–	245	3,925	134
Refundable VAT for export**	12,312	27,479	11,030	15,104
Prepaid land lease payment current portion	833	964	–	–
Deposits and other receivables	1,716	2,020	2,955	2,918
	25,582	59,196	35,140	35,548

* The above investments represent investments in certain financial products issued by commercial banks. These financial products had terms of less than one year and had guaranteed annual return rates ranging from 3.1% to 3.65%. As at December 31, 2018, the investment was used to secure bank borrowings of the Target Group amounting to RMB15,000,000.

** The ending balance as at December 31, 2017 included RMB8,915,000 which was due from its controlling shareholder. During the process of Target Group Reorganization in 2017, the controlling shareholder collected related prepayments and refundable VAT for export on behalf of the Target Group.

None of the above assets is either past due or impaired. Other receivables of the Group were considered to be of low credit risk, and thus, the Group has assessed that the ECL for other receivables is immaterial under the 12-month expected loss method and no impairment provision is required.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	59,331	108,043	124,644	213,410
Less: Pledged time deposits:				
Pledged for bank acceptance	27,193	41,006	14,054	34,156
Cash and cash equivalents	32,138	67,037	110,590	179,254

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

As at December 31, 2017, 2018 and 2019 and June 30, 2020, bank balances and cash and restricted bank deposits that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
US$	10,534	55,533	81,736	46,534
HK$	–	2	–	–
Others	–	307	131	1,349

19. TRADE AND BILL PAYABLES

An aging analysis of the trade payables that are based on the invoice date and bill payables that are based on the issue date as at the end of each of the Relevant Periods is as follows:

	December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	149,692	134,874	184,633	223,294
Over 3 months but within 1 year	69,972	134,020	77,273	102,776
Over 1 year	–	–	–	–
	219,664	268,894	261,906	326,070

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

The ending balance as at December 31, 2017 included RMB85,451,000 which was due to its controlling shareholder (Note 35). During the process of the Target Group Reorganization in 2017, the controlling shareholder paid the related trade and bill payables on behalf of the Target Group.

20. OTHER PAYABLES AND ACCRUALS

	December 31, 2017 *RMB'000*	December 31, 2018 *RMB'000*	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Accruals	4,317	3,075	1,550	2,775
Salary and bonus payables	8,722	49,905	56,685	55,339
Other taxes payable	1,005	2,110	627	3,174
Payables for purchase of property, plant and equipment	1,776	7,825	5,465	5,530
Other payables	2,893	1,422	1,317	6,205
	18,713	64,337	65,644	73,023

Other payables are non-interest-bearing.

21. CONTRACT LIABILITIES

	January, 1, 2017 *RMB'000* (Unaudited)	December 31, 2017 *RMB'000*	December 31, 2018 *RMB'000*	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Amounts received in advance of delivery of products	22,727	22,145	11,361	16,603	13,678

The ending balance as at December 31, 2017 included RMB20,935,000 which was due to its controlling shareholder. During the process of Target Group Reorganization in 2017, the controlling shareholder collected the related contract liabilities on behalf of the Target Group.

22. INTEREST-BEARING BANK BORROWINGS

	December 31, 2017		
	Effective interest rate *(%)*	Maturity	*RMB'000*
Current			
Bank loans – secured (a)	4.35-4.83	2018	80,549
			80,549

	December 31, 2018		
	Effective interest rate	Maturity	
	(%)		*RMB'000*
Current			
Bank loans – unsecured	4.57	2019	30,000
Bank loans – secured (b)	4.34	2019	50,000
Bank loans – secured (c)	5.2	2019	15,069
Bank loans – secured (d)	3.54-3.77	2019	3,150
Bank loans – secured (e)	4.57-5.22	2019	25,000
			123,219

	December 31, 2019		
	Effective interest rate	Maturity	
	(%)		*RMB'000*
Current			
Bank loans – unsecured	4.35-4.57	2020	100,000
Bank loans – secured (f)	4.35	2020	40,000
Bank loans – secured (g)	2.13-4.31	2020	12,163
			152,163

	June 30, 2020		
	Effective interest rate	Maturity	
	(%)		*RMB'000*
Current			
Bank loans – unsecured	4.13-4.35	2020	75,000
Bank loans – unsecured	3.55	2021	49,913
Bank loans – secured (h)	LIBOR+150BP	2020	7,740
			132,653

	December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loan repayable:				
Within one year	80,549	123,219	152,163	132,653

(a) As at December 31, 2017, approximately RMB80,549,000 of bank borrowings were secured by the Ninghua Group, the controlling shareholder of the Target Group.

(b) As at December 31, 2018, a total of RMB50,000,000 of bank borrowings of the Target Company were guaranteed by Ninghua Group and Ningbo Nuobai jointly.

(c) As at December 31, 2018, a total of RMB15,000,000 of bank borrowing was secured by Target Group's financial product at amortized cost. Approximately USD10,000 bank borrowing was guaranteed by the Ninghua Group.

(d) As at December 31, 2018, a total of USD459,000 of bank borrowings from Bank of China Ningbo Branch were secured by the Target Group's bill receivables.

(e) As at December 31, 2018, a total of RMB25,000,000 of bank borrowings were guaranteed by the Ninghua Group.

(f) As at December 31, 2019, bank borrowings of approximately RMB40,000,000 were guaranteed by Ninghua Group, controlling shareholder of the Target Group.

(g) As at December 31, 2019, a total of RMB12,163,000 of bank borrowings were secured by the Target Group's bill receivable.

(h) As at June 30, 2020, approximately a bank borrowing of RMB7,740,000 was secured by the Target Group's bill receivables.

23. DEFERRED INCOME

	December 31, 2017	**December 31, 2018**	**December 31, 2019**	**June 30, 2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Government grants	4,759	7,406	10,272	9,687

Government grants are related to the subsidies received from the relevant government for the purpose of compensation for the expenses arising from industrial technology upgrades, and capital expenditures incurred on certain projects.

Upon completion of the related projects, the grants related to an asset would be released to profit or loss over the expected useful life of the relevant asset.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2018		**December 31, 2019**		**June 30, 2020**	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Forward currency contracts*	–	156	1,127	67	1,057	1,241

* Changes in the fair value of forward currency contracts were charged to the statement of profit or loss during the Relevant Periods.

The Target Group holds the following foreign exchange forward contracts:

	Maturity			
	Less than 3 months *RMB'000*	**3 to 6 months** *RMB'000*	**6 to 9 months** *RMB'000*	**Total** *RMB'000*
As at December 31, 2018				
Foreign currency forward contracts				
Notional amount *(in RMB'000)*	950	–	–	950
Average forward rate *(USD/RMB)*	6.6991	–	–	
As at December 31, 2019				
Foreign currency forward contracts				
Notional amount *(in RMB'000)*	11,180	2,660	–	13,840
Average forward rate *(USD/RMB)*	7.0486	7.0702	–	
As at June 30, 2020				
Foreign currency forward contracts				
Notional amount *(in RMB'000)*	27,850	14,070	6,000	47,920
Average forward rate *(USD/RMB)*	7.0461	7.0944	7.1728	

25. DEFERRED TAX

2017

Deferred tax liabilities

	Accelerated tax depreciation *RMB'000*	**Total** *RMB'000*
At December 31, 2016	716	716
Deferred tax charged to profit or loss	44	44
At December 31, 2017	760	760

Deferred tax assets

	Deferred income *RMB'000*	**Impairment losses** *RMB'000*	**Accrual expense** *RMB'000*	**Depreciation difference** *RMB'000*	**Provision** *RMB'000*	**Tax losses** *RMB'000*	**Accrued payroll** *RMB'000*	**Total** *RMB'000*
At December 31, 2016	177	2,453	819	1,511	23	–	574	5,557
Deferred tax credited/ (charged) to profit or loss	537	270	(15)	(261)	108	106	–	745
Deferred tax debited to other reserve	–	(1,249)	–	–	–	–	–	(1,249)
At December 31, 2017	714	1,474	804	1,250	131	106	574	5,053

No deferred tax assets and liabilities have been offset as of December 31, 2017.

2018

Deferred tax liabilities

	Accelerated tax depreciation *RMB'000*	Total *RMB'000*
At December 31, 2017	760	760
Deferred tax charged to profit or loss	211	211
At December 31, 2018	971	971

Deferred tax assets

	Deferred income *RMB'000*	Impairment losses *RMB'000*	Accrual expense *RMB'000*	Depreciation difference *RMB'000*	Provision *RMB'000*	Tax losses *RMB'000*	Accrued payroll *RMB'000*	Fair value change of derivative financial instruments *RMB'000*	Total *RMB'000*
At December 31, 2017	714	1,474	804	1,250	131	106	574	–	5,053
Deferred tax credited/(charged) to profit or loss	397	366	2,492	(261)	(8)	(106)	1,418	39	4,337
At December 31, 2018	1,111	1,840	3,296	989	123	–	1,992	39	9,390

No deferred tax assets and liabilities have been offset as of December 31, 2018.

2019

Deferred tax liabilities

	Fair value change of derivative financial instruments *RMB'000*	Accelerated tax depreciation *RMB'000*	Total *RMB'000*
At December 31, 2018	–	971	971
Deferred tax charged to profit or loss	281	448	729
At December 31, 2019	281	1,419	1,700

Deferred tax assets

	Deferred income *RMB'000*	Impairment losses *RMB'000*	Accrual expense *RMB'000*	Depreciation difference *RMB'000*	Provision *RMB'000*	Elimination of profits on inventories *RMB'000*	Accrued payroll *RMB'000*	Fair value change of derivative financial instruments *RMB'000*	Total *RMB'000*
At December 31, 2018	1,111	1,840	3,296	989	123	–	1,992	39	9,390
Deferred tax credited/(charged) to profit or loss	430	327	160	(261)	17	2,511	467	(22)	3,629
At December 31, 2019	1,541	2,167	3,456	728	140	2,511	2,459	17	13,019

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Target Group for financial reporting purposes:

	December 31, 2019 *RMB'000*
Net deferred tax assets recognised in the consolidated statement of financial position	13,002
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,683)
	11,319

2020

Deferred tax liabilities

	Fair value change of derivative financial instruments *RMB'000*	Accelerated tax depreciation *RMB'000*	Total *RMB'000*
At December 31, 2019	281	1,419	1,700
Deferred tax charged/(credited) to profit or loss	(18)	57	39
At June 30, 2020	263	1,476	1,739

Deferred tax assets

	Deferred income *RMB'000*	Impairment losses *RMB'000*	Accrual expense *RMB'000*	Depreciation difference *RMB'000*	Provision *RMB'000*	Elimination of profits on inventories *RMB'000*	Accrued payroll *RMB'000*	Fair value change of derivative financial instruments *RMB'000*	Total *RMB'000*
At December 31, 2019	1,541	2,167	3,456	728	140	2,511	2,459	17	13,019
Deferred tax credited/(charged) to profit or loss	(88)	993	1,708	(130)	–	(1,046)	(1,885)	293	(155)
At June 30, 2020	1,453	3,160	5,164	598	140	1,465	574	310	12,864

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Target Group for financial reporting purposes:

	June 30, 2020
	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	12,601
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,476)
	11,125

26. PAID-IN CAPITAL

	December 31, 2017	**December 31, 2018**	**December 31, 2019**	**June 30, 2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Paid in capital	120,000	120,000	120,000	120,000

27. SHARE-BASED COMPENSATION

Shares granted by the controlling shareholder to certain directors and employees of the Target Company

Ninghua Group transferred 12,600,000 and 2,388,000 ordinary shares of the Target Company to certain directors and employees of the Target Group in recognition of their past services to the Target Group, in December 2017 and March 2018, respectively.

The Target Group recognised share-based compensation expenses of RMB31,718,000 and RMB6,011,000 during the year ended December 31, 2017 and 2018 on the date of transfer of these shares respectively as rewards for their services and in exchange for their full-time devotion and professional expertise.

The shares were valued by the directors of the Target Company with reference to the Target Company's equity valuation carried out by an independent valuer on the grant date of the transferred shares. The weighted average fair value of the shares was determined to be RMB4.35 per share as of these grant dates.

Details of transferred shares are as follows:

Date of grant	**Number of transferred shares**	**Transfer price per share**
December 12, 2017	12,600,000	RMB1.83
March 7, 2018	2,388,000	RMB1.83

Restricted Share Scheme

Ninghua Group transferred 26,400,000 ordinary shares of the Target company to Nuobai Investments to establish two Restricted Share Scheme Platforms which were Ningbo Nuobai Yihao Investment Management Center (Limited Partnership) ("**Ningbo Ninghua No.1**") and Ningbo Nuobai Erhao Investment Management Center (Limited Partnership) ("**Ningbo Ninghua No.2**") in December 2017. The shares of Ningbo Ninghua No.1 and Ningbo Ninghua No.2 were subscribed by certain directors and employees of the Target Group at a price of RMB1.83 per share in recognition of their full-time devotion and professional expertise in December 2017 and September 2018, respectively ("**Restricted Share Scheme**"). These granted restricted shares will be vested on the fifth anniversary date of the restricted shares' registration date.

The five-year vesting period of the Restricted Share Scheme was shortened to 3-year pursuant to the modification of partnership agreement of Ningbo Ninghua No.1 and Ningbo Ninghua No.2 on November 12, 2018. As a result, the directors of the Target Company treated it as modification and applied the retrospective adjustment method to recognize all of the expense relating to the difference between the modified vesting period and original vesting period on November 12, 2018.

The total expense recognised in the consolidated statements of profit or loss and other comprehensive income for the restricted shares granted were approximately RMB693,000, RMB21,947,000, RMB20,316,000, RMB9,718,000 and RMB10,515,000 respectively, for the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2019 and 2020.

The restricted shares were valued by the directors of the Target Company with direct reference to the Target Company's equity fair value valuation carried out by an independent valuer on the grant date of the restricted shares. The discounted cash flow method under the income approach was used to determine the equity fair value of the Target Company. The weighted average fair value of these restricted shares was determined to be RMB4.35 per share as of these grant dates.

Details of restricted shares are as follows:

Date of grant	**Number of restricted shares**	**Subscribe price per share**
December 12, 2017	26,350,000	RMB1.83
March 7, 2018	500,000	RMB1.83

Set out below are details of the movements of the outstanding restricted shares granted under the Restricted Share Scheme throughout the Relevant Periods.

	Outstanding at January 1, 2017	**Granted during the year**	**Forfeited**	**Outstanding at December 31, 2017**
Restricted Shares	–	26,350,000	–	26,350,000

	Outstanding at January 1, 2018	**Granted during the year**	**Forfeited**	**Outstanding at December 31, 2018**
Restricted Shares	26,350,000	500,000	875,000	25,975,000

	Outstanding at January 1, 2019	**Granted during the year**	**Forfeited**	**Outstanding at December 31, 2019**
Restricted Shares	25,975,000	–	875,000	25,100,000

	Outstanding at January 1, 2020	**Granted during the period**	**Forfeited**	**Outstanding at June 30, 2020**
Restricted Shares	25,100,000	–	–	25,100,000

28. RESERVES

Details of the movements on the Target Group's reserves are set out in the consolidated statements of changes in equity.

(i) Other reserve

The other reserve as of January 1, 2017 represented capital contribution in the Pharmaceutical Business Unit by Ninghua Group before the Group Reorganization.

The other reserve as of other year ends or period ends in the Relevant Periods is mainly used to record the reserve of share-based payment expense as detailed in Note 27.

(ii) Statutory reserve (the "SR")

In accordance with the Company Law of the PRC and the articles of association of the Mainland China subsidiaries, each of the Mainland China subsidiaries is required to allocate 10% of their profit after tax, as determined in accordance with the PRC generally accepted accounting principles, to the SR until this reserve reaches 50% of its registered capital. Part of the SR may be converted to increase the paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(iii) Foreign currency transaction reserve

The Foreign currency transaction reserve is used to record exchange differences arising from the translation of the financial statements of a subsidiary in Hong Kong.

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

For the year ended December 31, 2017

Financial assets

	Loans and receivables	**Total**
	RMB'000	*RMB'000*
Trade and bill receivables	144,150	144,150
Amounts due from related parties	683	683
Pledged deposits	27,193	27,193
Cash and bank balances	32,138	32,138
	204,164	204,164

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
Trade and bill payables	219,664
Financial liabilities included in other payables and accruals	2,893
Amounts due to related parties	64,995
Interest-bearing bank borrowings	80,549
	368,101

For the year ended December 31, 2018

Financial assets

	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Trade and bill receivables	200,288	200,288
Financial assets included in prepayments, other receivables and other assets	14,387	14,387
Pledged deposits	41,006	41,006
Cash and bank balances	67,037	67,037
	322,718	322,718

Financial liabilities

	Financial assets at fair value through profit or loss		
	Designated as such upon initial recognition *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Derivative financial instruments	156	–	156
Trade and bill payables	–	268,894	268,894
Financial liabilities included in other payables and accruals	–	1,422	1,422
Amounts due to related parties	–	50,000	50,000
Interest-bearing bank borrowings	–	123,219	123,219
	156	443,535	443,691

For the year ended December 31, 2019

Financial assets

	Financial assets at fair value through profit or loss		
	Mandatorily designated as such *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Derivative financial instruments	1,127	–	1,127
Trade and bill receivables	–	206,298	206,298
Pledged deposits	–	14,054	14,054
Cash and bank balances	–	110,590	110,590
	1,127	330,942	332,069

Financial liabilities

	Financial assets at fair value through profit or loss		
	Designated as such upon initial recognition	Financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Derivative financial instruments	67	–	67
Trade and bill payables	–	261,906	261,906
Financial liabilities included in other payables and accruals	–	1,317	1,317
Interest-bearing bank borrowings	–	152,163	152,163
	67	415,386	415,453

For the six months ended June 30, 2020

Financial assets

	Financial assets at fair value through profit or loss		
	Mandatorily designated as such	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Derivative financial instruments	1,057	–	1,057
Trade and bill receivables	–	303,043	303,043
Financial assets included in prepayments, other receivables and other assets	–	5,084	5,084
Pledged deposits	–	34,156	34,156
Cash and bank balances	–	179,254	179,254
	1,057	521,537	522,594

Financial liabilities

	Financial assets at fair value through profit or loss		
	Designated as such upon initial recognition	Financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Derivative financial instruments	1,241	–	1,241
Trade and bill payables	–	326,070	326,070
Financial liabilities included in other payables and accruals	–	6,205	6,205
Amounts due to related parties	–	–	–
Interest-bearing bank borrowings	–	132,653	132,653
	1,241	464,928	466,169

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The directors of the Target Company consider that the carrying amount of the Target Group's current financial assets and current financial liabilities recorded at amortized cost in the consolidated financial statements approximate to their fair values. The fair values of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade and bill receivable, trade and bill payables, financial assets included in prepayments, deposits and other receivables, accruals, and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Target Group enters into derivative financial instruments with financial institutions with AAA credit ratings. Derivative financial instruments, including forward currency contracts, are measured using valuation techniques similar to the forward pricing model, using present value calculations.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Target Group's financial instruments:

Assets measured at fair value:

As at December 31, 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	–	–	–

As at December 31, 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	–	–	–

As at December 31, 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	1,127	–	1,127

As at June 30, 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	1,057	–	1,057

Liabilities measured at fair value:

As at December 31, 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant observable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	–	–	–

As at December 31, 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable input (Level 2)**	**Significant observable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	156	–	156

As at December 31, 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable input (Level 2)**	**Significant observable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	67	–	67

As at June 30, 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable input (Level 2)**	**Significant observable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	–	1,241	–	1,241

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments, other than derivatives, comprise bank borrowings, pledged deposits, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target Group has various other financial assets and liabilities such as trade and bill receivables and trade and bill payables, which arise directly from its operations.

The Target Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the currency risks arising from the Target Group's operations.

The main risks arising from the Target Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Target Group's accounting policies in relation to derivatives are set out in Note 2.4 to the Historical Financial Information.

Interest rate risk

The Target Group's exposure to interest rate risk for changes in interest rates relates primarily to the Target Group's bank borrowings with floating interest rates. The Target Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Target Group's profit before tax (through the impact on floating rate borrowings) and the Target Group's equity.

	Increase/ (Decrease) in basis points	Increase/ (Decrease) in profit before tax *RMB'000*	Increase/ (Decrease) in equity *RMB'000*
For the year ended December 31, 2017			
Bank borrowings	50	–	–
Bank borrowings	(50)	–	–
For the year ended December 31, 2018			
Bank borrowings	50	16	16
Bank borrowings	(50)	(16)	(16)
For the year ended December 31, 2019			
Bank borrowings	50	60	60
Bank borrowings	(50)	(60)	(60)
For the six months ended June 30, 2020			
Bank borrowings	50	39	39
Bank borrowings	(50)	(39)	(39)

Foreign currency risk

The Target Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Target Group's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities).

	Increase/(Decrease) in USD/RMB	Increase/(Decrease) in profit before tax *RMB'000*	(Decrease)/Increase in equity *RMB'000*
For the year ended December 31, 2017			
If RMB weakens against USD	5	5,945	5,945
If RMB strengthens against USD	(5)	(5,945)	(5,945)
For the year ended December 31, 2018			
If RMB weakens against USD	5	10,256	10,256
If RMB strengthens against USD	(5)	(10,256)	(10,256)
For the year ended December 31, 2019			
If RMB weakens against USD	5	7,990	7,990
If RMB strengthens against USD	(5)	(7,990)	(7,990)
For the six months ended June 30, 2020			
If RMB weakens against USD	5	1,814	1,814
If RMB strengthens against USD	(5)	(1,814)	(1,814)

Credit risk

The Target Group trades only with recognised and creditworthy third parties. It is the Target Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In order to minimise the credit risk, the Target Group reviews the recoverable amount of each individual trade receivable periodically and management also has monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In this regard, the directors of the Target Company consider that the Target Group's credit risk is significantly reduced.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at December 31, 2018, December 31, 2019 and June 30, 2020, the Target Group had certain concentrations of credit risk as 13%, 7% and 17%, of the Target Group's trade receivables were due from the Target Group's largest customer, within the customer segment, respectively. the directors of the Target Company expects no significant credit risk due to the honorable payment history of the Target Group's largest customer and credit loss can be fully-covered by an insurance company.

The Target Group measures loss allowances for bill receivables at an amount equal to lifetime ECLs. Based on past experience and forward-looking information, the directors of the Target Company are of the opinion that there is no significant credit risk associated with bill receivables and no credit loss allowance is necessary since the counterparties are substantially reputable state-owned banks and other medium or large-sized listed banks with no history of default.

The carrying amounts of pledged deposits, cash and cash equivalents, and financial assets included in prepayments, other receivables and other assets in the consolidated statements of financial position represent the maximum exposure to credit risk in relation to its financial assets. The Target Group expects that there is no significant credit risk associated with pledged deposits and cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

Liquidity risk

The Target Group's liquidity remained strong as at the end of each of the Relevant Periods. During the Relevant Period, the Target Group's primary source of funds was cash derived from operating activities. The directors consider that the Target Group's exposure to liquidity risk is not significant.

The maturity profile of the Target Group's financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments, is as follows.

	2017	**2018**	**2019**	**For the six months ended**
	Less than 1 year	**Less than 1 year**	**Less than 1 year**	**June 2020 Less than 1 year**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities	–	–	637	222
Interest-bearing bank borrowings	80,549	123,219	152,163	132,653
Trade and bill payables	219,664	268,894	261,906	326,070
Other payables and accruals	18,713	64,337	65,644	73,023
Derivative financial instruments	–	156	67	1,241
Amounts due to related parties	64,995	50,000	–	–
	383,921	506,606	480,417	533,209

At the end of each of the Relevant Periods, the maturity of the Target Group's financial liabilities was less than 1 year.

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's abilities to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Target Group funds its operations principally via its capital.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2017, December 31, 2018 and 2019, and the six months ended June 30, 2020.

32. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings	Interest paid	Lease liabilities	Loans from related parties
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	**68,000**	**107**	**–**	**30,048**
Changes from financing cash flows during the year	12,549	(6,250)	–	34,947
Interest expense	–	6,245	–	–
At December 31, 2017 and January 1, 2018	**80,549**	**102**	**–**	**64,995**
Changes from financing cash flows during the year	42,672	(9,486)	–	(14,995)
Foreign exchange movement	(2)	–	–	–
Interest expense	–	9,582	–	–
At December 31, 2018	**123,219**	**198**	**–**	**50,000**

	Bank borrowings	Interest paid	Lease liabilities	Loans from related parties
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2019	**123,219**	**198**	**–**	**50,000**
Changes from financing cash flows during the year	28,742	(9,488)	(320)	(50,000)
New lease	–	–	937	–
Foreign exchange movement	202	–	–	–
Interest expense	–	9,454	20	–
At December 31, 2019 and January 1, 2020	**152,163**	**164**	**637**	**–**
Changes from financing cash flows during the period	(19,502)	(3,820)	(320)	–
Lease concession	–	–	(104)	–
Foreign exchange movement	(8)	–	–	–
Interest expense	–	3,746	9	–
At June 30, 2020	**132,653**	**90**	**222**	**–**

(b) Major non-cash transactions

During the year ended December 31, 2019, the Target Group entered into new lease agreements for the use of offices for 1 to 2 years. On the dates of lease commencement, the Target Group recognized RMB48,435,000 of right-of-use assets for the year ended in December 31, 2019 and RMB3,546,000 of right-of-use assets for the six months ended June 30, 2020.

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*
Within operating activities	194	–
Within financing activities	320	320

33. CAPITAL COMMITMENTS

The Target Group had capital commitments under non-cancellable contracts as follows:

	As at December 31			As at June 30	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Commitments for the acquisition of property, plant and equipment	13,246	7,144	13,486	9,351	21,707

34. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Target Group had no significant contingent liability.

35. RELATED PARTY DISCLOSURES

(a) Names and relationships with related parties

Company	**Relationship**
Ninghua Group.C (中寧化集團有限公司)	Controlling shareholder
Zhejiang Nuobai Pharmaceutical Co., Ltd. [Note]	Entity controlled by the Directors of the Target Company
Itaste Food Ningbo Ltd.	Fellow subsidiary
SC Ningbo International (Hongkong) Ltd.	Fellow subsidiary

Note: The deregistration of Zhejiang Nuobai Pharmaceutical Co., Ltd. was completed on October 31, 2018.

(b) Related party transactions

i. Sales of goods or services

	December 31, 2017	**December 31, 2018**	**December 31, 2019**	**June 30, 2019**	**June 30, 2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fellow subsidiary	–	6,954	–	–	–
Controlling shareholder	–	5,816	–	–	–
	–	12,770	–	–	–

ii. Agency service expense

	December 31, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2019 RMB'000	June 30, 2019 RMB'000 (Unaudited)	June 30, 2020 RMB'000
Controlling shareholder	–	216	–	–	–
	–	216	–	–	–

As detailed in Note 2.1, the Target Company entered into a Business Transfer agreement, pursuant to which Ninghua Group transferred all assets of the Pharmaceutical Business Unit to the Target Group in December 2017. Ninghua Group provided sales agency services to and served as an export sales agent for Ningbo Nuobai from December 2017 to March 2018 immediately after the Business Transfer. The total amount of export sales agented by Ninghua Group during this period was RMB110,817,000.

iii. Purchase of goods or services

	December 31, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2019 RMB'000	June 30, 2019 RMB'000 (Unaudited)	June 30, 2020 RMB'000
Entity controlled by directors of the Target Company	584	–	–	–	–
Fellow subsidiaries	–	18,579	–	–	–
	584	18,579	–	–	–

iv. Interest expenses arising from loans from the controlling shareholder

	December 31, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2019 RMB'000	June 30, 2019 RMB'000 (Unaudited)	June 30, 2020 RMB'000
Controlling shareholder	2,563	5,199	2,262	1,476	–

v. Other transactions with related parties

Ninghua Group has guaranteed certain bank borrowings made to the Target Group of up to RMB202,091,000 and RMB55,888,000 as at December 31, 2018 and 2019, respectively, as further detailed in note 22 to the financial statements.

vi. Rental expense

	December 31, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2019 RMB'000	June 30, 2019 RMB'000 (Unaudited)	June 30, 2020 RMB'000
Controlling shareholder	–	–	194	–	–

(c) Related party balances

i. Amounts due from related parties

Non-trade receivables

	December 31, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2019 RMB'000	June 30, 2020 RMB'000
Fellow subsidiaries	683	–	–	–

ii. Amounts due to related parties

Other than details mentioned in Notes 16, 17, 19 and 21, which were balances incurred because the controlling shareholder paid or received on behalf of the Target Group during the process of Target Group Reorganization, the Target Group also had the following balances with the controlling shareholder.

Loan from Ninghua Group

	December 31, 2017 RMB'000	December 31, 2018 RMB'000	December 31, 2019 RMB'000	June 30, 2020 RMB'000
Controlling shareholder	64,995	50,000	–	–

Note: The loan from Ninghua Group were unsecured, repayable on demand and carried at the floating rates ranging from 4.35% to 5% as at December 31, 2018 and December 31, 2017.

(d) Compensation of key management personnel

The remuneration of the directors of the Target Group and other members of the key management of the Target Group during the years ended December 31, 2017, 2018 and 2019 and June 30, 2020 were as follows:

	December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Short term employee benefits	14,918	28,340	29,925	17,735	26,472
Post-employment benefits	625	846	822	406	416
Share-based payments	32,204	16,003	15,115	7,273	7,757
Total	47,747	45,189	45,862	25,414	34,645

36. PARTICULARS OF SUBSIDIARIES

As of December 31, 2017, 2018, and 2019 and June 30, 2020, the Target Company had direct and indirect shareholders' interests in the following subsidiaries:

Name of subsidiaries	Place of incorporation/ operation and date of incorporation	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to the Target Group at December 31, 2017	December 31, 2018	December 31, 2019	June 30, 2020	Principal activities	Notes
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*		
Ningbo Nuobai Pharmaceutical Co., LTD. (寧波諾柏醫藥有限公司)	PRC/Mainland China, December 11, 2017	RMB50,000.000	100%	100%	100%	100%	Distribution of small molecule APIs, intermediates and CDMO products.	*(a)*
Ningbo Nuobai Pharmaceutical (Hong Kong) Limited (寧波諾柏醫藥(香港)有限公司)	Hong Kong, January 9, 2018	HKD2,000,000	N/A	100%	100%	100%	Distribution of small molecule APIs, intermediates and CDMO products.	*(b)*

(a) Ningbo Nuobai Pharmaceutical Co., LTD. is directly held by the Target Company.

(b) Ningbo Nuobai Pharmaceutical (Hong Kong) Limited is indirectly held by the Target Company through Ningbo Nuobai Pharmaceutical Co., LTD.

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE TARGET COMPANY

	As at December 31,			As at June 30
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	185,815	215,348	228,147	234,475
Prepaid land lease payment	38,625	37,651	–	–
Right-of-use assets	–	–	37,651	40,813
Intangible assets	1,480	1,283	1,171	1,255
Interests in subsidiaries	10,000	50,000	50,000	50,000
Rental deposits and prepayments	9,942	4,796	2,566	4,911
Deferred tax assets	3,744	4,026	3,835	3,956
TOTAL NON-CURRENT ASSETS	**249,606**	**313,104**	**323,370**	**335,410**
CURRENT ASSETS				
Inventories	84,978	115,162	110,607	123,782
Trade and bill receivables	50,235	85,569	74,529	61,024
Prepayments, other receivables and other assets	13,668	31,071	18,243	11,753
Inter-company balances	6,366	4,410	597	21,368
Amounts due from related parties	3,143	–	–	–
Pledged deposits	27,193	29,933	9,249	24,253
Cash and cash equivalents	31,084	3,757	33,897	65,504
TOTAL CURRENT ASSETS	**216,667**	**269,902**	**247,122**	**307,684**
CURRENT LIABILITIES				
Trade and bill payables	134,576	154,741	98,900	136,810
Other payables and accruals	18,708	26,673	22,607	28,669
Inter-company balances	–	65,124	77,664	119,712
Amounts due to other related parties	64,995	50,000	–	–
Contract liabilities	1,210	3,445	1,949	3,957
Income tax payable	–	–	–	2,574
Interest-bearing bank borrowings	80,549	90,069	122,125	50,000
TOTAL CURRENT LIABILITIES	**300,038**	**390,052**	**323,245**	**341,722**
NET CURRENT LIABILITIES	**(83,371)**	**(120,150)**	**(76,123)**	**(34,038)**
TOTAL ASSETS LESS CURRENT LIABILITIES	**166,235**	**192,954**	**247,247**	**301,372**

	As at December 31,			As at June 30
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Deferred income	4,759	7,406	10,272	9,687
Deferred tax liabilities	760	746	701	707
TOTAL NON-CURRENT LIABILITIES	**5,519**	**8,152**	**10,973**	**10,394**
NET ASSETS	**160,716**	**184,802**	**236,274**	**290,978**
EQUITY				
Paid-in capital	120,000	120,000	120,000	120,000
Reserves	40,716	64,802	116,274	170,978
TOTAL EQUITY	**160,716**	**184,802**	**236,274**	**290,978**

The reserves' movement of the Target Company is as follows:

	Paid-in capital	**Capital reserve**	**Statutory Reserve**	**Other reserve**	**Retained earnings**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2017	**120,000**	**4,986**	**4,910**	**–**	**25,128**	**155,024**
Profit for the year	–	–	–	–	(12,823)	(12,823)
Equity-settled share award expense	–	–	–	18,515	–	18,515
At December 31, 2017	**120,000**	**4,986**	**4,910**	**18,515**	**12,305**	**160,716**
Effect of adoption of IFRS 9	**–**	**–**	**–**	**–**	**(29)**	**(29)**
At January 1, 2018	**120,000**	**4,986**	**4,910**	**18,515**	**12,276**	**160,687**
Profit for the year	–	–	–	–	2,840	2,840
Transferred from retained earnings	–	–	284	–	(284)	–
Capital contribution by shareholders	–	3,010	–	–	–	3,010
Equity-settled share award expense	–	–	–	18,265	–	18,265
At December 31, 2018	**120,000**	**7,996**	**5,194**	**36,780**	**14,832**	**184,802**

	Paid-in capital *RMB'000*	Capital reserve *RMB'000*	Statutory Reserve *RMB'000*	Other reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At December 31, 2018	**120,000**	**7,996**	**5,194**	**36,780**	**14,832**	**184,802**
Effect of adoption of IFRS 16	**–**	**–**	**–**	**–**	**–**	**–**
At January 1, 2019	**120,000**	**7,996**	**5,194**	**36,780**	**14,832**	**184,802**
Profit for the year	–	–	–	–	64,574	64,574
Transferred to statutory reserve	–	–	6,457	–	(6,457)	–
Dividends paid to shareholders	–	–	–	–	(24,000)	(24,000)
Equity-settled share award expense	–	–	–	10,898	–	10,898
At December 31, 2019	**120,000**	**7,996**	**11,651**	**47,678**	**48,949**	**236,274**

	Paid-in capital *RMB'000*	Capital reserve *RMB'000*	Statutory Reserve *RMB'000*	Other reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At January 1, 2019	**120,000**	**7,996**	**5,194**	**36,780**	**14,832**	**184,802**
Profit for the period (Unaudited)	–	–	–	–	43,080	43,080
Dividends paid to shareholders (Unaudited)	–	–	–	–	(24,000)	(24,000)
Equity-settled share award expense (Unaudited)	–	–	–	5,070	–	5,070
At June 30, 2019 (Unaudited)	**120,000**	**7,996**	**5,194**	**41,850**	**33,912**	**208,952**
At January 1, 2020	**120,000**	**7,996**	**11,651**	**47,678**	**48,949**	**236,274**
Profit for the period	–	–	–	–	48,906	48,906
Equity-settled share award expense	–	–	–	5,798	–	5,798
At June 30, 2020	**120,000**	**7,996**	**11,651**	**53,476**	**97,855**	**290,978**

38. EVENTS AFTER RELEVANT PERIODS

No significant subsequent events undertaken by the Target Group after June 30, 2020.

39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company, the Target Group or any of the companies now comprising the Target Group in respect of any period subsequent to June 30, 2020.

The following management discussion and analysis should be read in conjunction with accountants' report of Langhua Pharmaceutical for the Track Record Period as set out in Appendix III to this circular.

BUSINESS REVIEW

Langhua Pharmaceutical Group is an integrated and comprehensive drug R&D and manufacturing company in Taizhou, Zhejiang Province. It was ranked as one of the Most Promising Pharmaceutical Companies (最具成長力企業) under the 2017 Award for Top 100 Internationalized Pharmaceutical Companies (醫藥國際化百強企業). Langhua Pharmaceutical Group is well regarded in the pharmaceutical industry. It has obtained GMP certification from National Medical Products Administration (NMPA), official certification from the U.S. Food and Drug Administration (FDA), the European Directorate for the Quality of Medicines (EDQM) and World Health Organization (WHO) as well as the Pharmaceutical Supply Chain Initiative PSCI). It is striving to become the preferred Contract Development & Manufacturing Organization (CDMO) partner of its clients, including numerous multi-national pharmaceutical companies worldwide. Langhua Pharmaceutical Group is able to provide one-stop solution from development to commercialization and engages in both CDMO and commercialization services.

FINANCIAL REVIEW

Analysis on Financial Performance

Revenue

During the Track Record Period, the revenue of Langhua Pharmaceutical was generated from manufacturing services provided and distribution of small molecule APIs, Intermediates and CDMO products to different customers under fee-for-services ("**FFS**") model.

For the year ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020, the revenue of Langhua Pharmaceutical was approximately RMB886 million, RMB1,122 million, RMB1,238 million, and RMB809 million respectively. Langhua Pharmaceutical recorded sustained growth in its revenue, with 26.67% increase from 2017 to 2018, and 10.32% increase from 2018 to 2019, whereas the revenue for the six months ended June 30, 2020 showed 26.25% increase from the same period last year. The overall increase in revenue was mainly due to increase in revenue from customized CDMO services.

Cost of sales

For the year ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2020, the cost of sales of Langhua Pharmaceutical was approximately RMB712 million, RMB870 million, RMB971 million, and RMB585 million respectively. Langhua Pharmaceutical recorded sustained growth in its cost of sales, with 22.29% increase from 2017 to 2018, and 11.57% increase from 2018 to 2019, whereas the cost of sales for the six months ended June 30, 2020 showed 14.85% increase from the same period last year. The overall increase in cost of sales was mainly due to the expansion of its business scale, which is in line with the increase in its revenue for the corresponding period.

Gross profit and gross profit margin

For the year ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2020, the gross profit of Langhua Pharmaceutical was approximately RMB174 million, RMB251 million, RMB267 million and RMB225 million, respectively. The gross profit of Langhua Pharmaceutical grew in line with the increase in its revenue for the corresponding period.

For the year ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2020, the gross profit margin of Langhua Pharmaceutical was approximately 19.64%, 22.41%, 21.53%, and 27.75%, respectively. The overall improvement in gross profit margin was mainly due to increase in the proportion of revenue from customized CDMO services with higher gross profit margin to total revenue.

Other income and gains

During the Track Record Period, the other income and gains of Langhua Pharmaceutical were mainly sale of scrap gains or losses, interest income, government grants, and net foreign exchange gain. For the year ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020, the other income and gains of Langhua Pharmaceutical were approximately RMB6 million, RMB15 million, RMB16 million, and RMB14 million, respectively.

The other income and gains increased by approximately 140.24% for the year ended December 31, 2018, mainly due to an increase gains in net foreign exchange for the corresponding period. The other income and gains increased by 0.20% for the year ended December 31, 2019. The other income and gains further increased by approximately 62.66% for the six months ended June 30, 2020, mainly due to the increase in net foreign exchange gain for the corresponding period.

Other expenses

During the Track Record Period, the other expenses of Langhua Pharmaceutical were mainly net foreign exchange loss, loss on derivative financial instruments, losses on disposal of property, plant and equipment, downtime loss, and impairment loss on non-financial assets. For the year ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2020, the other expenses of Langhua Pharmaceutical were approximately RMB15 million, RMB12 million, RMB8 million and RMB6 million, respectively.

The other expenses decreased by approximately 23.34% for the year ended December 31, 2018, mainly due to the decreases in net foreign exchange loss for the corresponding period. The other expenses decreased by approximately 31.92% for the year ended December 31, 2019, mainly due to the decrease in loss on derivative financial instruments for the corresponding period. The other expenses increased by approximately 36.29% for the six months ended June 30, 2020 as compared with corresponding period of last year, mainly due to the increase in downtime loss for the corresponding period.

Research and development expenses

For the year ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2020, the research and development expenses of Langhua Pharmaceutical were approximately RMB21 million, RMB28 million, RMB34 million and RMB14 million, respectively. Langhua Pharmaceutical recorded sustained growth in research and development expenses with 34.61% increase from 2017 to 2018, and 21.23% increase from 2018 to 2019, whereas the research and development expenses for the six months ended June 30, 2020 showed 10.52% increase from the same period last year. The overall increase in research and development expenses were mainly due to increases in R&D projects, R&D employees, and reagents and consumables, which is in line with increase in revenue from customized CDMO services.

Selling and distribution expenses

For the year ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2020, the selling and distribution expenses of Langhua Pharmaceutical were approximately RMB42 million, RMB44 million, RMB43 million and RMB49 million, respectively. Langhua Pharmaceutical recorded sustained growth in selling and distribution expenses with 5.02% increase from 2017 to 2018, and 2.97% decrease from 2018 to 2019, whereas the selling and distribution expenses for the six months ended June 30, 2020 showed 107.46% increase from the same period last year. The overall increase in selling and distribution expenses were mainly due to increases in overall revenue and correspondingly in staff cost of the sales department.

Administration expenses

For the year ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020, the administration expenses of Langhua Pharmaceutical were approximately RMB76 million, RMB97 million, RMB93 million, and RMB38 million, respectively.

The administration expenses increased by approximately 27.13% for the year ended December 31, 2018, mainly due to increases in staff cost and utilities cost. The administration expenses decreased by approximately 3.45% for the year ended December 31, 2019, mainly due to decrease in share-based payment expenses. The administration expenses increased by approximately 13.12% for the six months ended June 30, 2020 as compared with corresponding period of last year, mainly due to increases in staff cost and pollution discharge fees.

Impairment losses on financial assets, net

During the Track Record Period, Langhua Pharmaceutical recognised an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. For the year ended December 31, 2017, impairment gain amounted to approximately RMB5 million. While for the year ended December 31, 2018, 2019 and for the six months ended June 30, 2020, the impairment losses amounted to approximately RMB3 million RMB1 million and RMB5 million respectively.

Finance costs

For the year ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2020, the finance costs of Langhua Pharmaceutical were approximately RMB6 million, RMB10 million, RMB9 million and RMB4 million, respectively.

The finance costs increased by approximately 53.43% for the year ended December 31, 2018, mainly due to the increase in loans from related parties for the corresponding period. The finance costs decreased by approximately 1.34% for the year ended December 31, 2019, mainly due to the decrease in loans from related parties for the corresponding period. The finance costs decreased by approximately 25.33% for the six months ended June 30, 2020 as compared with corresponding period of last year, mainly due to the decrease in loans from related parties for the corresponding period.

Income tax expenses

The Income tax expenses of Langhua Pharmaceutical were PRC enterprise income tax (net of deferred tax). For the year ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2020, the income tax expenses were approximately RMB12 million, RMB22 million, RMB21 million and RMB26 million, respectively.

The income tax expenses increased by approximately 86.39% for the year ended December 31, 2018, which is mainly due to the increase in taxable income for such year, and decreased by approximately 5.04% for the year ended December 31, 2019. The income tax expenses increased by approximately 90.51% for the six months ended June 30, 2020 as compared with corresponding period of last year, mainly due to the increase in taxable income for the corresponding period.

Profit for the year/period and Net Profit Margin

For the year ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020, the net profit was approximately RMB13 million, RMB52 million, RMB73 million, and RMB97 million, respectively. The net profit margin of Langhua Pharmaceutical for the period was approximately 1.51%, 4.66%, 5.92% and 11.94%. The overall improvement in net profit margin was mainly due to increase in the proportion of revenue from customized CDMO services with higher margin to total revenue and fixed expenses are diluted by increased revenue.

Analysis on Financial Position

Property, plant and equipment

The property, plant and equipment of Langhua Pharmaceutical mainly consists of manufacturing equipment, office equipment and leasehold improvements. As at December 31, 2017, 2018, and 2019, and 30 June, 2020, the net carrying mount of property, plant and equipment were approximately RMB194 million, RMB224 million, RMB238 million, and RMB244 million.

Trade and bills receivables

Langhua Pharmaceutical allowed a credit period ranging from 30 to 90 days to its customers during the Track Record Period. As at December 31, 2017, 2018, and 2019, and June 30, 2020, the trade and bills receivables were approximately RMB144 million, RMB200 million, RMB206 million and RMB303 million. Such increase in trade and bills receivables was primary due to the expansion of its business scale, which is in line with the increase in its revenue for the corresponding period.

Trade and bills payables

The trade payables of Langhua Pharmaceutical were non-interest-bearing and are normally settled on 30-day terms during the Track Record Period. As at December 31, 2017, 2018 and 2019, and June 30, 2020, the trade and bills payables were approximately RMB220 million, RMB269 million, RMB262 million, and RMB326 million. Such increase in trade and bills payables was primary due to increase in procurement of raw material which is in line with the expansion of its business scale.

Inventories

The inventories balance of Langhua Pharmaceutical amounted to approximately RMB136 million as at June 30, 2020 compared to that of approximately RMB168 million as at December 31, 2019. Such decrease in inventory was primary due to the decreased balance of finished goods for the corresponding period.

Liquidity

As at December 31, 2017, 2018, and 2019, and June 30, 2020, the current ratio of Langhua Pharmaceutical was 0.80, 0.96, 1.07, and 1.23, respectively and the quick ratio ((current assets – inventories)/current liabilities) was approximately 0.57, 0.70, 0.73 and 0.99, respectively.

In 2019, the accounts receivable turnover rate was approximately 6.09 times, representing a decrease of 6.54% as compared with that of approximately 6.51 times in 2018, and inventory turnover rate was approximately 6.46 times, representing a decrease of 15.65% as compared with the that of approximately 7.66 times in 2018.

Financial Resources and Borrowings

As at December 31, 2017, 2018, and 2019, and June 30, 2020, cash at bank and on hand of Langhua Pharmaceutical amounted to approximately RMB59 million, RMB108 million, RMB125 million, and RMB213 million, respectively. As at December 31, 2017, 2018, and 2019, and June 30, 2020, Langhua Pharmaceutical had short-term loans of approximately RMB81 million, RMB123 million, RMB152 million and RMB133 million, respectively. Such short-terms loans comprised of secured loans in the amount of approximately RMB81 million, RMB93 million, RMB52 million and RMB8 million, respectively.

During the Track Record Period, Langhua Pharmaceutical had no long-term loans.

Capital Structure

As at December 31, 2017, 2018, and 2019, and June 30, 2020, Langhua Pharmaceutical's total current liabilities amounted to approximately RMB406 million, RMB523 million, RMB501 million, and RMB559 million, respectively and its total non-current liabilities amounted to approximately RMB6 million, RMB8 million, RMB12 million, and RMB11 million, respectively.

As at December 31, 2017, 2018, and 2019, and June 30, 2020, the total equity attributable to the owners of the Langhua Pharmaceutical amounted to approximately RMB162 million, RMB246 million, RMB315 million, and RMB422 million, respectively. Such increase in total equity was primary due to increases in retained earnings and statutory reserve which are in line with the increase of its net income for the corresponding period.

Gearing ratio

As at December 31, 2017, 2018, and 2019, and June 30, 2020, the Langhua Pharmaceutical's gearing ratio (total liabilities/total assets) was 71.79%, 68.39%, 61.92%, and 57.45% respectively.

Pledge of assets

As at 31 December 2017, 2018, and 2019, and 30 June, 2020, Langhua Pharmaceutical's pledged deposits amounted to approximately RMB27 million, RMB41 million, RMB14 million, and RMB34 million, respectively.

Capital commitments

As at December 31, 2017, 2018 and 2019, and June 30, 2020, the capital commitments of Langhua Pharmaceutical for the acquisition of property, plant and equipment were approximately RMB13 million, RMB7 million, RMB13 million and RMB22 million, respectively. Such increase in capital commitments was mainly due to increase of investment in property, plant and equipment for productivity expansion.

Contingent liabilities

At the end of each relevant period, the Langhua Pharmaceutical had no material contingent liabilities.

Employees and Remuneration Policy

As at 31 December 2017, 2018, and 2019, and 30 June, 2020, Langhua Pharmaceutical had a total of about 524 employees, 476 employees, 462 employees, and 498 employees, respectively. And the staff costs of Langhua Pharmaceutical amounted to approximately RMB87 million, RMB110 million, RMB106 million, and RMB73 million, respectively, which comprised salaries, commissions, bonuses and other allowances.

Langhua Pharmaceutical structured this employee remuneration packages with reference to general market practice, employees' duties and responsibilities, and Langhua Pharmaceutical's financial performance, providing salaries, bonuses, social insurance, housing, training courses, etc.

Financial Risk Management Objectives and Policies

Interest rate risk

Langhua Pharmaceutical's exposure to interest rate risk for changes in interest rates relates primarily to Langhua Pharmaceutical's bank borrowings with floating interest rates. Langhua Pharmaceutical does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of Langhua Pharmaceutical's profit before tax (through the impact on floating rate borrowings) and Langhua Pharmaceutical's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *RMB'000*	**Increase/ (decrease) in equity** *RMB'000*
For the year ended December 31, 2017			
US$-denominated borrowings	50	–	–
US$-denominated borrowings	(50)	–	–
For the year ended December 31, 2018			
US$-denominated borrowings	50	16	16
US$-denominated borrowings	(50)	(16)	(16)
For the year ended December 31, 2019			
US$-denominated borrowings	50	60	60
US$-denominated borrowings	(50)	(60)	(60)
For the six months ended June 30, 2020			
US$-denominated borrowings	50	39	39
US$-denominated borrowings	(50)	(39)	(39)

Foreign currency risk

Langhua Pharmaceutical has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the Relevant Periods to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of Langhua Pharmaceutical's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in USD/RMB	Increase/ (decrease) in profit before tax *RMB'000*	(decrease)/ Increase in equity *RMB'000*
For the year ended December 31, 2017			
If RMB weakens against the USD	5	5,945	5,945
If RMB strengthens against the USD	(5)	(5,945)	(5,945)
For the year ended December 31, 2018			
If RMB weakens against the USD	5	10,256	10,256
If RMB strengthens against the USD	(5)	(10,256)	(10,256)
For the year ended December 31, 2019			
If RMB weakens against the USD	5	7,990	7,990
If RMB strengthens against the USD	(5)	(7,990)	(7,990)
For the six months ended June 30, 2020			
If RMB weakens against the USD	5	1,814	1,814
If RMB strengthens against the USD	(5)	(1,814)	(1,814)

Credit risk

Langhua Pharmaceutical trades only with recognised and creditworthy third parties. It is Langhua Pharmaceutical's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and Langhua Pharmaceutical's exposure to bad debts is not significant.

Since Langhua Pharmaceutical trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within Langhua Pharmaceutical as the customer bases of Langhua Pharmaceutical's trade receivables are widely dispersed in different sectors and industries.

Liquidity risk

Langhua Pharmaceutical's liquidity remained strong as at the end of each Relevant Periods. During the year, Langhua Pharmaceutical s primary source of funds was cash derived from operating activities. The directors consider that Langhua Pharmaceutical's exposure to liquidity risk is not significant.

The maturity profile of Langhua Pharmaceutical s financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments, is as follows.

	2017	**2018**	**2019**	**For the six months ended June 2020**
	Less than 1 year	**Less than 1 year**	**Less than 1 year**	**Less than 1 year**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities	–	–	637	222
Interest-bearing bank borrowings	80,549	123,219	152,163	132,653
Trade and bill payables	219,664	268,894	261,906	326,070
Other payables	18,713	64,337	65,644	73,023
Derivative financial instruments	–	156	67	1,241
Amounts due to related parties	64,995	50,000	–	–
	383,921	506,606	480,417	533,209

Capital management

The primary objectives of Langhua Pharmaceutical's capital management are to safeguard Langhua Pharmaceutical's abilities to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. Langhua Pharmaceutical funds its operations principally via its capital.

Langhua Pharmaceutical manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, Langhua Pharmaceutical may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes for managing capital for, during the years ended December 31, 2017, December 31, 2018, December 31, 2019 and the six months ended June 30, 2020.

Significant Investment Activities

During the Track Record Period, Langhua Pharmaceutical had no significant investment activities.

Major Acquisitions and Disposals

During the period under review, Langhua Pharmaceutical had no major acquisition and disposal relating to its subsidiaries, associates and joint ventures.

OUTLOOK

Langhua Pharmaceutical Group will continue to provide one-stop solution from development to commercialization and optimize in both CDMO and commercialization services.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The information set out below is for illustrative purpose only and does not form part of the accounts' report as set out in Appendix III to this Circular.

The unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of Viva Biotech Holdings (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**"), and Zhejiang Langhua Pharmaceutical Co., Ltd. (the "**Target Company**") and its subsidiaries (hereinafter collectively referred to as the "**Target Group**") (the Group together with the Target Group are collectively referred to as the "**Enlarged Group**"), has been prepared by the directors of the Company (the "**Directors**") in accordance with rule 4.29 of the Listing Rules, for illustrative purpose only, to provide information about how the acquisition of 80% equity interest of the Target Company (the "**Acquisition**") might have affected the results of operations, financial position and cash flows of the Group as if the Acquisition had been completed on (i) January 1, 2020 in respect of the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group; and (ii) June 30, 2020, in respect of the unaudited pro forma consolidated statement of financial position of the Enlarged Group.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on: (i) the consolidated statement of financial position of the Group as at June 30, 2020, which was extracted from the published interim announcement of the Company for the six months ended June 30, 2020 dated on August 31, 2020; and (ii) the consolidated statement of financial position of the Target Company as at June 30, 2020, which was extracted from the accountants' report thereon set out in Appendix III to this circular, and adjusted in according with the pro forma adjustments described in the notes thereon, as if the Acquisition had been completed on June 30, 2020.

The unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on: (i) the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Group for the six months ended June 30, 2020, which were extracted from the published interim announcement of the Company for the six months ended June 30, 2020 dated on August 31, 2020; and (ii) the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Target Company for the six months ended June 30, 2020, which were extracted from the accountants' report thereon set out in Appendix III to this circular, and adjusted in according with the pro forma adjustments described in the notes thereon, as if the Acquisition had been completed on January 1, 2020.

A narrative description of the pro forma adjustments of the Acquisition that are directly attributable to the transactions and factually supportable, is summarized in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual results of operations, financial position or cash flows of the Enlarged Group that would have been attained had Acquisition been completed on the dates indicated herein. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future results of operations, financial position or cash flows.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in the published interim announcement of the Company for the six months ended June 30, 2020 dated on August 31, 2020, and that of the Target Company, as set out in Appendix III to this circular, and other financial information included elsewhere in this circular. The Unaudited Pro Forma Financial Information of the Enlarge Group does not take into account any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Enlarged Group.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

As at June 30, 2020	The Group	The Target Group	Pro forma adjustments			The Enlarged Group
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets						
Property, plant and equipment	163,904	243,662	–	–	–	407,566
Right-of-use assets	151,053	41,115	–	–	–	192,168
Goodwill	–	–	–	–	2,222,115	2,222,115
Intangible assets	–	1,474	–	–	–	1,474
Interests in a joint venture	3,907	–	–	–	–	3,907
Financial assets at FVTPL	760,123	–	–	–	–	760,123
Contract assets	10,728	–	–	–	–	10,728
Rental deposits and prepaid non-current assets	27,002	4,911	–	–	(20,000)	11,913
Deferred tax assets	7,185	12,601	–	–	–	19,786
	1,123,902	303,763	–	–	2,202,115	3,629,780
Current Assets						
Inventories	9,669	135,781	–	–	–	145,450
Derivative financial instruments	–	1,057	–	–	–	1,057
Trade and bills receivables	69,642	303,043	–	–	–	372,685
Contract costs	6,341	–	–	–	–	6,341
Prepayments, other receivables and other assets	44,005	35,548	–	(288)	–	79,265
Financial assets at FVTPL	95,652	–	–	–	–	95,652
Pledged deposits	–	34,156	–	–	–	34,156
Restricted bank balances	71,614	–	–	–	–	71,614
Cash and cash equivalents	1,521,285	179,254	1,499,200	(13,303)	(2,540,000)	646,436
Time deposits with original maturity of over three months	355,933	–	–	–	–	355,933
	2,174,141	688,839	1,499,200	(13,591)	(2,540,000)	1,808,589

As at June 30, 2020	The Group	The Target Group	Pro forma adjustments			The Enlarged Group
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current Liabilities						
Trade and bills payables	6,281	326,070	–	–	–	332,351
Other payables and accruals	89,085	73,023	–	–	–	162,108
Derivative Financial instruments	503	1,241	–	–	–	1,744
Contract liabilities	1,816	13,678	–	–	–	15,494
Lease liabilities	10,924	222	–	–	–	11,146
Income tax payables	9,651	12,196	(5,520)	(1,778)	–	14,549
Interest-bearing bank borrowings	15,902	132,653	–	–	–	148,555
	134,162	559,083	(5,520)	(1,778)	–	685,947
Net current assets	2,039,979	129,756	1,504,720	(11,813)	(2,540,000)	1,122,642
Total Assets Less Current Liabilities	3,163,881	433,519	1,504,720	(11,813)	(337,885)	4,752,422
Non-Current Liabilities						
Interest-bearing bank borrowings	1,067	–	1,536,000	–	–	1,537,067
Convertible bonds – debt component	537,634	–	–	–	–	537,634
Convertible bonds – embedded derivative instruments	687,043	–	–	–	–	687,043
Deferred income	20,294	9,687	–	–	–	29,981
Lease liabilities	9,185	–	–	–	–	9,185
Deferred tax liabilities	9,910	1,476	–	–	–	11,386
	1,265,133	11,163	1,536,000	–	–	2,812,296
Net Assets	1,898,748	422,356	(31,280)	(11,813)	(337,885)	1,940,126
Equity						
Equity attributable to owners of the parent						
Share capital	283	120,000	–	–	(120,000)	283
Other reserves	1,898,465	302,356	(31,280)	(11,813)	(302,356)	1,855,372
Non-controlling interests	–	–	–	–	84,471	84,471
Total Equity	1,898,748	422,356	(31,280)	(11,813)	(337,885)	1,940,126

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

For the six months ended June 30, 2020	The Group	The Target Group	Pro forma adjustments				The Enlarged Group
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 6*	*Note 7*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	197,557	809,197	–	–	–	–	1,006,754
Cost of services/sales	(97,439)	(584,666)	–	–	(38)	–	(682,143)
Gross profit	100,118	224,531	–	–	(38)	–	324,611
Other income and gains	27,190	13,683	–	–	–	–	40,873
Selling and distribution expenses	(1,951)	(48,841)	–	–	(1,490)	–	(52,282)
Administrative expenses	(37,048)	(38,464)	–	(13,591)	(5,934)	–	(95,037)
Research and development expenses	(22,324)	(13,547)	–	–	(418)	–	(36,289)
Fair value gain/(loss) on financial assets at fair value through profit or loss ("**FVTPL**")	66,658	–	–	–	–	–	66,658
Impairment losses on financial assets, net	(434)	(4,761)	–	–	–	–	(5,195)
Other expenses	(161)	(6,110)	–	–	–	–	(6,271)
Finance costs	(38,594)	(3,746)	(36,800)	–	–	–	(79,140)
Share of losses of a joint venture	(321)	–	–	–	–	–	(321)
Profit before fair value loss on financial liabilities at FVTPL and tax	93,133	122,745	(36,800)	(13,591)	(7,880)	–	157,607
Fair value loss on financial liabilities at FVTPL	(615,526)	–	–	–	–	–	(615,526)
(Loss)/profit before tax	(522,393)	122,745	(36,800)	(13,591)	(7,880)	–	(457,919)
Income tax expense	(7,879)	(26,094)	5,520	1,778	–	–	(26,675)
(Loss)/profit for the period	(530,272)	96,651	(31,280)	(11,813)	(7,880)	–	(484,594)

For the six months ended June 30, 2020	The Group	The Target Group	Pro forma adjustments				The Enlarged Group
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 6*	*Note 7*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Loss)/profit for the period	(530,272)	96,651	(31,280)	(11,813)	(7,880)	–	(484,594)
Other comprehensive income							
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:							
Exchange differences on translation of foreign operations	7,150	18	–	–	–	–	7,168
Other comprehensive Income for the period, net of tax	7,150	18	–	–	–	–	7,168
Total comprehensive (loss)/income for the period	(523,122)	96,669	(31,280)	(11,813)	(7,880)	–	(477,426)
Attributable to:							
Owners of the parent	(523,122)	96,669	(31,280)	(11,813)	(7,880)	(17,758)	(495,184)
Non-controlling interests	–	–	–	–	–	17,758	17,758
	(523,122)	96,669	(31,280)	(11,813)	(7,880)	–	(477,426)

D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

For the six months ended June 30, 2020	The Group	The Target Group	Pro forma adjustments				The Enlarged Group
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Loss)/Profit before tax	(522,393)	122,745	(36,800)	(13,591)	–	(7,880)	(457,919)
Adjustments for:							
Finance costs	38,594	3,746	36,800	–	–	–	79,140
Share of losses of a joint venture and an associate	321	–	–	–	–	–	321
Interest income	(7,851)	(796)	–	–	–	–	(8,647)
Investment income for bank wealth products	–	(89)	–	–	–	–	(89)
Loss on disposal of items of property, plant and equipment	155	18	–	–	–	–	173
Fair value gains, net:							
Derivative financial instruments	(1,421)	–	–	–	–	–	(1,421)
Financial assets at FVTPL	(66,658)	–	–	–	–	–	(66,658)
Fair value loss on financial liabilities at FVTPL	615,526	–	–	–	–	–	615,526
Foreign exchange gain	(7,462)	11	–	–	–	–	(7,451)
Income from government to grants and subsidies related assets	(510)	(585)	–	–	–	–	(1,095)
Revenue from equity-for-service	(28,756)	–	–	–	–	–	(28,756)
Equity-settled share option expense	2,360	10,515	–	–	–	7,880	20,755
Gain on repurchase of convertible bonds	(4,447)	–	–	–	–	–	(4,447)
Transaction cost of convertible bonds	5,068	–	–	–	–	–	5,068
Depreciation of property, plant and equipment	12,399	14,132	–	–	–	–	26,531
Depreciation of right-of-use assets	9,145	714	–	–	–	–	9,859
Amortization of intangible assets	–	141	–	–	–	–	141
Impairment losses under expected credit model, net of reversal	434	4,761	–	–	–	–	5,195
Gain on disposal of right-of-use assets	(1,145)	–	–	–	–	–	(1,145)
Loss on derivative financial instruments	–	2,176	–	–	–	–	2,176
	43,359	157,489	–	(13,591)	–	–	187,257
(Increase)/decrease in inventories	(1,139)	31,882	–	–	–	–	30,743
Increase in contract costs	(636)	–	–	–	–	–	(636)
Increase in trade and bills receivables	(8,587)	(101,506)	–	–	–	–	(110,093)
(Increase)/decrease in prepayments, other receivables and other assets	(167)	3,877	–	288	–	–	3,998

For the six months ended June 30, 2020	The Group	The Target Group	Pro forma adjustments				The Enlarged Group
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Decrease)/increase in trade and bills payables	(1,271)	64,164	–	–	–	–	62,893
(Decrease)/increase in other payables	(3,833)	4,463	–	–	–	–	630
Decrease in deferred revenue	(240)	–	–	–	–	–	(240)
Increase in contract liabilities	1,181	–	–	–	–	–	1,181
Cash generated from operations	28,667	160,369	–	(13,303)	–	–	175,733
Income tax paid	(7,731)	(16,431)	–	–	–	–	(24,162)
Net cash flows from operating activities	20,936	143,938	–	(13,303)	–	–	151,571
Interest received	5,790	796	–	–	–	–	6,586
Investment income for bank wealth products	–	5	–	–	–	–	5
Purchases of items of property, plant and equipment	(49,114)	(22,543)	–	–	–	–	(71,657)
Increase in wealth management products	–	(5,000)	–	–	–	–	(5,000)
Proceeds from disposal of items of property, plant and equipment	32	–	–	–	–	–	32
Purchases of intangible assets	–	(212)	–	–	–	–	(212)
Increase in rental deposit	(4,722)	(3)	–	–	–	–	(4,725)
Payment for prepaid land lease payments	–	(3,650)	–	–	–	–	(3,650)
Purchases of time deposit over three months	(353,975)	–	–	–	–	–	(353,975)
Receipt of government grants and subsidies related to assets	5,200	–	–	–	–	–	5,200
Placement of restricted bank deposits	(65,624)	(71,078)	–	–	–	–	(136,702)
Withdraw in restricted bank deposits	–	50,976	–	–	–	–	50,976
Payment for forward contract	–	(932)	–	–	–	–	(932)
Payments for subsidiary acquisitions	(55,805)	–	–	–	(2,540,000)	–	(2,595,805)
Payments for acquisition of potential property, plant and equipment	(30,000)	–	–	–	–	–	(30,000)
Purchase of financial assets at FVTPL	(2,710,867)	–	–	–	–	–	(2,710,867)
Proceeds from disposal of financial assets at FVTPL	2,605,867	–	–	–	–	–	2,605,867
Receipt of investment income from derivative financial instruments	1,924	–	–	–	–	–	1,924
Net cash flows from investing activities	(651,294)	(51,641)	–	–	(2,540,000)	–	(3,242,935)

For the six months ended June 30, 2020	The Group	The Target Group	Pro forma adjustments				The Enlarged Group
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Repayment of bank borrowings	(259)	(152,163)	–	–	–	–	(152,422)
Interest paid	(218)	(3,811)	(36,800)	–	–	–	(40,829)
Proceeds from bank borrowings	15,363	132,661	1,536,000	–	–	–	1,684,024
Principle portion of lease payments	(21,672)	(320)	–	–	–	–	(21,992)
Proceeds from exercise share option	32,110	–	–	–	–	–	32,110
Payment for repurchase of shares	(13,581)	–	–	–	–	–	(13,581)
Proceeds from the issue of the Company's convertible bonds	1,261,148	–	–	–	–	–	1,261,148
Transaction cost of convertible bonds	(5,156)	–	–	–	–	–	(5,156)
Payment for repurchase of convertible bonds	(27,398)	–	–	–	–	–	(27,398)
Net cash flows from financing activities	1,240,337	(23,633)	1,499,200	–	–	–	2,715,904
Net increase/(decrease) in cash and cash equivalents							
Cash and cash equivalents at beginning of period	904,091	110,590	–	–	–	–	1,014,681
Effect of foreign exchange rate changes, net	7,215	–	–	–	–	–	7,215
Cash and cash equivalents at end of the period	1,521,285	179,254	1,499,200	(13,303)	(2,540,000)	–	646,436

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the published interim announcement of the Company for the six months ended June 30, 2020 dated on August 31, 2020.

2. The amounts are extracted from the accountants' report thereon set out in Appendix III to this circular. As the implication of seasonal fluctuation is limited, the Directors believe the unaudited pro forma financial information based on the six-months consolidated financial information will not be distorted due to seasonal factors and the estimated contribution of the transaction to a full year's results can be assessed by the investors.

3. Pursuant to the Share Purchase Agreement dated August 8, 2020, Viva Biotech (Shanghai) Ltd. ("**Viva Biotech Shanghai**") agreed to acquire 80% of the equity interest in the Target Company for a consideration of RMB2,560,000,000. The completion of the Acquisition is dependent on the fulfilment of a number of conditions, among others, the approval from the shareholders of the Company. The consideration of RMB2,560,000,000 is assumed to be satisfied by cash of RMB1,024,000,000, with RMB20,000,000 of prepayments had already been paid before June 30, 2020.

   The adjustment represents a financing activity for the Acquisitions. For the purpose of pro forma consolidated statement of financial position, Viva Biotech Shanghai would borrow an additional bank loan of RMB1,536,000,000 as if the Acquisition had completed on June 30, 2020.

   For the purpose of pro forma consolidated statement of comprehensive income, Viva Biotech Shanghai would incur additional finance costs of RMB36,800,000 for the six months ended June 30, 2020, based on the estimated interest rate of 4.75%, as if the Acquisition had completed on January 1, 2020.

4. The adjustment represents (i) the estimated transaction costs of approximately RMB13,591,000 incurred by the Group in connection with the Acquisition, and (ii) corresponding tax credits of approximately RMB1,778,000 arising from estimated transaction costs incurred as a result of the Acquisition for the six months ended June 30, 2020. The estimated transaction costs and corresponding tax impacts are recognized in the pro forma consolidated statement of comprehensive income and the pro forma consolidated statement of cash flows as if the Acquisition had completed on January 1, 2020.

   For the purpose of pro forma consolidated statement of financial position, the estimated transaction costs of RMB13,303,000, netting off RMB288,000 which has been prepaid before June 30, 2020, was assumed to be paid as if the Acquisition had completed on June 30, 2020.

   This adjustment on transaction costs is not expected to have continuing effect on the Enlarged Group's consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows.

5. The adjustment represents the consolidation adjustments to eliminate the pre-acquisition reserves of the Target Group and record the provisional goodwill in the Target Group as if the Acquisition had completed on June 30, 2020.

Under International Financial Reporting Standard ("**IFRS**") 3 (Revised) *Business Combinations* issued by the International Accounting Standards Board (the "**IASB**"), the Group will apply the purchase method to account for the Acquisition of 80% equity interest of the Target Company in the consolidated financial statements of the Group. The goodwill arising from the Acquisition is calculated as follows:

	Notes	*RMB'000*
Purchase cost of the Group	*(a)*	2,560,000
Non-controlling interests	*(b)*	84,471
Fair value of identifiable net assets acquired	*(c)*	(422,356)
Goodwill arising from the Acquisition (the "**Goodwill**")	*(d)*	2,222,115

Notes:

(a) The purchase cost of the Group represents the cash consideration of the Group as mentioned in Note 3.

(b) The non-controlling interests represent 20% equity interest of the Target Company, which are calculated by 20% multiplied with the fair value of identifiable net assets acquired as mentioned in Note 5(c) below. The amount is approximately RMB84,471,000.

(c) For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, in the opinions of the Directors, the Target Company's fair value of the assets and liabilities being acquired is subject to change upon completion of the Acquisition because the fair value of the assets and liabilities being acquired shall be assessed on the date of completion.

Since this Unaudited Pro Forma Financial Information of the Enlarged Group is prepared solely for illustrative purpose, the Directors had assumed that the carrying values of the identifiable assets and liabilities of the Target Company with net amount as at June 30, 2020 of RMB422,356,000 approximate to their fair values, which will be reassessed on the completion date of the Acquisition. The fair values of the assets and liabilities being acquired may subject to change after further assessment by the Directors at the Completion Date.

(d) According to the Group's accounting policy, after initial recognition, the Goodwill will be measured at cost less any accumulated impairment losses. The Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, the Goodwill is, from the acquisition date, allocated to one of the Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Further, according to the Group's accounting policy, impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the Goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash generating units) is less than the carrying amount, an impairment loss will be recognized. An impairment loss recognized for the Goodwill will not be reversed in a subsequent period.

In the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had performed an impairment assessment of the Goodwill in accordance with IAS 36 *Impairment of Assets* and the Group's accounting policy. Based on the impairment test, the recoverable amount of the cash-generating unit in which the Target Company was assigned exceeds its carrying amount and accordingly, no pro forma adjustment in respect of goodwill impairment is made by the Directors in the Unaudited Pro Forma Financial Information for the Enlarged Group. Such assessment assumed that (i) there are no major material adverse changes in the fair values of the assets and liabilities; and (ii) the identifiable assets and liabilities can be realized at their book values. However, should there be any adverse changes to the business of the Target Company, including but not limited to, any subsequent adverse changes in the operation, impairment may be required to be recognized against the Goodwill in accordance with IAS 36 and the Group's accounting policy

The reporting accountants have conducted their engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus* and considered that the goodwill impairment test performed by the Directors is consistent with the Company's applicable financial reporting framework and its accounting policies under that framework. However, the reporting accountants did not perform an audit or review of the financial information used in the preparation of the goodwill impairment test prepared by the Directors.

The Directors confirmed that they will apply consistent accounting policies, principal assumptions and valuation method to assess impairment of the Goodwill in subsequent reporting periods in accordance with the requirement of IAS 36. The Company also confirmed with its auditors that they will audit and opine on the consolidated financial statements of the Company in accordance with Hong Kong Standards on Auditing.

6. The adjustment represents the Acquisition will accelerate the vesting period of 80% of remaining Restricted Share Scheme of the Target Group. The details of the Restricted Share Scheme are disclosed in Note 27 Share-based compensation in accountants' report thereon set out in Appendix III to this Circular.

   For the purpose of pro forma consolidated statement of comprehensive income, the Target Group would incur additional cost of RMB7,880,000, which should be allocated to cost of sales, administrative expenses, selling and distribution expenses and research and development expense of approximately RMB38,000, RMB5,934,000, RMB1,490,000 and RMB418,000, respectively, for the six months ended June 30, 2020 as if the Acquisition had completed on January 1, 2020.

7. The adjustment represents the proforma adjustment to re-allocate the comprehensive income of the Target Group for the six months ended June 30, 2020 to non-controlling interests, as 20% of the Target Group. The calculation is as follows:

	RMB'000
Target Group's comprehensive income for the six months ended June 30, 2020	96,669
Less: the impact of the acceleration of Restricted Share Scheme as mentioned in Note 6 above	(7,880)
	88,789
Attributable to:	
The Group	71,031
Non-controlling interests	17,758
	88,789

F. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the Company's reporting accountant, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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The Directors
Viva Biotech Holdings

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Viva Biotech Holdings (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at June 30, 2020, the unaudited pro forma consolidated statement of comprehensive income for the six months ended June 30, 2020, the unaudited pro forma consolidated statement of cash flows for the six months ended June 30, 3030 and related notes (the "**Unaudited Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have complied the Unaudited Pro Forma Financial Information are described in Appendix V of the circular of the Company dated October 16, 2020 (the "**Circular**").

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the acquisition of 80% equity interest of Zhejiang Langhua Pharmaceutical Co., Ltd. (the "**Acquisition**") on the Group's financial position as at June 30, 2020, and the Group's financial performance and cash flows for the six months ended June 30, 2020 as if the transaction had taken place at June 30, 2020 and January 1, 2020, respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the six months ended June 30, 2020 as contained in the published interim announcement of the Company dated on August 31, 2020. Information about the Target Group's financial position, financial performance and cash flows has been extracted by the Directors form Unaudited Pro Forma Financial Information (on which accountants' reports have been published in Appendix III of this Circular).

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") *7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality control

We have complied the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
October 16, 2020

1. RESPONSIBILITY STATEMENT AND FORWARD LOOKING STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purposes of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular contains statements that are forward-looking and uses words typically used for forward-looking statements such as “will”, “expect”, “estimate”, “anticipate”, “plan”, “believe”, “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar terms. Reliance on any forward-looking statements involves risks and uncertainties. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this circular should not be regarded as representations by the Board that the Company’s plans and objectives will be achieved.

2. DISCLOSURE OF INTEREST

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long position in Shares

Name of Director or Substantial Shareholder	Capacity	Number of Shares interested[1]	Approximate percentage of the Company’s issued share capital
Mr. Mao Chen Cheney [2]	Beneficial owner	214,692,551 (L)	11.23%
	Trustee	200,000,000 (L)	10.47%
	Beneficiary of a trust (other than a discretionary interest)	66,425,976 (L)	3.48%
Mr. Hua Fengmao [3]	Interest in controlled corporation	123,857,056 (L)	6.48%
	Beneficial owner	3,044,555 (L)	0.16%
	Beneficiary of a trust (other than a discretionary interest)	8,339,308 (L)	0.44%

Name of Director or Substantial Shareholder	Capacity	Number of Shares interested[1]	Approximate percentage of the Company's issued share capital
Ms. Mao Jun [4]	Beneficiary of a trust (other than a discretionary interest)	415,364,950 (L)	21.73%
Mr. John Wu Jiong [5]	Interest in controlled corporation	234,262,092 (L)	12.26%
Mr. Wu Ying [6]	Interest of spouse	4,164,654 (L)	0.22%
	Beneficial owner	16,149,973 (L)	0.85%
Mr. Ren Delin [7]	Beneficiary of a trust (other than a discretionary interest)	5,266,931 (L)	0.28%
	Beneficial owner	9,553,317 (L)	0.50%

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) Mr. Mao Chen Cheney is the settlor and trustee of the Mao Investment Trust and is interested in the Shares held by him in his capacity as trustee of the Mao Investment Trust. Mr. Mao is also a beneficiary of Min Zhou 2018 Family Trust, CCMFT Trust Scheme and The Chen Mao Charitable Remainder Trust.

(3) Mr. Hua Fengmao holds 100.00% equity interest in China Finance Strategies Investment DB Limited. Therefore, Mr. Hua Fengmao is deemed to be interested in the Shares directly held by China Finance Strategies Investment DB Limited.

(4) Each of Mao and Sons Limited, and Zhang and Sons Limited is indirectly wholly-owned by Intertrust (Singapore) Ltd. as the trustee of the Z&M Trust (whose interest is held through Z&M International Holdings Limited). Each of JL and JSW Holding Limited, MENGL Holding Limited, TIANL Holding Limited and VVBI Limited is indirectly wholly-owned by Intertrust (Singapore) Ltd. as the trustee of the VVBI Trust (whose interest is held through VVBI Holdings Limited). Each of the Z&M Trust and the VVBI Trust is a revocable family trust set up by Ms. Mao Jun as settlor and protector. Ms. Mao Jun is also a beneficiary of the relevant family trusts. Therefore, Ms. Mao Jun is deemed to be interested in the Shares directly held by each of Mao and Sons Limited, Zhang and Sons Limited, JL and JSW Holding Limited, MENGL Holding Limited, TIANL Holding Limited and VVBI Limited. Ms. Mao Jun is also a beneficiary of Mao Investment Trust.

(5) Mr. John Wu Jiong holds 100.00% equity interest in each of Fenghe Harvest Ltd and Wu and Sons Limited. In addition, Mr. John Wu Jiong holds 45.00% equity interest in Fenghe Canary Limited. Therefore, Mr. John Wu Jiong is deemed to be interested in the Shares directly held by Fenghe Harvest Ltd, Wu and Sons Limited and Fenghe Canary Limited.

(6) Mr. Wu Ying is the spouse of Ms. Zhao Huixin. Under the Securities and Futures Ordinance (Cap. 571), Mr. Wu Ying is deemed to be interested in the same number of Shares in which Ms. Zhao Huixin is interested in.

(7) Mr. Ren Delin is a beneficiary of Vivastar Trust Scheme.

Interest in associated corporations of the Company

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Class of share in which interest	Number of shares	Approximate percentage of holding of such class of shares
Mr. Mao Chen Cheney	Anji Pharmaceuticals Inc. [2]	Interest in controlled corporation	Ordinary	12,398,500	24.80%
	Clues Therapeutics Inc. [2][6]	Interest in controlled corporation	Ordinary	20,257,515	17.73%
Mr. Hua Fengmao	Anji Pharmaceuticals Inc. [3]	Interest in controlled corporation	Ordinary	4,093,500	8.19%
	Anji Pharmaceuticals Inc. [3]	Interest in controlled corporation	Series seed preferred shares	1,500,000	7.06%
	Clues Therapeutics Inc. [3]	Interest in controlled corporation	Ordinary	6,400,000	5.60%
Ms. Mao Jun	Anji Pharmaceuticals Inc. [4]	Interest in controlled corporation	Ordinary	10,117,000	20.23%
	Anji Pharmaceuticals Inc. [4]	Interest in controlled corporation	Series seed preferred shares	5,000,000	23.53%
	Anji Pharmaceuticals Inc. [4]	Interest in controlled corporation	Series A-2 preferred shares	17,437,500	41.67%
	Clues Therapeutics Inc. [5][6]	Beneficiary of a trust (other than a discretionary interest)	Ordinary	12,257,515	10.73%
	Flash Therapeutics, LLC	Interest in controlled corporation	Class C preferred shares	210,732	100.00%
	Proviva Therapeutics, Inc [4]	Interest in controlled corporation	Series seed preferred shares	175,000	1.00%

Notes:

(1) All shareholding interest as set out above are long position in the shares.

(2) Mr. Mao holds 100.0% equity interest in Chencheney Ltd. Therefore, Mr. Mao is deemed to be interested in the shares of Anji Pharmaceuticals and Clues Therapeutics directly held by Chencheney Ltd.

(3) Mr. Hua holds 100.0% equity interest in H&D Biotech Investment Limited. Therefore, Mr. Hua is deemed to be interested in the shares of Anji Pharmaceuticals and Clues Therapeutics directly held by H&D Biotech Investment Limited.

(4) Each of Mao and Sons, Zhang and Sons is indirectly wholly-owned by Intertrust (Singapore) Ltd. as the trustee of the Z&M Trust. Ms. Mao is the settlor, protector and a beneficiary of the Z&M Trust. Therefore, Ms. Mao is deemed to be interested in the shares of Anji Pharmaceuticals directly held by Zhang and Sons and Mao and Sons. JMCR Partners Limited and ENLIGHT Shanghai Holdings Limited are wholly-owned by Ms. Mao and she is therefore deemed to be interested in the shares of Proviva Therapeutics, Inc, Flash Therapeutics, LLC and Anji Pharmaceuticals Inc. directly held by the two companies.

(5) Zhang and Sons is indirectly wholly-owned by Intertrust (Singapore) Ltd. as the trustee of the Z&M Trust (whose interest is held through Z&M International Holdings Limited). Ms. Mao is the settlor, protector and a beneficiary of the Z&M Trust. Therefore, Ms. Mao is deemed to be interested in the shares of Clues Therapeutics directly held by Zhang and Sons.

(6) On June 30, 2020, Mr. Mao Chen Cheney (through Chencehney Ltd) and Ms. Mao Jun (through Zhang and Sons Limited) entered into a Convertible Note Purchase Agreement with Clues Therapeutics Inc. to subscribe for the 8% Convertible Promissory Note each in the principal amount of US$447,039.092. The conversion price under which the Convertible Note is convertible into shares is subject to adjustments in accordance with the mechanism of the Convertible Note and reflects the calculation made at the time of the Convertible Note Purchase Agreement.

Save as disclosed above, as at Latest Practicable Date, so far as is known to any Director or the chief executive of the Company, none of the Directors or the chief executive of the Company has any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. DIRECTORS SERVICE CONTRACTS AND LETTER OF APPOINTMENT

As at the Latest Practicable Date, each of the Directors has entered into a service agreement or letter of appointment with the Company for a term of three years, which may be terminated by either party by giving three months written notice or otherwise in accordance with the terms of the service agreement or letter of appointment. Apart from the aforementioned service agreement or letter of appointment, none of the Directors had any existing or is proposed to have a service contract with the Company or any of its associated corporations which will not expire or is not determinable by the Company within one year without payment of compensation other than statutory compensation.

4. DIRECTORS' INTEREST

As at the Latest Practicable Date, save as disclosed in this circular and so far as the Directors were aware of:

(1) none of the Directors had any direct or indirect interest in any assets which have been, since December 31, 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or are proposed to be acquired, disposed of by, or leased to any member of the Enlarged Group; and

(2) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

5. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors nor their respective associates had any interest in any business which competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the businesses of Enlarged Group.

6. MATERIAL CLAIMS AND LITIGATION

As of the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(1) a series A preferred stock purchase agreement dated October 29, 2018 among VersaPeutics, Inc., Viva Biotech Limited, Connie Zhao, Zaijin Guan & Fang Chen, pursuant to which, among others, Viva Biotech Limited agreed to invest (i) US$3.0 million to acquire 1,145,038 series A preferred stocks in VersaPeutics, Inc., and (ii) US$3.0 million upon the pre-agreed milestone to acquire additional 1,145,038 series A preferred stocks in VersaPeutics, Inc.;

(2) an investors' rights agreement dated October 29, 2018 entered into among VersaPeutics, Inc., Viva Biotech Limited, Connie Zhao, Zaijin Guan & Fang Chen, The Entrust Group, Inc., FBO HUIQING ZHU IRA # 10111=SD, Sangel Capital Corp. and Yimin Zou with respect to, among others, the rights of the investors to cause VersaPeutics, Inc. to register common stock issuable to the investors, to receive certain information from VersaPeutics, Inc., and to participate in future equity offerings by VersaPeutics, Inc.;

(3) the second amended and restated right of first refusal and co-sale agreement dated October 29, 2018 entered into among Viva Biotech Limited, Connie Zhao, Zaijin Guan & Fang Chen, The Entrust Group, Inc., FBO HUIQING ZHU IRA # 10111=SD, Sangel Capital Corp. (collectively, the "**VersaPeutics Investors**"), Yimin Zou (the "**VersaPeutics Key Holder**") and VersaPeutics, Inc., pursuant to which, among others, the VersaPeutics Key Holder granted a secondary right of refusal and right of co-sale to the Investors with respect to transfer of stock in VersaPeutics, Inc. owned by the VersaPeutics Key Holder;

(4) a voting agreement dated October 29, 2018 entered into among VersaPeutics, Inc., Viva Biotech Limited, Connie Zhao, Zaijin Guan & Fang Chen, The Entrust Group, Inc., FBO HUIQING ZHU IRA # 10111=SD, Sangel Capital Corp. and Yimin Zou with respect to, among others, the election of board of directors of VersaPeutics, Inc. and voting on certain corporate matters;

(5) a convertible note purchase agreement dated December 19, 2018 among AmacaThera, Inc., Viva Biotech Limited and Gearbox, LLC, pursuant to which, among others, Viva Biotech Limited agreed to purchase (i) a convertible promissory note in the principal amount of US$750,000 to be issued by AmacaThera, Inc. at initial closing, and (ii) an additional convertible promissory note in the principal amount of US$750,000 to be issued by AmacaThera, Inc. at second closing;

(6) a series seed preferred stock purchase agreement of Mediar Therapeutics, Inc. dated January 29, 2019 among Mediar Therapeutics, Inc., Partners Innovation Fund, LLC, Partners Innovation Fund II, LP, Viva Biotech Limited, BioInnovation Capital I LP, Shangpharma Investment Group, Ltd., ShangBay Capital LLC, Agent Capital Fund I, LP, pursuant to which, among others, Viva Biotech Limited agreed to invest (i) approximately US$1.25 million to acquire 3,729,117 series seed preferred stocks of Mediar Therapeutics, Inc. at initial closing, and (ii) approximately US$1.25 million to acquire additional 3,729,117 series seed preferred stock of Mediar Therapeutics, Inc. at second closing;

(7) an investors' rights agreement of Mediar Therapeutics, Inc. dated January 29, 2019 entered into among Mediar Therapeutics, Inc., Partners Innovation Fund, LLC, Partners Innovation Fund II, LP, Viva Biotech Limited, BioInnovation Capital I LP, Shangpharma Investment Group, Ltd., ShangBay Capital LLC and Agent Capital Fund I, LP with respect to, among others, the rights of the investors to cause Mediar Therapeutics, Inc. to register common stock issuable to the investors, to receive certain information from Mediar Therapeutics, Inc., and to participate in future equity offerings by Mediar Therapeutics, Inc;

(8) a right of first refusal and co-sale agreement of Mediar Therapeutics, Inc. dated January 29, 2019 entered into among Partners Innovation Fund, LLC, Partners Innovation Fund II, LP, Viva Biotech Limited, BioInnovation Capital I LP, Shangpharma Investment Group, Ltd., ShangBay Capital LLC and Agent Capital Fund I, LP, (collectively, the "**Mediar Investors**"), David Lagares and Michael Choi (collectively, the "**Mediar Key Holders**") and Mediar Therapeutics, Inc., pursuant to which, among others, the Mediar Key Holders granted a secondary right of refusal and right of co-sale to the Mediar Investors with respect to transfer of stock in Mediar Therapeutics, Inc. owned by the Mediar Key Holders;

(9) a voting agreement of Mediar Therapeutics, Inc. dated January 29, 2019 entered into among Mediar Therapeutics, Inc., Partners Innovation Fund, LLC, Partners Innovation Fund II, LP, Viva Biotech Limited, BioInnovation Capital I LP, Shangpharma Investment Group, Ltd., ShangBay Capital LLC and Agent Capital Fund I, LP, David Lagares and Michael Choi with respect to, among others, the election of board of directors of Mediar Therapeutics, Inc. and voting on certain corporate matters;

(10) the series B preferred share purchase agreement dated June 21, 2018 among the Company, certain of its subsidiaries, Mr. Mao Chen Cheney and certain pre-IPO investors of the Company;

(11) The shareholders agreement dated June 21, 2018 among the Company, certain of its subsidiaries, certain then ordinary shareholders of the Company and the certain pre-IPO investors of the Company;

(12) an amendment agreement to shareholders' agreement dated March 3, 2019 among the Company, Viva Biotech Limited, Viva Biotech (Shanghai) Ltd. (維亞生物科技(上海)有限公司), Jiaxing Viva Biotech Limited (嘉興維亞生物科技有限公司), Shanghai Benyuan Entrepreneurship Incubator Management Limited (上海本苑創業孵化器管理有限公司), Viva Incubator Investment Management Limited, Sichuan Viva Benyuan Biotech Limited (四川維亞本苑生物科技有限公司), Chen Cheney Mao, MZFT, LLC, Mao and Sons Limited, Zhang and Sons Limited, JL and JSW Holding Limited, MENGL Holding Limited, TIANL Holding Limited, Fenghe Harvest Ltd, Wu and Sons Limited, China Finance Strategies Investment DB Limited, Tian Hsin Bio-Medical Investment Limited, Chi Lik Yim, James Qun Mi, Absolute Ventures Limited, T&C Biotech L.P., FengHe Canary Limited, Morning Star Resources Limited, Shanghai Wisdomont Xingqian Investment Center (Limited Partnership) (上海盛山興錢創業投資中心(有限合夥)), VVBI Limited and Fohan Capital Limited to amend certain terms of the Shareholders Agreement;

(13) a cornerstone investment agreement dated April 10, 2019 entered into among the Company, China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) and China National Pharmaceutical Investment Co., Ltd. (中國醫藥投資有限公司), pursuant to which, China National Pharmaceutical Investment Co., Ltd. (中國醫藥投資有限公司) agreed to subscribe for the Shares in the amount of US$14,891,589.2304;

(14) a cornerstone investment agreement dated April 17, 2019 entered into among the Company, China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), Gaotejia Investment Management Co., Ltd. and Shenzhen Gaotejia Ruibao Investment Partnership (Limited Partnership) (深圳市高特佳睿寶投資合夥企業(有限合夥)) and Shenzhen Gaotejia Investment Group Co., Ltd. (深圳市高特佳投資集團有限公司), pursuant to which each of Gaotejia Investment Management Co., Ltd. and Shenzhen Gaotejia Ruibao Investment Partnership (Limited Partnership) (深圳市高特佳睿寶投資合夥企業(有限合夥)) agreed to subscribe for the Shares in the amount of US$12.0 million and US$18.0 million, respectively;

(15) the deed of undertakings executed by Mr. Mao Chen Cheney, Mr. Wu Ying, Mr. Hua Fengmao, Mr. Ren Delin, Ms. Mao Jun and Mr. John Wu Jiong, in favor of the Company on April 15, 2019 in relation to arrangement including right of first refusals granted to the Company with regards to certain new investment opportunities;

(16) the underwriting agreement dated April 24, 2019 relating to the Company's Hong Kong public offering as set out in the Prospectus and entered into by, among others, our Company, Mr. Mao Chen Cheney and underwriters to the Hong Kong public offering;

(17) the equity transfer agreement between Viva Biotech Shanghai and Huang Chunyan and Tao Meihua on January 21, 2020 in relation to the acquisition Shanghai Shenyu Wires Co., Ltd (上海申裕導線有限公司) for RMB120,000,000;

(18) the subscription agreement between Viva Incubator Investment Management Limited, the Company, and certain managers on January 22, 2020 in relation to the issuance of US$180 million guaranteed convertible bonds due 2025 by Viva Incubator Investment Management Limited and guaranteed by the Company;

(19) the construction contract between Sichuan Viva and Sichuan Chunqiu Development Group Co., Ltd. (四川春秋開發建設集團有限公司) on May 8, 2020 in relation to construction work at the Group's new drug incubation center located in Chengdu, Sichuan Province;

(20) the placing agreement between the Company, China International Capital Corporation Hong Kong Securities Limited and J.P. Morgan Securities (Asia Pacific) Limited on July 3, 2020 in relation to the placement of 130,000,000 Shares under general mandate;

(21) the Share Purchase Agreement;

(22) the share transfer agreement between SYNthesis med chem Pty Ltd and the Company on September 20, 2020 in relation to the acquisition of the entire equity interest in SYNthesis med chem (Hong Kong) Limited for a consideration of approximately US$80 million; and

(23) the investment agreement between Hangzhou Qiantang New Area Management Committee (杭州錢塘新區管理委員會) and Viva Biotech Limited on September 22, 2020 in relation to the establishment of laboratory facilities as well as introducing and supporting the incubation of innovative research and development projects in the Hangzhou Pharmaceutical Port.

8. QUALIFICATIONS OF EXPERT AND CONSENT

The qualification of the expert who has given an opinion or advice in this circular is as follows:

Name	Qualification
Ernst & Young	Certified Public Accountants

As of the Latest Practicable Date, the above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report(s) and/or letter(s) and/or valuation certificates and/or opinion(s) and the references to its name included herein in the form and context in which it is respectively included.

As at the Latest Practicable Date, the above expert did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interests in any assets which have been, since December 31, 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

(1) The registered office of the Company is situated in PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The corporate headquarter of the Company is situated in 334 Aidisheng Road, Zhangjiang High-Tech Park, Pudong New District, Shanghai, PRC. The Company's principal place of business in Hong Kong is situated in Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue Causeway Bay, Hong Kong.

(2) The Hong Kong branch share registrar and transfer office of the Company is situated at Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(3) The joint company secretaries of the Company are Ms. Fei Xiaoyu and Ms. Chau Hing Ling. Ms. Chau Hing Ling is a fellow member of the Chartered Governance Institute ((formerly known as the Institute of Chartered Secretaries and Administrators) and the Hong Kong Institute of Chartered Secretaries).

(4) In case of inconsistencies, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION

Copies of the following documents are available for inspection during normal business hours (i.e., from 9:30 a.m. to 5:00 p.m. on Monday to Friday) on any business day in Hong Kong at the principal place of business in Hong Kong of the Company at Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue Causeway Bay, Hong Kong from the date of this circular up to and including the date of the EGM:

(1) the memorandum and articles of association of the Company;

(2) the Prospectus;

(3) the annual report of the Company for the year ended December 31, 2019;

(4) the accountants' report of Langhua Pharmaceutical Group from Ernst & Young, the text of which is set out in Appendix III in this circular;

(5) the report on the unaudited pro forma financial information of the Enlarged Group from Ernst & Young, the text of which is set out in Appendix V in this circular;

(6) a copy of the material contracts set out in "Material Contracts" in this appendix;

(7) the written consent referred to in "Qualification of Expert and Consent" in this appendix; and

(8) a copy of this circular.

VIVA BIOTECH HOLDINGS
维亚生物科技控股集团

(Incorporated in the Cayman Islands as an exempted company with limited liability)
(Stock code: 1873)

NOTICE IS HEREBY GIVEN THAT the second extraordinary general meeting (the "**EGM**") of VIVA BIOTECH HOLDINGS (the "**Company**") will be held at 2/F Meeting Room, 334 Aidisheng Road, Zhangjiang Hi-Tech Park, Pudong New District, Shanghai, PRC on Monday, November 9, 2020 at 10:00 a.m. to consider and, if thought fit, approve, with or without amendments, the following resolution of the Company. Unless otherwise defined, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated October 16, 2020.

ORDINARY RESOLUTION

1. (a) The Share Purchase Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

   (b) Any one Director be and is hereby authorized to sign, execute and deliver or authorize the signing, execution and delivery of all such documents (including affixing the common seal of the Company thereon) and to do all such things as he or she may in his or her absolute discretion consider necessary, expedient or desirable to implement and/or to give effect to or otherwise in connection with the Share Purchase Agreement and the transactions contemplated thereunder.

By Order of the Board
VIVA BIOTECH HOLDINGS
MAO Chen Cheney
Chairman and Chief Executive Officer

Hong Kong, October 16, 2020

Notes:

(i) A shareholder entitled to attend and vote at the EGM is entitled to appoint another person as his/her proxy to attend and vote instead of him/her; a proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his/her behalf at the EGM. On a poll, votes may be given either personally or by proxy. The Company strongly recommends you to monitor the development of the situation with the COVID-19 and to assess, based on the social distancing policies, the necessity for attending the above meeting in person, and the board of directors of the Company respectfully requests that, for the same reason, the shareholders to appoint the chairman of the above meeting as their proxy rather than a third party to attend and vote on their behalf at the above meeting (or any adjournment thereof).

(ii) In the case of joint holders, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

(iii) In order to be valid, a form of proxy must be deposited at the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish.

(iv) The transfer books and register of members of the Company will be closed from Wednesday, November 4, 2020 to Monday, November 9, 2020, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending EGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, November 3, 2020.